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VOL 22 / ISSUE 22 / 04 JUNE 2020 / £4.49

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Did you invest in any of these winners during the crisis?

We look at how some names exposed to emerging trends in the pandemic have performed

Fund manager Peter Lynch once observed he wouldn't invest in anything that he wasn't able to illustrate with a crayon and a sheet of paper.

What he really meant is that you shouldn't put money into a business you don't understand. We can all take this into our own investing by allocating cash to firms whose products we recognise, understand and can easily research.

You shouldn't underestimate your own instincts and ability to spot investment opportunities based on your own intuition and experience.

The coronavirus crisis has provided an interesting test for this approach amid rapid and dramatic changes in consumer behaviour which would have been observable to most of us.

This column thought it would be interesting to look at a hypothetical portfolio made up of names which were well placed to benefit from the almost overnight shift in our lives when lockdown was introduced.

The table shows how these stocks performed since the market first began pricing in the impact from coronavirus at the end of February.

One of the first observable effects of the virus was heavy stockpiling as people became fearful about their ability to buy essentials when the pandemic really took hold. Slots for grocery delivery were like gold dust.

We said to buy **Ocado (OCDO)** in July 2019 as we identified the shift towards doing our weekly shop online – the pandemic has accelerated this trend and helped Ocado's share price to new record highs.

Supermarket **Morrisons (MRW)** seemed to have a good start to the crisis as it worked hard to support its staff and customers and its vertically integrated model came into its own, easing supply chain pressures.

An increase in costs linked to safety and distancing measures and extra staff have since taken some of the momentum out of the share price.

CORONAVIRUS STARS

| Company | Performance since close 21 Feb 2020 |
|-----------------------|-------------------------------------|
| Ocado | 96% |
| Zoom | 76% |
| Frontier Developments | 53% |
| Just Eat Takeaway | 16% |
| Domino's Pizza | 12% |
| Reckitt Benckiser | 11% |
| Netflix | 10% |
| Morrisons | 2% |
| Average | 35% |
| FTSE All-World | -11% |

Source: Shares, SharePad. Data as at 1 June 2020.

As suppliers to the likes of Morrisons and Ocado, many consumer goods firms such as **Reckitt Benckiser (RB.)** have also performed relatively well. In particular, Reckitt's hygiene and health portfolio saw strong demand.

Takeaways have been a popular treat in lockdown, underpinning advances for **Domino's Pizza (DOM)** and **Just Eat Takeaway (JET)**.

While being stuck at home with little to do has seen surging demand for streaming services and gaming. Netflix's shares have performed well and computer game outfit **Frontier Developments (FDEV:AIM)** is up more than 50%.

We remain social animals at heart and video conferencing service Zoom has received a big boost as we look to remain in contact with our friends and family.

This list is backward-looking but rest assured *Shares* will remain alive to emerging opportunities as we consider some of the lasting impacts from the coronavirus crisis.



By **Tom Sieber** Deputy Editor

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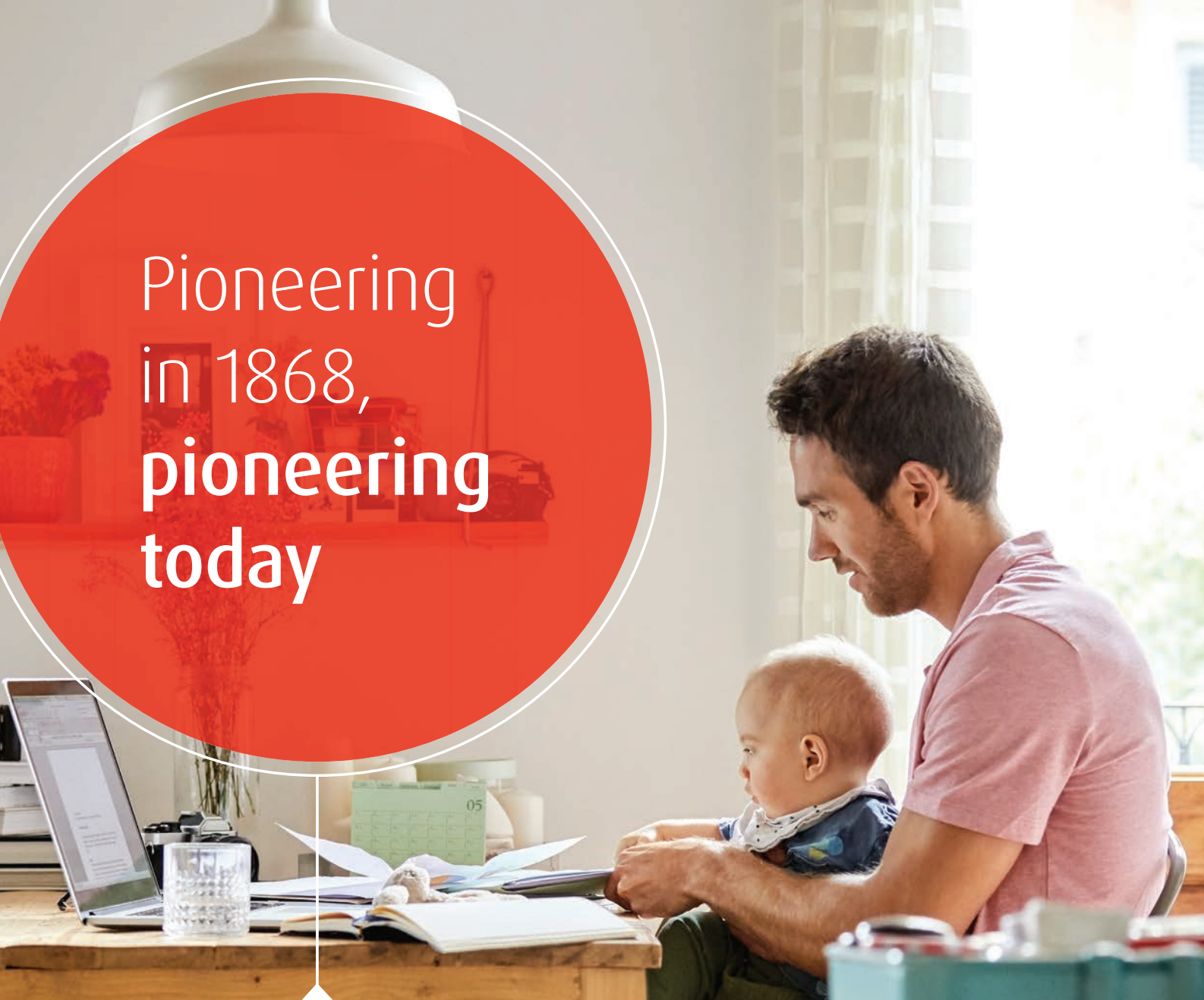
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Are we through the worst of the crisis?

May's industrial surveys show a recovery from April's record lows



While it's too early to say the economic recovery is under way, it's possible we have seen the worst readings in terms of industrial confidence in Europe and Asia.

This week analytics and information firm IHS Markit published its widely-followed industrial purchasing managers index (PMI) surveys for China, Japan, the UK and several European companies, as well as the composite index for the Eurozone.

MOSTLY RISING

The reading for China, which entered the coronavirus crisis first and after locking down its economy almost overnight has been able to re-start activity faster than most, showed the quickest rate of recovery in manufacturing for nine years.

After a record fall to 40 in February, the manufacturing PMI rose to 50.7 in May, signalling that the sector is once again expanding (a reading above 50 means expansion, below 50 means contraction).

The UK PMI survey registered a rebound from April's record low of 32.6 to 40.7, still below the key 50 level and the seventh lowest level in the survey's history, but as IHS Markit Director Ron Dobson observed, 'the rate of contraction has eased considerably since April, meaning the worst of the production downturn may be behind us'.

Surveys in France and Germany showed a similar

recovery, from 31.5 and 34.5 in April to 40.6 and 36.8 respectively, although in France demand continued to decline in May while in Germany employment levels fell further, impacting the overall reading.

Japan was the only major economy to see a continued decline, with May's reading of 38.4 the lowest since the end of the global financial crisis in March 2009. Meanwhile the preliminary US reading for May was 39.8 against 36.1 in April, although with concerns resurfacing over a trade war with China the reading could struggle in coming months.

AN UPHILL BATTLE

As far as the UK goes, while there is scope for optimism we need to be realistic. Output, new orders and employment fall at some of the fastest rates in the survey's 28 year history. New orders and export orders for consumer, intermediate and investment goods were particularly weak.

Some companies expect output to rise over the next 12 months, and some have seen new orders since clients started to reopen their businesses, but it is patchy. Also inflation is rising due to supply chain disruptions, although part of this was passed on.

Finally the threat of a 'no deal' Brexit can't be dismissed. We may have seen the worst of the indicators for the time being, but it could be a very long, drawn-out recovery.

Be prepared for wave of going concern warnings

What this accounting term means and why investors should take note

UK finance regulators are reportedly braced for a wave of listed companies to issue warnings about their ability to survive the coronavirus pandemic, which could see share prices plummet.

According to a report in the *Financial Times*, auditors have warned there is a backlog of annual reports from companies in the retail, leisure, hospitality and travel sectors which are likely to question their ability to continue trading as a going concern over the next 12 months.

Regulators like the Financial Conduct Authority and Financial Reporting Council (FRC) are reportedly in talks with the accounting industry over how many of these going concern warnings there could be, so they can assess the potential impact on stock markets.

WHAT IS A GOING CONCERN?

The term 'going concern' is an accounting concept. A company that's able to meet its financial obligations when they come due is considered a going concern.

When auditors fear a company might default on some of its debt in the next 12 months, the company is required to report in its financial statements that there are doubts about its ability to continue as a going concern.

More firms look set to be caught up in the wave of going concern warnings after the FRC strengthened the rules in October last year, following 'corporate failures' like the collapse

of Thomas Cook.

Auditors now have to 'more robustly challenge' management's assessment of a going concern, and are required to provide a clear conclusion in financial statements as to whether management's assessment is 'appropriate'.

A recent high profile case involves oil and gas business **Tullow Oil (TLW)**, which in March flagged material uncertainty about its ability to continue as a going concern in its full year results.

Its already bombed out share price fell a further 12% on the news at the time to 15.9p.

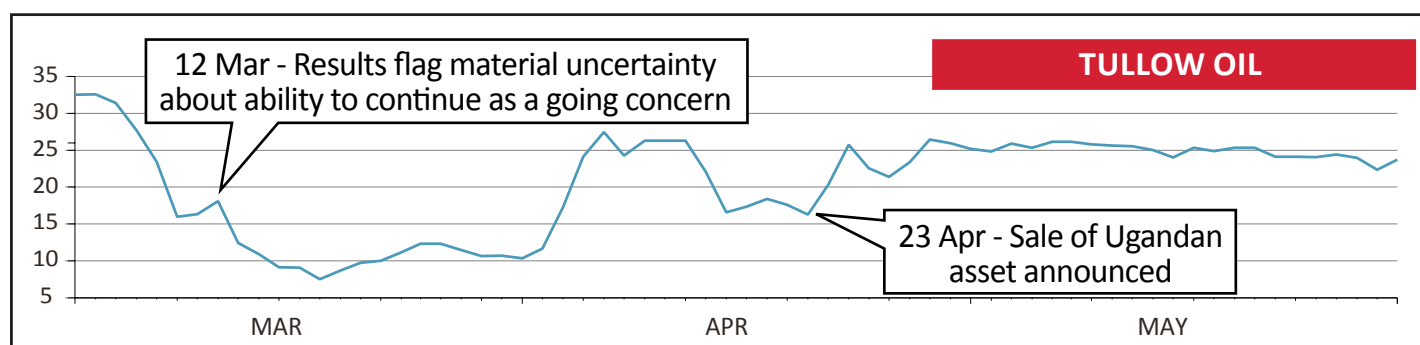
Significantly indebted, Tullow said the unprecedented market conditions amid major oil price volatility meant it may not be able to make the progress needed to repair its finances.

DON'T PANIC

A warning in a company's accounts over its 'ability to continue as a going concern' is what most investors dread, and understandably so, but it's important not to panic in such situations.

Just because a firm issues such a warning doesn't mean it's about to go bust. Companies might be able to get a loan or raise cash through a rights issue, while external auditors may not always know everything management are doing to shore up liquidity.

Tullow Oil is still trading and its shares have recovered to around 25p, after the firm sold an asset to help shore up its balance sheet.



Refinancing risk removed as Micro Focus secures funding

Investors snap up corporate debt in search for safe returns

Infrastructure software company **Micro Focus (MCRO)** has removed its near-term debt funding risk after pushing through a previously delayed refinancing package.

The FTSE 100 company announced the deal on 29 May, securing two tranches of dollar and euro denoted funding worth \$650m and €600m respectively.

This was more than the \$400m and €400m originally intended, and with around \$150m of cash on the firm's books means Micro Focus has secured its financing needs out to 2024, say analysts.

'The cost of debt was below the assumed refinancing cost in our model, so we upgrade our full year 2021 earnings per share forecasts by 6% and free cash flow forecasts by 2.5%,' said Will Wallis of Numis Securities.

'We continue to model net debt, excluding



operating leases, of circa \$3.95bn at 31 October 2020, falling below \$3bn by October 2022.'

Numis sees arresting revenue declines as the big challenge to management's restructuring and turnaround of the business.

The broker is not anticipating that happening until beyond 2022, although it does expect earnings to bottom out at \$1.49 per share next year before rebounding to \$1.52 in 2022.

Micro Focus' shares rallied more than 4% to 450p in response to the refinancing.

Green shoots appear in the IPO market

The virtual roadshow could become the future blueprint for floats, saving time and costs

THE INITIAL PUBLIC offerings (IPO) market is showing some signs of life with two initially successful recent listings.

Up until these issues it had been a relatively quiet market with just eight new listings completed, which raised around £455m in new funds.

Then on 29 May **JDE Peet** successfully raised €2.25bn to complete Europe's largest IPO since 2018. It certainly helped that private owner, JAB Holdings managed to

secure cornerstone investors who collectively contributed €761m of funding.

What was interesting and different about the IPO was that the roadshow was conducted virtually over three days rather than the normal two-weeks of on-the-road marketing across multiple capital cities across Europe. This might become the 'blueprint' for future IPOs encouraging more firms to consider the virtual roadshow.

The company's brands include

Douwe Egberts, Kenco and Peet's Coffee, a chain of coffee shops.

The shares got off to a flying start and trade 20% higher than the €31.5 listing price giving the group a market capitalisation of €17bn.

Meanwhile on 2 June **Trident Resources (TRR:AIM)** shares jumped over 20% to 23.5p after it made its debut on the AIM market, raising £16m of new funds. It plans to establish itself as a diversified mining royalty company.

Nifty footwork from Boohoo floors short seller

We still think investors should steer clear of the business due to an expensive valuation

An entertaining if brief dust-up between AIM online fashion firm **Boohoo.com (BOO:AIM)** and short seller ShadowFall Research, ultimately saw the former prevail.

However, even if strong growth is being forecast, we think investors should steer clear of the stock on valuation grounds.

Based on upgraded forecasts for the February 2021 financial year from Numis the stock trades on a price-to-earnings ratio of 66.7 times at the current 387p share price.

While the lockdown has been a boon for online retailers we think there are legitimate questions about how demand for Boohoo's wares will hold up in an economic downturn, putting to one side recent criticisms of the company's accounting and governance.

After landing the first punch with its sell note on 26 May, sending Boohoo shares down 7% to 338p, two days later ShadowFall was caught with a haymaker as Boohoo brought forward the buyout of its PrettyLittleThing (PLT) subsidiary, sending its shares to a new all-time high.

READY TO RUMBLE

ShadowFall's research note, titled *Boohoo: The Catch 2022* claimed that the fashion retailer had overstated its cumulative free cash flow by more than two thirds since 2014.

It also claimed that earnings for the majority-owned PLT subsidiary were flattered by the allocation of certain costs to the Boohoo group,

resulting in an overstatement of £10.7m in profits in the last financial year.

Finally, it claimed that the inflated profits at PLT meant the cost of ongoing dividends to the 34% minority shareholders, which include the son of Boohoo's chairman, with the cost of buying out such minorities could result in 'a near £1bn pay day'.

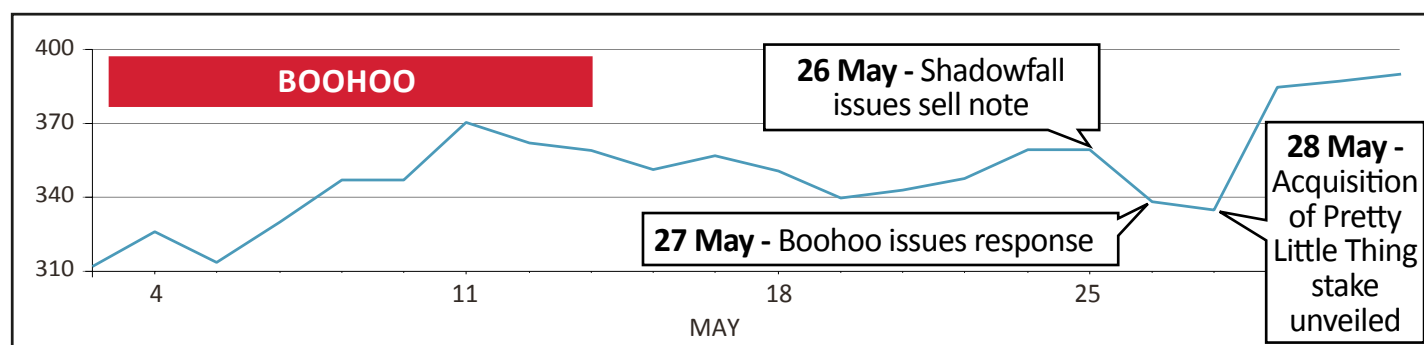
Boohoo responded to the flurry of allegations by defending its definition of free cash flow and the profitability of PLT, and justifying the valuation process regarding the option to buy out the remaining stake in PLT, which was scheduled to take place in February 2022.

TECHNICAL K.O.

ShadowFall surmised that the recent £200m equity raise by Boohoo could be used, together with £241m of net cash sitting on its balance sheet, to cover the dividends paid to PLT and finance the buyout, rather than being used for growth acquisitions as per the pitch at the time of the placing.

Then Boohoo brought forward its acquisition of the remainder of PLT it did not already own. The deal worth an initial £270m, paid for 60% in cash and 40% in new shares. The transaction could eventually be worth up to £324m.

Analysts clamoured to upgrade their earnings forecasts and price targets, enthused by the apparently value-accretive deal and Boohoo's continued 'opportunity set across the global fashion market', leaving ShadowFall to retire hurt, lamenting what it called a 'scandalous' outcome.



Never from concentrate

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FP Octopus UK Multi Cap Income Fund has blended small, medium and large UK companies to become the best performing fund in its sector, over one year.

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| | 30/04/2019 30/04/2020 | 30/04/2018 30/04/2019 | 30/04/2017 30/04/2018 | 30/04/2016 30/04/2017 | 30/04/2015 30/04/2016 |
|--------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| FP Octopus UK Multi Cap Income S Acc | 3.5% | n/a | n/a | n/a | n/a |
| FTSE All Share TR | -16.7% | 2.6% | 8.2% | 20.1% | -5.7% |
| IA UK Equity Income TR | -16.6% | 0.5% | 5.3% | 16.3% | -2.6% |

Past performance is not a guarantee of future returns.

Fees are deducted from capital which will increase the amount of income available for distribution. However, this will erode capital and may hinder capital growth. Before investing you should read the Prospectus, the Key Investor Information Document (KIID) and the Supplementary Information Document (SID) as they contain important information regarding the fund, including charges, tax and

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Source: Lipper, 30/04/15 to 30/04/20. Returns are based on published dealing prices, single price mid to mid with net income reinvested, net of fees, in sterling.

Buy Brown Advisory US Sustainable Growth to access America's finest

This fund provides exposure to market leaders in large and growing industries

Given the economic uncertainties and seismic behavioural changes being created by the pandemic, long-term investors should put money to work with a fund that not only owns the highest quality companies with market share clout, but also pursues an investment approach with sustainability at its core.

One portfolio we've identified is the **Brown Advisory US Sustainable Growth Fund (BF1T6X5)**. This collective provides UK investors with exposure to Brown Advisory's US Large Cap Sustainable Growth Strategy, which passed its 10-year track record at the end of 2019.

Managed by Karina Funk and David Powell, the strategy seeks to grow investors' capital over the long term by investing in US mid and large cap companies that the co-managers believe effectively implement sustainable business strategies to drive future earnings growth.

LOOKING FOR LEADERS

Among the qualities Funk and Powell look for in companies are leadership positions in large and growing markets, participation in markets or industries with high barriers to entry and high revenue visibility, as well as a

BROWN ADVISORY US SUSTAINABLE GROWTH FUND

BUY

(BF1T6X5) £18.64

Net assets: £550m



TOP TEN HOLDINGS (AS AT 30 APRIL 2020)

| Reason | Total |
|--------------------------|-------|
| Amazon | 5.16% |
| Microsoft | 5.05% |
| American Tower | 4.80% |
| Danaher | 4.74% |
| Visa | 4.61% |
| UnitedHealth | 4.21% |
| Intuit | 4.01% |
| Thermo Fisher Scientific | 4.00% |
| Alphabet | 3.99% |

Source: Morningstar

solid track record of execution and good capital allocation decisions made over time by management.

Companies must have a minimum market capitalisation of \$2bn and the fund can perform in volatile market conditions, as demonstrated by a 19.6% year-to-date return,

versus 12.8% for the Russell 1000 Growth Total Return US Dollar benchmark.

ADAPT OR DIE

Funk and Powell believe that sustainability risks and opportunities need to be addressed by companies across all sectors, and only those that continue to adapt to these challenges will ensure their long-term profitability.

Brown Advisory has defined these companies as possessing 'Sustainable Business Advantages' or SBAs, a proprietary term for sustainability drivers that directly benefit financial performance through a combination of sales growth, cost improvement and enhanced franchise value.

This approach of investing in companies with outstanding business models, compelling valuations and SBAs gives the

strategy a distinct competitive advantage, according to Funk.

She believes that some of the most attractive, durable business models in the large cap equity universe are those with sustainable drivers at their core. For many firms, a focus on energy efficiency, health and/or wellness has driven considerable sources of revenue growth.

Others have evolved their operations to reduce the use of energy, water and other resources and generated considerable cost savings. Furthermore, the SBA approach also considers those companies that are able to greatly enhance their brand or franchise value by helping customers solve meaningful social and environmental challenges.

LARGE CAP LIONS

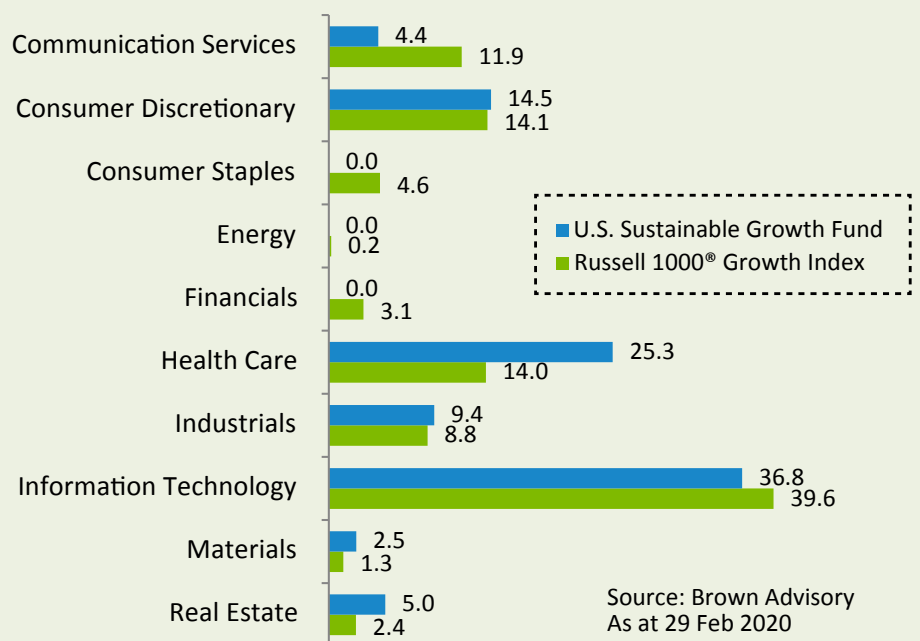
Funk and Powell chose the large cap space because this is where they 'more consistently uncover companies with SBA and the high quality fundamentals we require for our portfolio (which in turn make SBA more durable).

'We also believe that our SBA philosophy and framework helps us to gain a differentiated view, even among large cap companies that disclose a lot of public information,' they add.

IN RUDE HEALTH

Boasting a high Morningstar sustainability rating, the fund has historically been overweight to the health care sector. Here, holdings include Danaher, whose Cepheid division has received the FDA's Emergency Use Authorization for rapid tests for the coronavirus that can give results in 45 minutes rather than hours or days.

SECTOR WEIGHTS (%)



Other holdings include companies such as Thermo Fisher Scientific and Illumina, which provide the tools and equipment to develop life-saving therapies and vaccines.

OPPORTUNISTIC MOVES

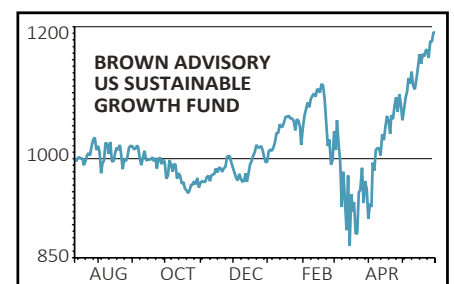
The managers took advantage of the pullback in some of the fund's existing names by adding to IDEXX Laboratories, Bio-Rad, Autodesk and Analog Devices.

In other cases, Funk says 'we added to holdings that are proving essential during the pandemic such as Home Depot, which ensures repair and maintenance supplies, and Ball Corporation, which continues to stock grocery stores with packaged beverages'.

A long held name is Visa, where the initial investment was in part based on the cash generative payments technology play's 'edge on financial inclusion, especially on their growth strategy in emerging markets'.

Over two thirds of the 2bn underbanked people around the world have access to mobile phones and 'Visa offers unparalleled capability to connect these users to a global financial network, which will allow nations to improve basic services and reduce rampant waste from economic isolation', says Funk.

New purchases include Starbucks and ServiceNow, a software provider of IT service management (ITSM) solutions which 'helps enterprises become more productive and efficient, which in turn results in energy and cost savings' according to Funk.



Applegreen could be a easy way to make a quick buck

Trade the upwards momentum in its share price as lockdown restrictions are eased

Shares in roadside convenience retailer **Applegreen (APGN:AIM)** are starting to pick up as fuel volumes and food and drink sales recover from the pandemic-induced downturn. Ride the momentum as a short-term trade.

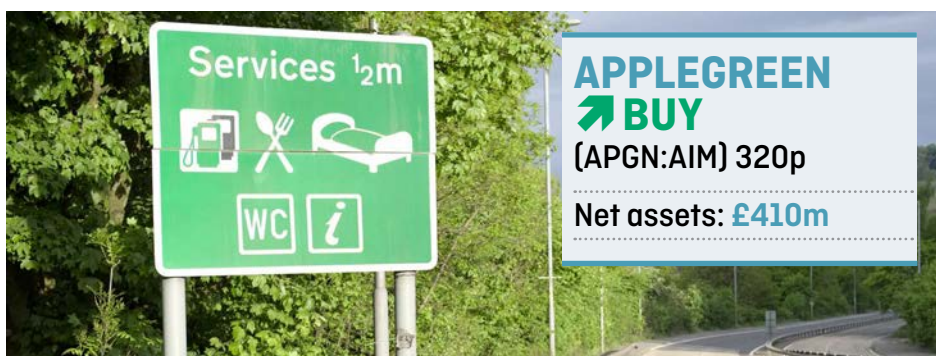
Measures to come out of lockdown are driving a gradual increase in road usage and if consumers are unable to travel overseas for summer holidays, Applegreen might also benefit from a staycation boom.

Operating in Ireland, the UK and North America, fuel seller Applegreen has been deemed an essential service provider.

It also operates motorway service areas in the UK and Irish Republic which are strategic infrastructure assets with high barriers to entry due to long development lead times and government legislation.

Applegreen is the majority owner of the UK motorway service operator Welcome Break. It acquired this majority interest in a transformational 2018 deal that reduced its dependence on fuel sales.

Throughout the UK lockdown, Welcome Break kept all 39 of its motor fuel forecourts and accompanying retail units open, because the nation's key workers



needed to refuel and rest throughout the worst stages of the pandemic.

From 4 June, Welcome Break plans to be operating 72 food and drink units at 26 of its motorway service stations. And while necessary store adjustments for social distancing and enhanced hygiene measures will mean lower sales densities and higher costs, the unlocking measures across Applegreen's markets offer a catalyst for earnings recovery.

This should be treated as a high-risk investment because it has a large net debt position – €545m as at 20 March – although it is worth pointing out it has land and buildings worth €414m as at the end of 2019.

Applegreen acted quickly to protect itself from the pandemic hit by reducing costs, conserving cash flows and accessing additional facilities.

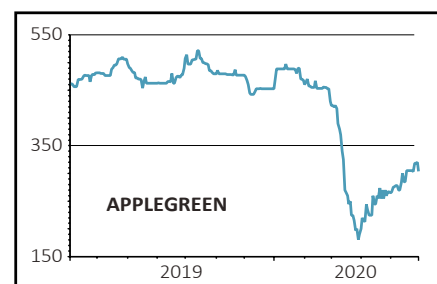
Management insist the business has enough cash

resources to trade through a downside scenario where the recovery period is more prolonged into 2021.

Despite this reassurance, one cannot rule out the company raising a slug of new cash on the market. That might dilute existing investors, but it would make sense to strengthen the balance sheet.

Shore Capital sees Applegreen as 'a survivor of this pandemic, one like a number of firms that is embracing new learning that we believe will lead to a leaner and fitter group in time'.

Target a 15% return on this stock and lock in profit once the price hits 368p.



KAINOS

(KNOS) 850p

Gain to date: 18.4%**Original entry point:****Buy at 718p, 19 December 2019**

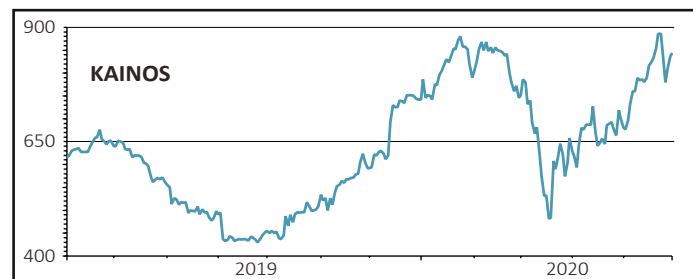
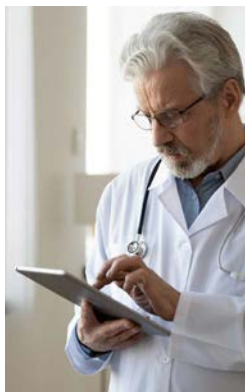
IT DIDN'T TAKE long for the market to cotton on to the opportunity that lies ahead for **Kainos (KNOS)**, one of our top picks for 2020.

Since our last update on 30 April the share price has surged more than 25%, putting the investment back in positive territory.

The Belfast-based digital services and platform company reported revenues and earnings before interest, tax, depreciation and amortisation (EBITDA) of £178.8m and £28.4m respectively for the year to 31 March 2020, beating market expectations which had been pitched at £171.5m and £27.4m.

Sceptics will point out that the period under review felt little impact from the Covid-19 outbreak. While that may largely be true it is worth noting company commentary that points to largely maintained spending globally on IT projects, although its previous rapid growth from its enterprise Workday practice will be harder to protect than more secure public sector investment.

This has included springing into action to streamline some central government and NHS processes and to allow both to function amid lockdown.

**SHARES SAYS: ↗**

Inherent uncertainty remains during the pandemic but we continue to see Kainos as a strong long-term beneficiary of working from home and other digital implementations.

MID-WYND INTERNATIONAL

(MWY) 650p

Gain to date: 12.3%**Original entry point:****Buy at 578.94p, 5 March 2020**

SHARES IN INVESTMENT trust **Mid-Wynd International (MWY)** have hit a new record high of 650p, meaning the stock is already up 12.3% since we said to buy three months ago.

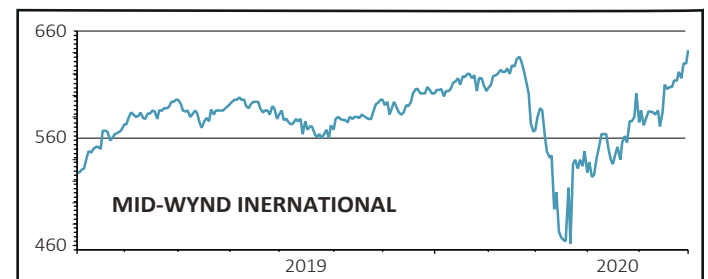
Mid-Wynd regularly buys and sells stocks, particularly locking in gains when valuations look excessive.

It avoided a lot pain during this year's lockdown by having offloaded its holdings in the tourism sector last summer, a part of the stock market which was heavily sold down as the coronavirus crisis spread globally. 'The timing was fortuitous,' says fund manager Simon Edelsten.

Mid-Wynd didn't sell out of this sector because it expected a pandemic, but rather because the environmental arguments against significant tourism growth were getting a much bigger airing.

'Through focusing on long-term trends as opposed to short-term events, the managers have been able to identify high-quality companies which can continue to generate revenue irrespective of the macroeconomic uncertainty,' says William Sobczak, an analyst at research group Kepler.

'This has been proven in 2020 with a number of sectors, including healthcare, automation and scientific equipment performing extremely strongly.'

**SHARES SAYS: ↗**

Often overlooked because of its relatively small size (£319m market cap), however its strong performance speaks for itself. An intention to sustain progressive dividends adds to its merits.

SOFCAT

(SCT) £11.41

Gain to date: 18.9%**Original entry point:****Buy at 959.5p, 1 August 2019**

SOFTWARE RESELLER AND IT advisor **Softcat (SCT)** continues its excellent performance both operationally and in share price terms, even if its latest update was tinged with a slightly more cautious tone.

The 26 May third quarter update was free of specific numbers, as is usual, but noted 'satisfactory' trading during the period to 30 April, and flagged revenue, gross profit and operating profit growth while maintaining cash generation at normal levels.

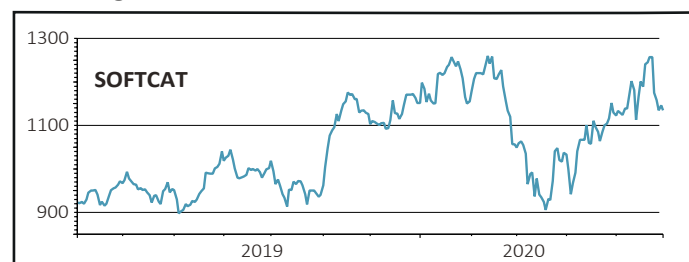
That's all very encouraging but the 'high degree of uncertainty' in the coming months and an acceptance that Softcat is 'not immune to the challenges faced by the wider economy' gave investors pause for thought.

Given that the third quarter bridges the UK

lockdown period, it seems likely the company enjoyed a typically busy March, but a much slower April and May.

Those are certainly the implications drawn by analysts at Jefferies, who have decided to trim profit forecasts by £4m this year to 31 July, 'to reflect the impact of slower trading' in the second half.

That implies £91.1m for the full year versus £95.1m previously, although it is interesting that gross profit per customer estimates, a key performance indicator for Softcat, were left unchanged.

**SHARES SAYS: ↗**

Lockdown is the ultimate test and Softcat remains a relative outperformer in a world of declining revenues and earnings.

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Investing for retirement

Four essential fund picks for your pension



By **Ian Conway** Senior Reporter

The equity markets have just endured a difficult period but over the long term they remain an excellent vehicle for growing your cash and, in turn, helping to fund a comfortable retirement.

In this article, and with the help of the head of active portfolios at AJ Bell Ryan Hughes, we have identified four compelling fund picks for a retirement portfolio. These products look to capture a range of different investment themes and styles including growth, value and sustainability.

For those just entering the workplace, the thought of putting money into a pension is often at the very bottom of their 'to do' list. We might save for a holiday, for the deposit on a flat or house, or for a baby, but retirement is so far off we tell ourselves we'll 'get round to it another time'.

In any case, most employers now have to offer a workplace pension. Every payday your employer puts a small percentage of your pay into a pension scheme together with their own small contribution, so that should be enough, right?

While it's a start, a quick look at your annual statement and the estimate of how much

you'll get when you retire will show you that a workplace pension isn't likely to provide you with enough of a pot to retire comfortably.

A better solution could be to open a self-invested pension plan (SIPP) alongside your workplace pension, and add a small amount of money every month to start building up a pot.

The difference between starting early and starting later in life is staggering. Due to the power of compounding, you're better off investing a small amount over a long time than a large amount in a short time.

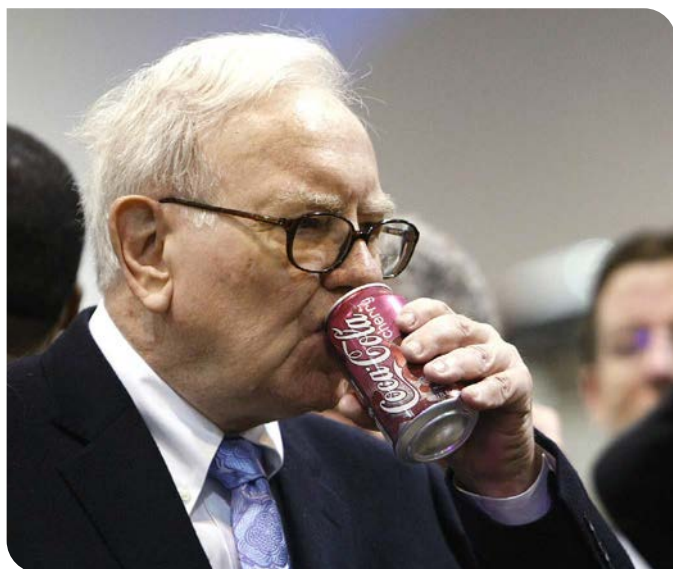
If you open your SIPP with £500, and put away £50 a month for 40 years, at a 5% rate of compound interest your nest egg will be £76,000 at the end of the period. To get the same amount over 10 years, you would need to invest £500 a month.

The chart from asset manager Vanguard illustrates the point starkly: the longer you leave it, the more you'll have to pay in each month. Its scenario is based on 6% annual return and does not factor in costs

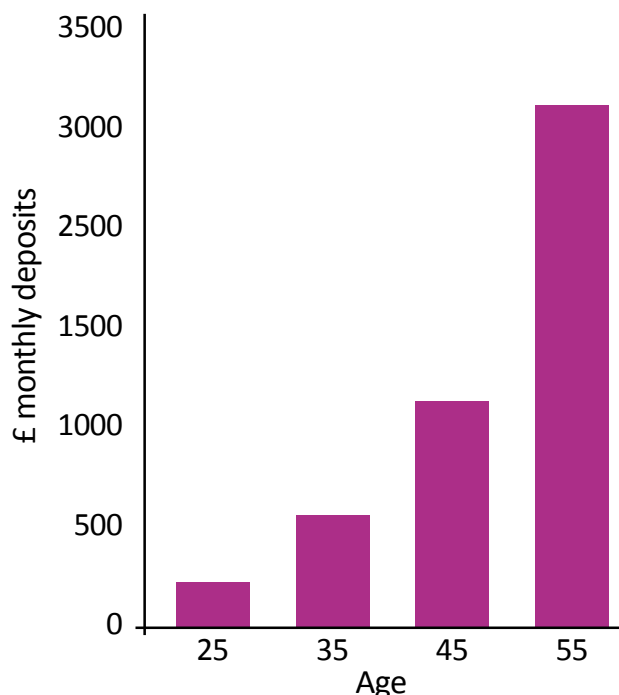
BENEFITS FROM A LONG-TERM APPROACH

Once you have set up regular monthly payments to your SIPP, you need to sit back and think about the long term. Investing isn't about 'playing the market' and trying to make short-term gains. You are building a solid retirement 'pot', the last thing you want to do is risk losing your capital, which you need to generate income and capital gains.

Warren Buffett, one of the world's greatest long-term investors, has two simple rules. Rule one is never lose money. Rule two is never forget rule one.



MONTHLY INVESTMENT REQUIRED TO REACH £500,000 AT AGE 65



Source: Vanguard. Note: For illustrative purposes only.

The other thing you need to consider as a long term investor is that markets can be volatile. Shares, or equities as they are also known, are more volatile than bonds because they generate higher returns over the long term.

Volatility isn't necessarily a bad thing. When the market goes down, which it does from time to time, by keeping your regular investment amount the same you are actually buying more shares at cheaper prices. This is known as 'pound cost averaging' and is an important part of the discipline of long-term investing.

Dividends form a large part of total returns, and although many companies have cut or reduced their payments due to the crisis, this is likely to be just a temporary phenomenon.

As you are building a long term 'pot', you should make sure you reinvest your dividends – in other words you use the cash payout to buy more shares. This not only increases your capital, it accelerates the process of compounding as your money generates more money.

Lastly, you need to resist the temptation to check on your investments too often. You are investing for the very long term, if you check your investments every five minutes you will be tempted to chop and change, which will just result in higher costs and lower returns. To help you build this portfolio for the long term, overleaf are our four prime fund selections.

BUY

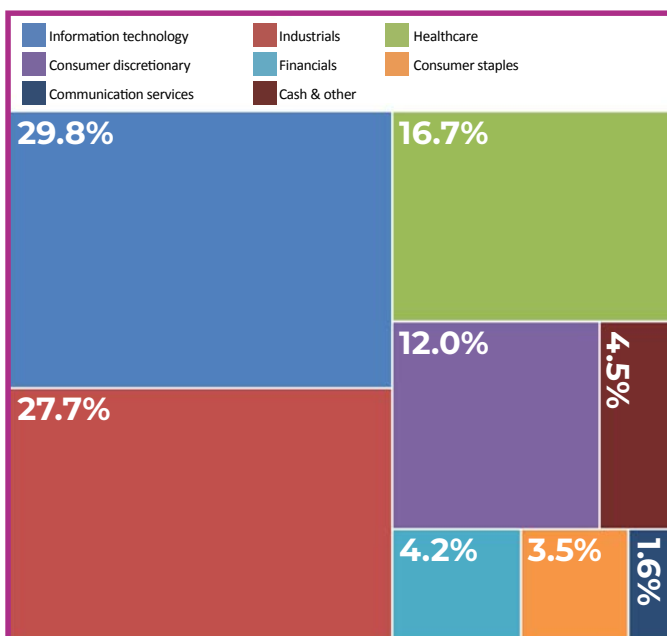
ASI GLOBAL SMALLER COMPANIES (B7KVB24) 147.5p

BUY

AJ Bell head of active portfolios Ryan Hughes says:

The smaller companies team, until recently led by Harry Nimmo, are one of the best in the business with huge experience and a long track record of unearthing great small companies that generate long term returns for investors. The manager, Alan Roswell looks for growth companies that have the ability to turn into large companies and is prepared to invest very differently to the index.

SECTOR BREAKDOWN



TOP 10 HOLDINGS

| | |
|----------------------------|------|
| Insulet | 3.9% |
| Chegg | 3.5% |
| Nihon M&A Center | 3.4% |
| Axon Enterprise | 3.3% |
| Appen | 3.1% |
| Kornit Digital | 3.0% |
| Pool | 3.0% |
| Sinbon Electronics | 2.9% |
| Voltronic Power Technology | 2.9% |
| HMS | 2.9% |

Source: Aberdeen Standard Investments

A collective those building a retirement pot for the future should consider is **ASI Global Smaller Companies (B7KVB24)**, which seeks to

generate growth over the long-term (five years or more) by investing in global small caps.

Launched in January 2012, this a higher risk but potentially higher reward portfolio that gives the patient investor exposure to carefully selected growth stocks sourced from around the world. *Shares* welcomes the diversification of the fund at country, sector and stock level, with the actively managed OEIC invested across 48 holdings at the end of April.

The £920.1m fund has generated a strong five-year annualised return of 13.2%, thanks to a strategy that benefits from the longevity of a disciplined investment process, which has been in place for around two decades, initially with a focus on UK small caps.

The breadth of resource, wealth of knowledge and expertise in the small cap team is another redeeming feature, with lead fund manager Alan Rowsell boasting over two decades of investment experience and using the management team's quality, growth and momentum approach. This aims to identify companies exhibiting a range of high-quality characteristics that operate in growing markets and display positive business momentum to boot.

Top ten holdings as at 30 April included the likes of US-listed Insulet, the insulin delivery system maker, online textbook rental and tutorial company Chegg and police body camera maker Axon Enterprise. Other top ten holdings include Japan-based M&A brokerage Nihon M&A Center, Israel-based digital printing tech play Kornit Digital and the swimming pool equipment distributor Pool.

FIVE YEAR ANNUALISED PERFORMANCE:

13.2%



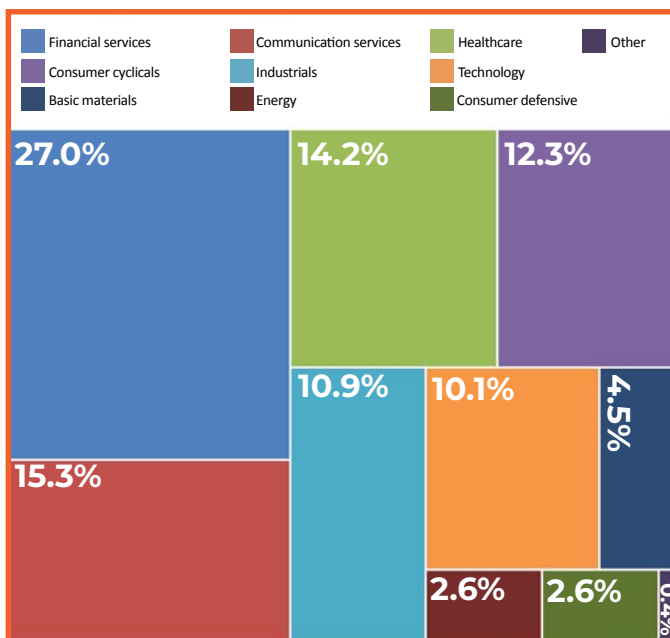
BUY

**BAILLIE GIFFORD GLOBAL ALPHA
GROWTH FUND (B61DJ02) 126.7p**

BUY

AJ Bell head of active portfolios Ryan

Hughes says: The team at Baillie Gifford have had huge success focusing on genuine growth business that have the ability to transform the industries that they operate in. The Global Alpha fund benefits from a strong team of managers who have worked together for many years looking to identify companies that can grow at a far faster rate than the market.

SECTOR BREAKDOWN

TOP 10 HOLDINGS

| | |
|------------|------|
| Amazon | 4.4% |
| Naspers | 3.3% |
| Alphabet | 3.0% |
| Alibaba | 2.9% |
| Moody's | 2.8% |
| Anthem | 2.4% |
| Mastercard | 2.4% |
| Microsoft | 2.4% |
| Prudential | 2.3% |
| AIA | 2.0% |

Source: Trustnet

Cut from the same long-term growth pattern that clothes all Baillie Gifford funds, the **Baillie Gifford Global Alpha Growth Fund (B61DJ02)** is a great choice for patient investors

looking for low cost, premium returns.

Run by the same manager triumvirate of Charles Plowden, Malcolm MacColl and Spencer Adair since its March 2010 launch, the fund targets companies that offer sustainable, above average earnings and cash flow growth which can compound over time and generate its own future growth investment firepower.

Unlike most fund managers, Baillie Gifford funds resist the temptation to endlessly pore over company financials, preferring to spend more energy on understanding a potential investment's competitive advantage, and if this edge is sustainable, and Global Growth Alpha is no different to its stable mates.

Underlying industry growth trends, barriers to entry, pricing power and value to users all fall under this analysis microscope, where the rapid growth of internet shopping and cloud computing are standout themes. Amazon, Google-parent Alphabet, Chinese shopping platform Alibaba and Microsoft are all among its top 10 stakes.

Interestingly for potential investors, Baillie Gifford Global Alpha Growth has a wider remit than other Baillie Gifford funds. This means it can seek growth opportunities even in more mature and cyclical parts of the market. So while it avoids growth stifled traditional banks, other financial services are included. Insurance and electronic payments are represented by the likes of AIA, **Prudential (PRU)** and Mastercard. It also owns a stake in ratings agency Moody's.

The strategy has worked impressively for investors, with total returns close to double or better than its Investment Association Global benchmark over one, three and five years. It has also delivered strong absolute returns relative to the MSCI ACWI Growth Index, a relevant yardstick given the growth profile.

FIVE YEAR ANNUALISED PERFORMANCE:
18.8%


BUY

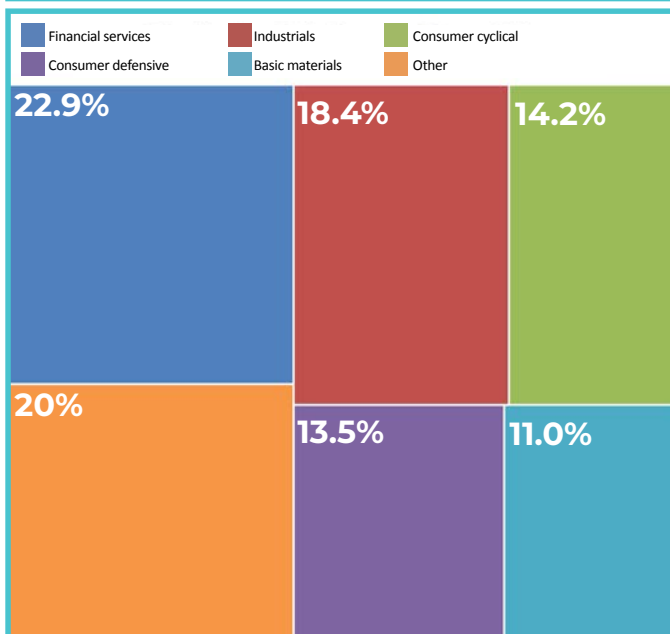
MAN GLG UNDERVALUED ASSETS (BFH3NC9) 126.7p

BUY

AJ Bell head of active portfolios Ryan

Hughes says: This fund uses a 'value' approach which looks to identify companies that others are overlooking for a variety of reasons. This style has not been in favour recently so performance may look disappointing but it's important to think about how this approach blends with the others already outlined which brings diversification to the portfolio. Henry Dixon looks right across the spectrum of UK companies and will adjust the portfolio for the opportunities he sees and is not frightened of investing very differently to the index.

SECTOR BREAKDOWN



TOP 10 HOLDINGS

| | |
|--------------------------|------|
| British American Tobacco | 5.5% |
| GlaxoSmithKline | 4.3% |
| QinetiQ | 3.3% |
| Redrow | 3.1% |
| Lancashire Holdings | 2.8% |
| Bellway | 2.6% |
| Beazley | 2.5% |
| Rio Tinto | 2.5% |
| Imperial Brands | 2.3% |
| St Modwen | 2.2% |

Source: Morningstar

Value investing, the art of buying stocks which trade at significant discounts to their intrinsic value, has a habit of rewarding patient investors having consistently outperformed over the long term.

You have to be patient when it comes to value investing, meaning such funds and stocks may not be right if you're need to access your cash in say five years' time. But as saying the good things come to those who wait, making it a perfect approach as part of a retirement portfolio.

A top fund to play this style of investing is **Man GLG Undervalued Assets (BFH3NC9)**, a UK equity fund which looks to outperform the FTSE All-Share and invests in a range of large, mid and small cap stocks.

Historic performance hasn't been the best so far, with annualised five year returns of just 0.37% (a 10-year figure isn't yet available as the fund was set up in 2013), but this reflects the fact that value investing has been out of favour over the period.

When held for decades, such funds have consistently outperformed other styles of investing.

The fund is run by experienced manager Henry Dixon, who has been in charge of the fund since it was set up, and co-manager Jack Barrat, with dedicated support from analysts.

We like this strategy as its investment process is mainly driven by bottom up stock selection, and seeks out unloved and undervalued companies by identifying two types of stocks – those trading below their replacement cost, and those where the market appears to be undervaluing their profit stream.

The managers also seek to avoid value traps by focusing on cash, cash flow and assets. It's important to note this also means the fund will have a high turnover, so transaction costs from this fund can be higher than usual.

Some of its top holdings include housebuilder **Redrow (RDW)** and defence and security group **QinetiQ (QQ.)**, which we believe is more dynamic than the market thinks and has transformed its commercial capabilities under chief executive Steve Wadey.

FIVE YEAR ANNUALISED PERFORMANCE:

0.4%

BUY

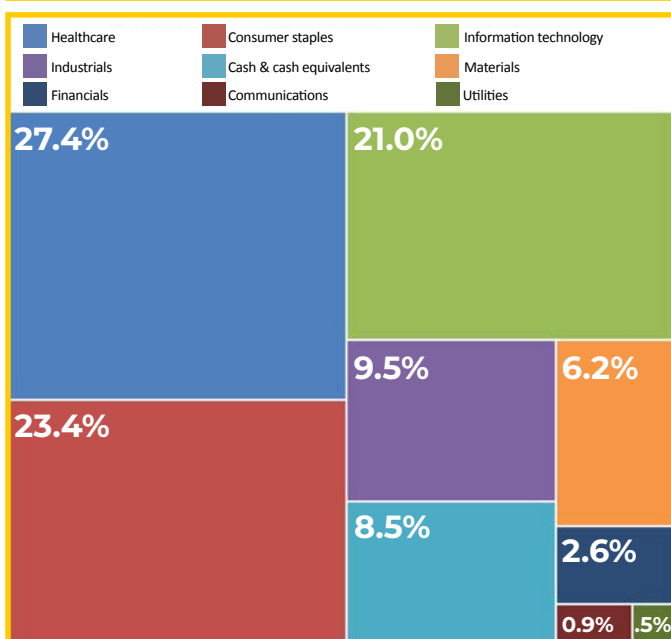
STEWART INVESTORS WORLDWIDE SUSTAINABILITY (B7W3061) 245.1p

BUY

AJ Bell head of active portfolios Ryan Hughes says:

Sustainable investing is growing rapidly in popularity and Stewart Investors have a long track record of investing in this way. The fund invests globally with a clear philosophy focusing on avoiding capital losses through investing in high quality companies and takes a long term view.

SECTOR BREAKDOWN



TOP 10 HOLDINGS

| | |
|-----------------------|------|
| Unilever | 5.2% |
| Diasorin | 5.0% |
| Ain Holdings | 3.9% |
| Hoya Corp | 3.8% |
| Novo-Nordisk | 3.4% |
| Unicharm | 3.1% |
| CHR Hansen Holdings | 3.1% |
| Zebra Technologies | 3.0% |
| Fortinet | 2.8% |
| Vitasoy International | 2.6% |

Source: Trustnet

Sustainability is becoming increasingly central to investing and this process is likely to continue in the coming years, with some factors potentially accelerated by the coronavirus crisis.

So as well as any ethical considerations, a fund which taps into this theme makes for a

natural long-term holding as part of a retirement portfolio.

Managed by David Gait and Nick Edgerton **Stewart Investors Worldwide Sustainability (B7W3061)** applies a stock picking strategy based on identifying quality companies from across the globe with a sustainable approach at the heart of their business models.

This includes firms in both the developed and developing world and the fund actively engages with its investments on issues of sustainability.

At any one time the portfolio is likely to contain between 40 and 60 shares. Other key things the managers are looking for include proven management teams, robust balance sheets and the potential for earnings growth.

Gait and Edgerton are supported in the stock selection process by a strong team providing independent research.

There is an emphasis on capital preservation which means the fund should hold up better during periods of volatility even if it might lag a little in a bull market.

Over the medium-term it has performed well with a five-year annualised return of 8.2% against 6.6% for its benchmark.

One of its top holdings will be familiar to investors – FTSE 100 firm **Unilever (ULVR)**. The consumer goods giant's commitment to sustainability encompasses so-called 'purpose-led marketing'. This involves linking its brands to social and environmental causes.

It is also committed to sourcing raw materials sustainably and reducing its products' environmental impact.

Other names in the portfolio are less well known, including Italian biotechnology firm DiaSorin and Japanese pharmacy franchise Ain Holdings.

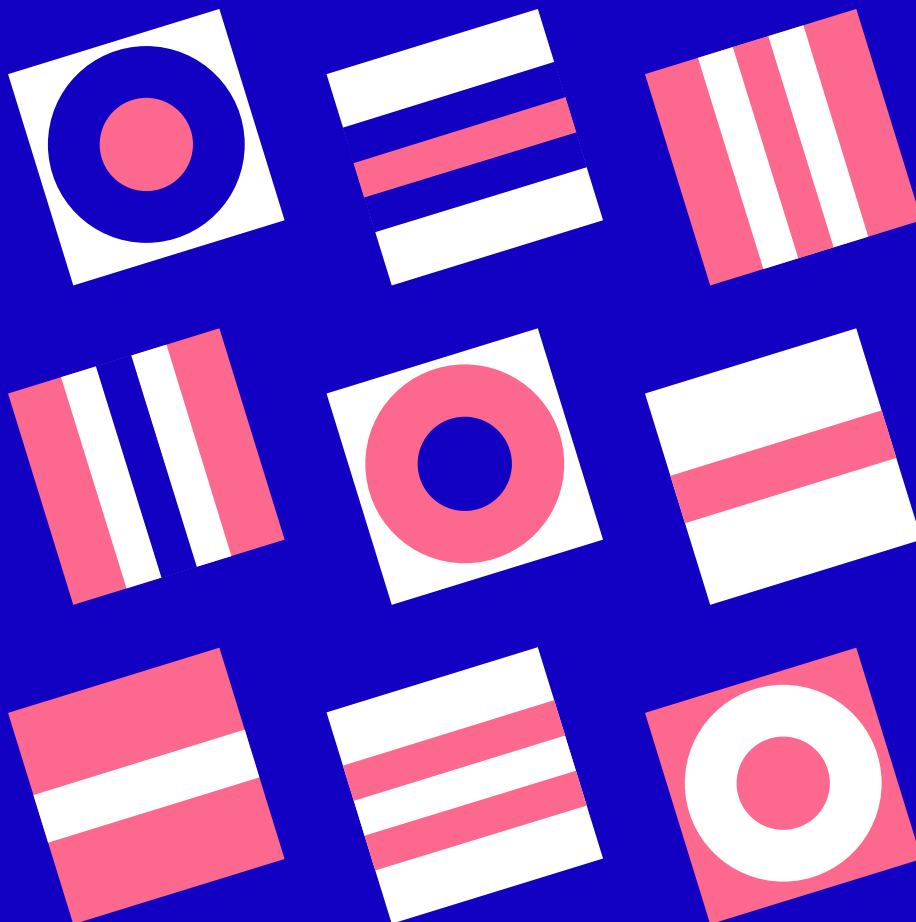
The company recently took advantage of the market correction to take positions in health and safety technology kit supplier **Halma (HLMA)** and two other businesses.

FIVE YEAR ANNUALISED PERFORMANCE:

8.2%



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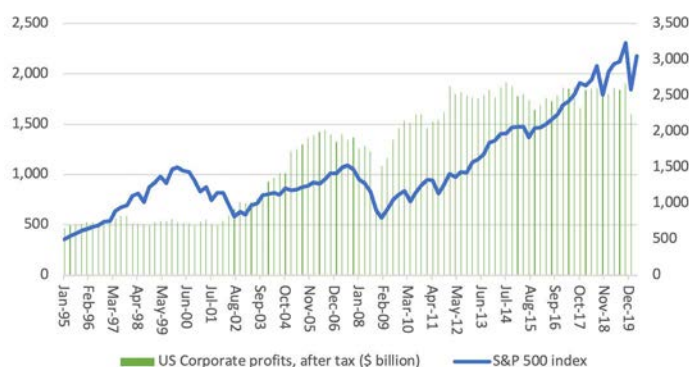
Why US corporate profits need to recover – and fast

Valuations have disconnected from corporate earnings across the Atlantic

As America's benchmark S&P 500 index barrels beyond the 3,000 mark once more, the US equity market continues to price in either a rapid earnings recovery or substantial monetary stimulus (and support for financial markets from the Federal Reserve) or further fiscal stimulus from Capitol Hill – or a combination of all three.

Investors must now decide whether that is the correct view on all three points as if they fail to deliver there could be more volatility ahead.

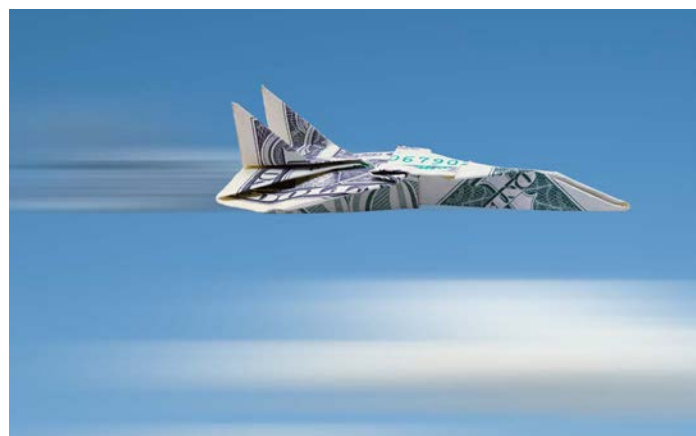
US STOCKS HAVE SURGED EVEN AS PROFITS HAVE SAGGED



Source: FRED – St. Louis Federal Reserve database, Refinitiv data

This is because, in the near term, it seems as if the performance of US equities is disconnected from American corporate earnings.

This can happen for a while – markets are forward-looking mechanisms after all and they can be pretty canny at sensing upturns or downturns long before it shows up in companies' quarterly earnings reports. But ultimately a company is only worth the cash that it generates over its lifespan and the profits it makes are a key part of that cash flow, so if the profits do not materialise then the spectacular surge in US share prices could start to



mean the risk-reward profile of US equities is more slanted toward risk and away from reward.

PROFIT PROBLEM

According to data from the St. Louis Federal Reserve, aggregate corporate US profits slipped by 11% year-on-year in Q1 2020 to \$1.6tn. Given the creeping effects of Covid-19 in Asia and then Europe and then the end-of-March lockdown in America itself this will come as no surprise to investors.

US CORPORATE PROFITS FELL TO LOWEST PERCENTAGE OF GDP SINCE Q1 2009 IN Q1 2020



Source: FRED – St. Louis Federal Reserve database

RUSS MOULD

AJ Bell Investment Director



Insightful commentary on market issues

But if they look closely at the chart that compares US corporate income with the S&P 500 they might get a shock, because Q4 2019 was no higher than Q2 2014, to suggest that firms had been struggling to make progress for some time (with the exception of a select group of technology stocks, as discussed here to weeks ago).

Tech, plus some financial engineering in the form of share buybacks and the Trump administration's 2017 tax cuts put a fancy gloss on modest underlying rates of progress.

This can be seen more clearly through a study of US corporate profits as a percentage of GDP. By this metric, earnings peaked *almost eight years ago*. This makes the S&P 500's monster gains since then seem all the more remarkable, although investors could counter that this calculation is just useless when it comes to analysing stocks.

However, those investors who believe in mean reversion will not be surprised, arguing that this is typical of an economic cycle. Premium returns on capital attract more capital until investment in fresh supply overwhelms demand, margins contract, capital is destroyed as errors are punished.

Excess capacity is then wiped out, new innovations are forged through necessity and the cycle starts again. On the face of it, US corporate profits were heading back to their long-term average of 6% of GDP even before the pandemic struck.

The drop in earnings has started to hit the US corporate tax take, although the 2017 Tax Cuts and Jobs Act, which slashed the headline corporation tax rate from 35% to 21%, had something to do with this too.

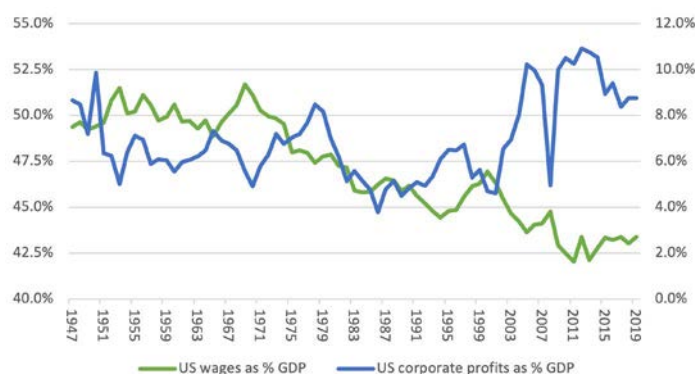
LABOUR COSTS

It is not just tax payments that stand at lowly levels. Labour's take-home portion of GDP is hovering near post-WWII lows, as salaries and compensation represented barely 43% economic output in 2019.

From the start of the Reaganomics revolution in the early 1980s to their peak, US corporate profits as a percentage of GDP rose by some five to six

percentage points. At the same time, workers' share of the pie fell by – yes, you guessed it, five to six percentage points.

CAPITAL HAS WON OUT OVER LABOUR FOR THE LAST 30-PLUS YEARS IN THE USA



Source: FRED – St. Louis Federal Reserve database

A tight labour market had begun to give the whip hand back to workers. It now remains to be seen whether Covid-19 changes that – and how.

On one hand, some investors might like to think that the less well-paid who work in the front line in stores, warehouses and hospitals would get healthy pay increases in recognition for both the low starting point and their huge contribution to keeping the show on the road.

Higher taxes to help plug the Federal Budget deficit that is already yawning ever-wider could be a further hit on corporate profits and provide a nasty one-two punch for investors at a time when they are looking for a profit to rebound to sustain valuation multiples that are lofty by historic standards.

On the other, it might be unwise to bet against corporate America. Firms that have run smoothly without furloughed staff may decide that not all of them are needed when lockdowns end and business starts to pick up again.

Bosses who have become accustomed to managing remotely may decide this can be taken one step further and offshore their staff to cheaper, emerging economies, ironically just as – perhaps – the viral outbreak and president Trump's policies lure industrial jobs back onshore.

Companies that should gain market share post-crisis



Investors should consider how stocks might be positioned longer term

The coronavirus will have a long-lasting impact on the economic landscape and alter the competitive positions across numerous industries. There will be a benefit for the strongest companies which will emerge stronger and with superior growth opportunities.

Larger companies tend to be the ones that are the most liquid and they can readily tap the equity markets for funding. This means they are more likely to survive and thrive as they find opportunities to take market share from defunct competitors, acquire struggling smaller rivals and snap up distressed assets at discount prices due to liquidity crunches.

BIGGER IS BETTER

Size is a strength in these uncertain times and investors are placing a premium on the value of 'survivability' in companies, which favours the corporate behemoths and large cap lions with bigger market shares, stronger balance sheets and greater access to the liquidity needed to see them through the crisis.

Tesco (TSCO) is currently reaping the benefits of having large capacity to deliver food to homes across the UK. It is likely



Ocado looks to benefit from the increase in online grocery sales

to be picking up new shoppers during the lockdown who could become loyal customers post-crisis, thus helping Tesco to increase its market share.

The sharp rise in people wanting to order groceries online also plays to **Ocado's (OCDO)** strengths as a provider of systems to help run warehouses and fulfil online food orders. Food retailers will now be thinking more seriously about the online channel and Ocado's services to third parties could feasibly be in much greater demand in the coming years.

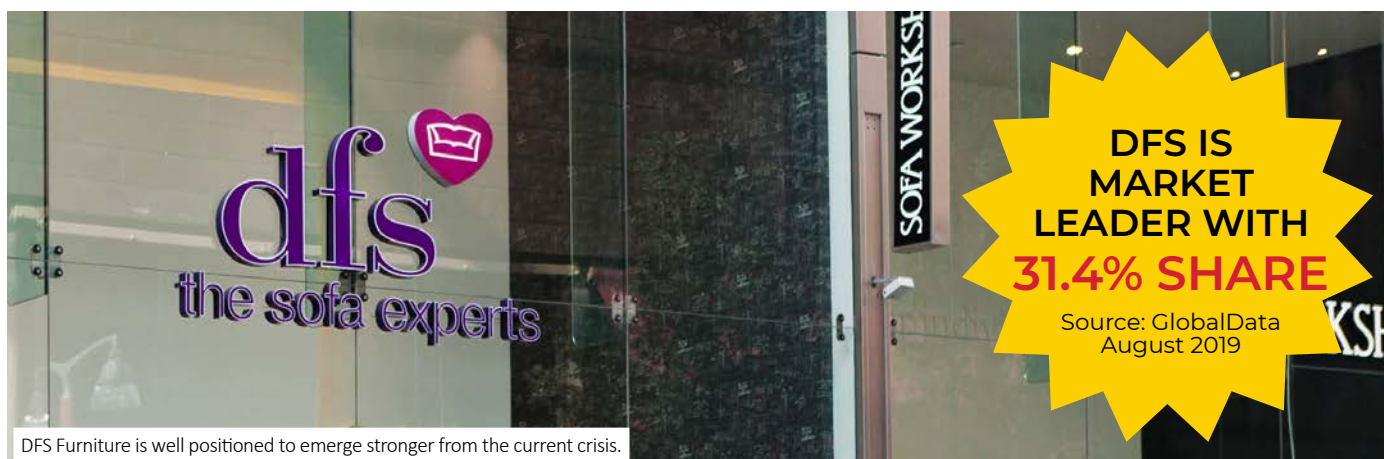
PREYING ON THE WEAK

Whereas most of the UK-listed

companies that have recently tapped investors for more have done so to survive the crisis, some of the strongest players regard this as the perfect time to prey on weaker rivals, thereby extending their market position.

Car-selling portal **Auto Trader (AUTO)** also made similar move, raising £186m. Broker Peel Hunt says: 'Auto Trader is one of a series of very strong digital platforms that operate in the UK. What distinguishes it, we believe, is the balance of market leadership and value added to the industry served.'

'The recent fundraising should have extinguished debt, allowing the company to assist the



DFS Furniture is well positioned to emerge stronger from the current crisis.

customer base during the period of crisis and to arm the company for mergers and acquisitions should the opportunity occur.'

Peel Hunt also suggests IT reseller **Softcat (SCT)** could come out of the crisis in a much stronger position. It comments: 'With a well-diversified revenue split, including over a third coming from government IT spend and a large portion aligned to work-from-home tech vendors such as Microsoft and Cisco, structurally Softcat is better placed than most to navigate the potential headwinds to UK tech spending. This will see it being gifted a larger market share as recovery kicks in.'

There should be greater demand for **Rentokil Initial's (RTO)** essential pest control and hygiene services following the pandemic. Building materials group **Marshalls (MSLH)** also looks like it will come out the other side in a much stronger position than its smaller rivals. Peel Hunt says other hard landscaping businesses have struggled to keep pace with Marshalls' product and service development in the last five to 10 years and the crisis is likely to make it even tougher for them, allowing it to gain more market share.

PRIMARK'S PROSPECTS

The shakeout in the already hard-pressed retail sector is likely to be brutal, only accelerated by online shift triggered by deep lockdown. For the survivors, the withdrawal of capacity may also be an opportunity to rebound with more pace than the market expects.

Discount fashion chain Primark could be seen as at a disadvantage post-coronavirus, given its lack of an online business and the new social distancing rules which will hit brick and mortar store footfall.

The encouraging news is that Primark has begun to reopen European stores and according to finance director John Bason – as told to the *Financial Times* – early trading in these outlets has been spread more evenly through the week so far, with basket sizes notably higher than was previously the case.

So in spite of the uncertainties ahead, Shore Capital sees Primark, owned by **Associated British Foods (ABF)**, as 'an undoubted fixture of apparel retailing in the future when casualties sadly abound around the world'.

Its value credentials could also

stand it in good stead if the world goes through a long period of economic gloom.

WEIGHING UP DFS

Numis says that over three times the size of its nearest competitor, with a well invested store estate, advanced online proposition and a recently-strengthened balance sheet, **DFS Furniture (DFS)** is well positioned to emerge stronger from the current crisis.

DFS, which has this year suspended the dividend and raised £64m through a share placing, 'steadily outperforms the market through good times, but, perhaps counterintuitively, it is through bad times where scale matters most' according to Numis. 'A superior proposition and industry leading margins allow the business to weather the cyclical upholstery market.'

Although the upholstery market is unlikely to be immune from a disrupted and depressed housing market, the fact people are spending more time at home means there is a chance that buying a new sofa will feature on consumers' shopping lists.



By James Crux
Funds and Investment
Trusts Editor

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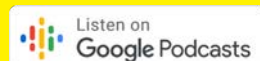
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PANDEMIC PUTS TECHNOLOGY FRONT AND CENTRE

Successful adoption of digital strategy
set to polarise returns



Not everyone is a tech fan but if there is one silver lining to be drawn from the Covid-19 pandemic it may be a new appreciation of what technology can do for us.

Where would we be without Zoom or Microsoft Teams to keep us in the work loop and let us safely stay in touch with family and friends during lockdown. Perhaps you've shopped online or signed up to streaming TV for the first time, or bought your first share on an investment platform instead of using the phone.

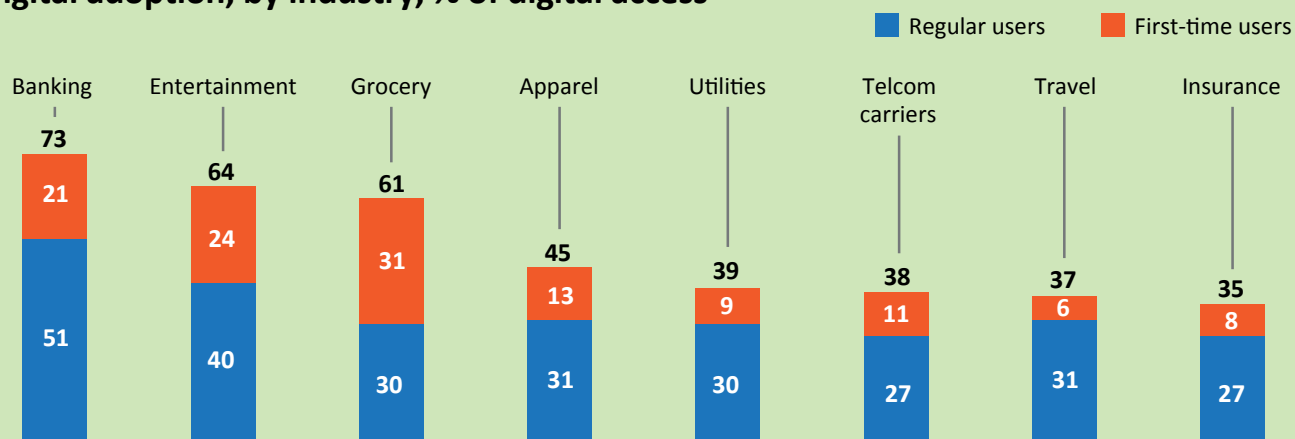
Recent data shows that 'we have vaulted five years forward in consumer and business digital

adoption in a matter of around eight weeks,' said a recent report by business consultancy McKinsey.

Since the start of 2020 Zoom Video shares have rattled more than 150% higher, Netflix is up nearly 30% and even the previously lacklustre stock of workplace collaboration platform Slack has sprung to life this year, up 53%.

Given the dominance of the world's technology scene by big US providers, and the relative absence of very large UK specialists (just **AVEVA (AVV)** and **Sage (SGE)** in the FTSE 100, for example) it can be easy to overlook what remains a vibrant UK tech space at the mid cap FTSE 250 level and below.

Digital adoption, by industry, % of digital access



¹Note: Figures may not sum to listed totals, because of rounding.
Source: McKinsey

BIG CHANGES

'This step change in remote adoption is now arguably substantial enough to reconsider current business models,' McKinsey describes the switch to more flexible working in future, perhaps making it a golden age for IT infrastructure suppliers.

UK companies like **Computacenter (CCC)** and **Softcat (SCT)** have decades of expertise and experience and should be excellent partners as businesses extend their IT capabilities to allow flexible home working, using cloud-based systems.

It is glaringly obvious that some industries and subsectors are tightly gripped by the fist of regulation, and that looks only likely to tighten further in a post Covid-19 environment. Pharmaceutical and healthcare, energy, transport, security, financial markets and much more may require the sort of governance, risk and compliance software supplied by **Ideagen (IDEA:AIM)**, for example.

While elsewhere companies such **EMIS (EMIS:AIM)** and **Kainos (KNOS)** tap directly into public sector budgets for digital investment, in areas like central and local government services and the NHS.

Some of these changes will prove temporary, but many more will stick because of the emerging benefits. For example, more than half of people (56%) forced to work from home during lockdown say the change has improved their quality of life, according to a recent Uswitch report. Two fifths (39%) said they are exercising more and a third (34%) eating more healthily.

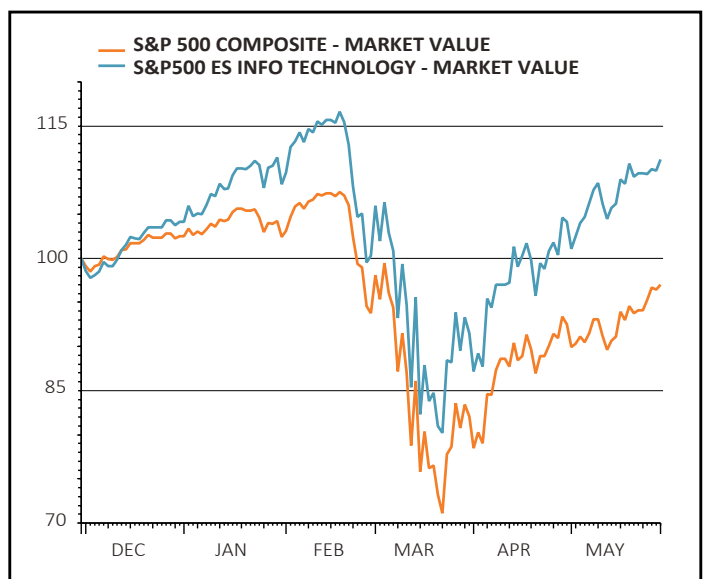
According to McKinsey, 75% of people using digital channels for the first time indicate that they will continue to use them when things return to 'normal'.



US DOMINANCE

Yet the US remains home to many of the world's biggest and best technology opportunities, and it is no coincidence that the nearly half of the S&P 500's best performing stocks in 2020 are tech of one stripe or another, with another half dozen some sort of healthcare or biotech.

These include Amazon and Netflix, part of the FAANG stocks alongside Google parent Alphabet, Apple and Facebook. Throw in Microsoft, these six tech stocks are all up on the year, versus a 6.2% decline for the S&P 500, and are now worth almost \$5.75tn, or 21.7% of the S&P's \$26.5tn market cap.



These are essentially digital, flexible, platform businesses that can control costs, maintain service standards and still fulfil customer needs even during these difficult times.

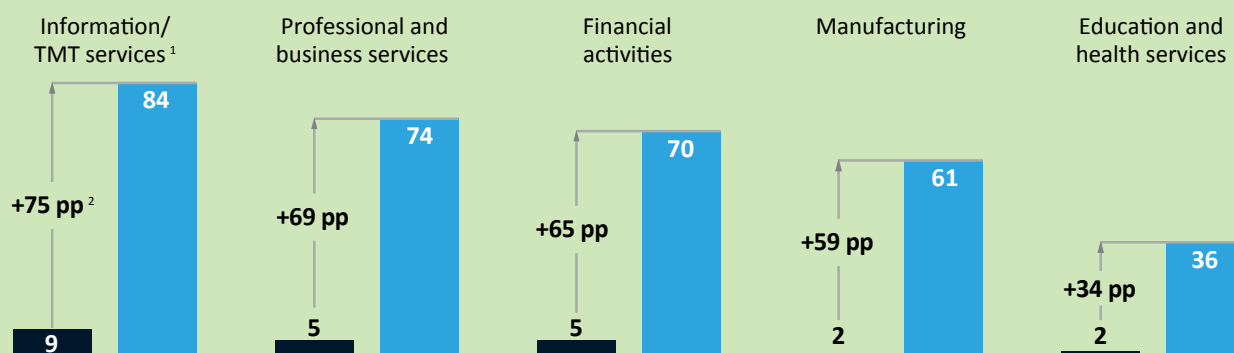
This is demonstrated by first quarter 2020 earnings, even in the face of the unprecedented challenge of Covid-19, these companies walked away relative winners.

Yes, there is devil in the detail, and expectations have been toned down here and there, but the tech sector continues to largely deliver growth whereas other parts of the stock market are warning investors to expect anything from seriously capped progress growth to masses of red ink.

This dominance of tech returns did not emerge with the virus, it has been building for years. 'All the operating profit growth from the S&P 500 over the last eight years is tech,' says William de Gale, the former BlackRock manager who is now running the **BlueBox Global Technology** fund.

'There's been zero progress from anywhere else.'

Share of employees working remotely full time (%)



¹TMT = technology, media, and telecom. Pre-COVID-19 figures for remote-work frequency in sector sourced from internal survey (unavailable in American Time Use Survey).

² Percentage points.

Source: McKinsey

DIGITAL FIRST

Many traditional industries seem likely to accelerate the embracing of digital capabilities.

For example, banks have transitioned to remote sales and service teams and launched digital outreach to customers to make flexible payment arrangements for loans and mortgages.

Grocery stores have shifted to online ordering and delivery as their primary business. Manufacturers are actively developing plans for 'lights out' automated factories and supply chains.

Schools in many places pivoted fully to online learning and digital classrooms, while doctors have begun delivering telemedicine, aided by more flexible regulation.

'I have joked, along with others in the tech sector, that all businesses will ultimately become tech businesses,' said Ian Spence, founder of

the Megabyte IT consultancy and a technology industry analyst for more than 20 years.

While that may not come to pass in a literal sense, what he believes will happen over the next decade is that technology will become as intrinsic to delivering products and services as electricity.

'This will accelerate digital disruption across the service economy,' Spence says, and 'benefit the technology industry, but only for those tech companies well-placed to take advantage, and not all will be'.

POLARISED RETURNS

This is mean fundamental changes in how many businesses operate, driven to a large extent by shifting value chains, with disintermediation rife. Spence urges investors to think of the impact that comparison sites have had on the insurance sector, for example, and you get a glimpse of what is coming, in his view.

The implication for investors is that this digital revolution will polarise investment returns between the digital winners and the digital losers, with a knock-on effect to stock valuations. We had already seen a convergence in the valuations of tech-enabled services companies with pure tech companies, and this can only accelerate.

'A bit like buying a doer-upper house, investors will make their best returns by investing in businesses with the potential to digitally transform and then transforming,' believes Spence.

"I have joked, along with others in the tech sector, that all businesses will ultimately become tech businesses"



By Steven Frazer News Editor

The Faff-aphobe

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The value of your investments can go down as well as up and you may get back less than you originally invested.



What can I learn from the X-ray return analysis chart?

The importance of considering risk alongside reward

I have a SIPP with AJ Bell. When I run an X-ray of my portfolio I have a return analysis chart that appears.

The only thing I know about it is that ideally the numbered circles should be to the right of the vertical line and above the horizontal line. Apart from that I don't know much else. Would it be possible to have this chart explained?

Leigh Moss



Senior Reporter
Martin Gamble
replies

The return analysis chart provides a picture of portfolio risks and returns, and makes a comparison to an appropriate benchmark. The chart and table of holdings shown here relate to a hypothetical portfolio.

The first thing to note is the time frame on each axis, which is three years, a minimum period for measuring meaningful returns and risk.

This is because over shorter time frames there is too much 'noise' or random effects which can muddy the true picture.

Each company in the portfolio's top 10 holdings is represented by a circle and number so that you can identify assets in the table below the return analysis chart.

One of the key concepts

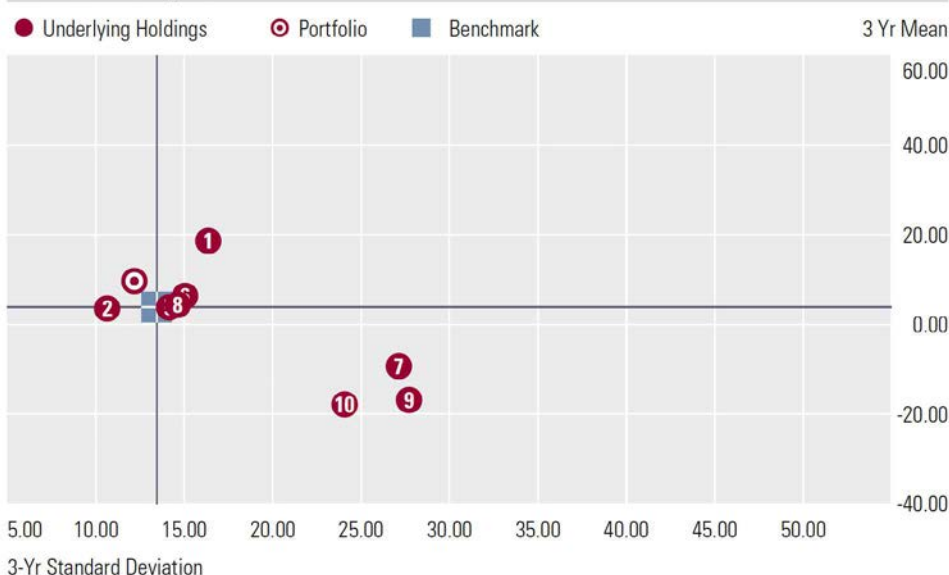
of portfolio management is something called risk adjusted returns.

A generally accepted way to measure risk is to look at the standard deviation, which simply measures how much a share or portfolio moves around. The more it moves around the higher

the standard deviation and the higher the risk.

Returns alone don't provide a rounded picture; we need to know how much risk was taken as well. The horizontal axis measures how much risk was taken to achieve the stock and portfolio returns.

Return analysis for hypothetical portfolio



Top 10 Portfolio Holdings

| | Name | Assets % | Mean % | Standard Deviation % |
|----|---------|----------|--------|----------------------|
| 1 | Fund A | 32.44 | 18.66 | 16.36 |
| 2 | Fund B | 22.14 | 3.56 | 10.64 |
| 3 | Cash | 16.20 | - | - |
| 4 | Share A | 11.78 | - | - |
| 5 | Fund C | 7.84 | 3.83 | 14.14 |
| 6 | Fund D | 4.51 | 6.37 | 15.05 |
| 7 | Share B | 3.30 | -9.33 | 27.14 |
| 8 | Fund E | 0.58 | 4.40 | 14.64 |
| 9 | Share C | 0.53 | -16.85 | 27.71 |
| 10 | Share D | 0.30 | -17.85 | 24.07 |

Source: AJ Bell Youinvest

The table lists the top 10 holdings in a portfolio and in this particular case we have generated a random portfolio to demonstrate how it works. The first column named 'Assets' lists the largest percentage holdings in the portfolio. For example Fund A represents around a third of the whole portfolio (32.44%).

The second column tells you the percentage average annual return over the last three years while the last column shows the standard deviation, again measured as an annual three-year average. Fund A has provided a three year average return of 18.66%. Looking at the third column, the standard deviation for Fund A is 16.36%.

You can see these values in chart above by looking at circle number one, which represents Fund A.

As a general rule, assets whose return is greater than the standard deviation have provided a good risk adjusted return. Fund A fits this profile. As can be seen from the table this is not true for

all the holdings.

You are correct that ideally the circles should be above the horizontal line. The ultimate goal is to have your portfolio in the top left corner, which means you have a better risk adjusted return.

In other words, more return for less risk. It's more difficult

to achieve consistently good returns if some of the shares in your portfolio move around more than average, so keep an eye on shares plotting to the far right and consider if the return is worth the extra risk.

You can read more about the Portfolio X-Ray tool discussed in [this article](#).

DO YOU HAVE ANY QUESTIONS ABOUT MARKETS AND INVESTING?

Let us know if we can help explain how something works or any other question relating to markets and investing. We'll do our best to answer your question in a future edition of *Shares*.

Email editorial@sharesmagazine.co.uk with 'Reader question' in the subject line.

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Removing currency risk on overseas-focused ETFs

Buying the 'GBP hedged' share class can remove currency risk, but there are potential drawbacks

When looking to invest in a certain region like the US, Japan or the Eurozone, exchange-traded funds (ETFs) can be a very useful tool.

They give you a broad and cost efficient exposure to the country's stock market which helps capture a decent amount of the upside, and also offers the benefit of diversification to potentially mitigate on the downside.

But one important aspect to always consider when investing in ETFs which track companies abroad is currency.

For example, if you want to get exposure to companies in Japan but not the Japanese yen, or you don't want the additional worry of having to consider how the yen will do against the pound and vice versa, then choosing a currency hedged ETF would eliminate this risk.

Most ETFs which offer

exposure to foreign markets will have a 'GBP hedged' share class.

PROS AND CONS

Currency hedged ETFs and their non-hedged counterparts use the same asset allocation, but the difference is that currency-hedged ETFs typically use forward exchange contracts to protect against exchange rate fluctuations.

This means currency hedged ETFs cost more. Take **iShares S&P 500 (IUSA)** as an example. This is the US dollar share class and has an ongoing charge of 0.07% a year. The currency hedged ETF, **iShares S&P 500 GBP Hedged (IGUS)**, has an ongoing charge of 0.2% a year.

That's because of the extra costs involved. Currency hedged ETFs have increased transaction and holding costs, while there is also a spread incurred when pairs of currencies are traded. The rule of thumb is that currency hedged ETFs tend to be between 0.1% to 0.3% more expensive.

Also worth considering is that the money in these hedged share classes tends to be smaller. The unhedged iShares S&P 500 ETF has \$8.9bn of investors' money while the GBP hedged ETF is 94% smaller with £475m in assets.

That means the difference between the price at which you buy and sell the ETF (bid/offer spread), always worth taking



HEDGED VS UNHEDGED INDEX RETURNS YEAR-TO-DATE

| Reason | Total |
|--|--------|
| S&P 500 | -5.4% |
| S&P 500 GBP Hedged | -6.6% |
| MSCI Japan | -13.7% |
| MSCI Japan 100% Hedged to GBP | -14.1% |
| MSCI World | -12.2% |
| MSCI World 100% Hedged to GBP | -13.0% |
| Euro Stoxx 50 | -18.0% |
| Euro Stoxx 50 GBP Hedged | -16.6% |
| MSCI Emerging Markets | -11.9% |
| MSCI Emerging Markets 100% Hedged to GBP | -12.3% |

Source: S&P, MSCI, Euro Stoxx factsheets

into account when looking to buy or sell ETFs, could be wider than the unhedged one. For the above ETF it doesn't make much difference as £475m is still a decent amount in assets, but for currency hedged ETFs with less than £100m for example the bid/offer spread could be an significant additional cost.

On the flip side, while not affecting your total return it is also worth considering that foreign currency-denominated shares and ETFs can incur higher trading costs from your broker.

For investors with shorter time horizons, like those nearing retirement who might need the money in five years, such ETFs can be the better option as they reduce the additional volatility associated with currency.

Many in the finance world believe currency fluctuations aren't a factor in long term investment returns (positive or negative), but over the shorter term they can make a difference.

HOW IT CAN WORK IN PRACTICE

A great example highlighted by JustETF Research shows the difference between a US-listed ETF iShares MSCI Japan, denominated in yen and **iShares MSCI Japan GBP Hedged (IJPH)**.

2013 was a phenomenal year for Japanese equities, as prime minister Shinzo Abe launched an ambitious turnaround plan to get the world's then third largest economy out of stagnation, in a three-pronged approach dubbed 'Abenomics' by investors.

The glut of money unleashed by quantitative easing did wonders for the stock market, in part because it helped



weaken the yen and boost an economy and stock market full of exporters. The benchmark Nikkei 225 index rose a staggering 56.7% that year.

Despite the surging stock markets, ETF investors who didn't keep an eye on the currency risk would've missed out substantially.

In 2013, the iShares MSCI Japan ETF in local currency rose 21%, which is still impressive but was hampered by the weakened yen. The GBP hedged ETF however, removing the risk of a weaker yen, returned 48%.

WHAT HAPPENED NEXT?

However, 2013 proved to be the high watermark for Abenomics as the next five years showed. Returns the very next year from the MSCI Japan index were -3.72%, and as the quantitative easing taps were turned off Abenomics began to run out of steam.

That was good news for the yen, which has strengthened significantly in the years since, but meant those either betting

against the yen or hedged currency risk altogether missed out on some fairly substantial gains.

In the period between 2014 and 2019, the MSCI Japan ETF in local currency returned 47% over the five years. The GBP hedged version returned 20%.

In hindsight it's easy to say that Abenomics would run out of steam and the yen would strengthen, but predicting currency moves can be a difficult thing to do.

For those prepared to take a view on currency or happy to ride out fluctuations in foreign exchange over the long term, currency hedged products may not be worth looking at.

However for anyone who merely wants overseas exposure without any added complications, a currency hedged ETF can at least mean one less thing to worry about.



By Yoosof Farah
Reporter



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Martin Whitaker, CEO Diurnal (DNL)

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Yellow Cake Operations Summary

Strategy
To buy and hold physical uranium and to deliver maximum exposure to expected resurgence in the uranium market

| Period | Production (Mlb U ₃ O ₈) | Revenue (US\$M) |
|--------------|---|-----------------|
| July 2018 | 1.1 Mlb U ₃ O ₈ | US\$21.01 M |
| August 2019 | 1.1 Mlb U ₃ O ₈ | US\$21.30 M |
| April 2019 | 1.1 Mlb U ₃ O ₈ | US\$21.30 M |
| June 2019 | 1.1 Mlb U ₃ O ₈ | US\$21.30 M |
| January 2020 | 1.1 Mlb U ₃ O ₈ | US\$21.30 M |

Andre Liebenberg
Executive Director & CEO
Yellow Cake (YCA)

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Andre Liebenberg, Executive Director & CEO, Yellow Cake (YCA)

Yellow Cake (YCA) is a specialist company operating in the uranium sector. The principal activity of the company is to invest in physical uranium.

Why potash is vital to crop growth?

- Potash is the name for the group of minerals that help provide potassium for plant growth
- It is a "must have" nutrient for production
- 90-95% of potash is used in agricultural fertiliser
- The most common type of potash is Muriate of Potash (MOP) which is used as a fertilizer and improves plant health
- Potassium is known as a "quality nutrient" because of its important effects on plant growth, crop size, colour, taste, shelf life, and other important characteristics

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Will the triple lock stay in place?

Our resident pensions expert looks at whether this Government commitment can be honoured

Can we really expect the Government to keep its pledge to increase the state pension in line with the triple lock following Covid-19?

Patrick



Tom Selby

AJ Bell

Senior Analyst says:

While Covid-19 is clearly first-and-foremost a human tragedy, the costs of locking down vast swathes of the UK economy and paying up to 80% of the wages (and workplace pensions) of millions of people are astronomical.

The latest Office for Budget Responsibility (OBR) estimate suggests Government borrowing will hit £298bn in 2020/21 – a staggering £243bn higher than the figure published alongside March's Budget (remember that).

This will place huge strain on Government finances, meaning we are likely to get yet another Budget either this year or early next as the Treasury reassesses its spending commitments. Among other pledges, the state pension triple lock is likely to come under the microscope.

WHAT IS THE STATE PENSION TRIPLE LOCK?

The triple lock was introduced in 2010 and increases the state

pension in line with the highest of increases in average earnings, consumer prices index (CPI) inflation or 2.5%.

This guarantee only applies to the basic state pension (BSP), paid to those who reached state pension age before 6 April 2016, and the new state pension (NSP), paid to those who reach state pension age from 6 April 2016 onwards.

If you have any other state pension entitlements, such as state earnings-related pensions (SERPS) or state second pension (S2P), these will rise each year in line with CPI inflation only.

For the 2020/21 tax year, the basic state pension is worth £134.25 a week (£6,981 per year) while the new state pension pays £175.20 a week (£9,110.40 per year).

WHAT DOES THE FUTURE HOLD?

Addressing MPs at during a Liaison Committee session on 27 May, prime minister Boris Johnson was asked specifically

whether the triple lock would survive post-coronavirus. Replying he committed to stick to his manifesto promises – of which one is retaining the triple lock guarantee.

However, at the same time he refused to rule out increases in income tax, National Insurance or VAT – despite the manifesto expressly promising all three wouldn't change during this Parliament.

Frankly, it would be bizarre if the prime minister felt genuinely able at this stage to stand by any of his party's pre-election promises given the scale of the economic response and associated cost of tackling Covid-19.

The triple lock specifically could become very expensive to the Treasury if, as many predict, average earnings rebound significantly next year after dropping during 2020.

However, it is unlikely we will have clarity on this or many other tax and spend policies in the near future.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to editorial@sharesmagazine.co.uk with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide information and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

Maxed out your pension and ISA? Where next...?



For those fortunate enough to have cash left over after using their wrappers there are options

Most people can put up to £60,000 a year into their ISA and pension combined. But some people might find they exceed this limit and want to know where to invest next, while others may have lower limits and so be able to put away less each year.

WHAT ARE THE LIMITS?

Those aged 18 or over can put £20,000 into an ISA each year, while £9,000 can be put away on behalf of children. For pensions the limit is higher and for most is £40,000 each tax year, or 100% of their earnings, whichever is lower. This limit reduces for high earners and for those who have already dipped into their pension pot, meaning it can be as low as £4,000.

Read more about the reductions for high earners [here](#).

If you didn't max out your pension allowance in previous years you can carry forward that allowance, which is explained [here](#).

WHERE NEXT?

If you've already put the maximum in your pension and ISA you have a number of other options, from maximising your



family's allowances to using less tax-efficient accounts.

USE YOUR SPOUSE



If you're married you can transfer assets between partners without any tax implications. This means that if you've maxed out both

your pension and ISA limits but your partner hasn't, you could transfer money to them to put into an account in their name. This effectively doubles the usual £60,000 combined ISA and pension allowances and means a couple can put away up to £120,000 a year in tax-efficient accounts (subject to the caveats we talked about earlier).

As ISAs and pensions can't be held in joint names, the money would solely be in your spouse's name. One thing to note is that if your spouse doesn't work then their annual pension limit will be reduced to £3,600 a year – but the ISA limit is unaffected.

USE YOUR CHILDREN

Children get their own ISA and



pension limits, albeit lower if they are under the age of 18. You can put up to £9,000 into a Junior ISA for a child, while they also get a £3,600 limit for a pension, which you can put into a Junior SIPP.

However, these accounts will be in the child's name and will be theirs to use once they can access them (which is age 18 for the Junior ISA and retirement age for the SIPP). So this isn't an option if you wanted to be able to use the money at a later date or you don't trust your kid to be sensible with the money.

DEALING ACCOUNTS



These accounts work in the same way as your ISA, but you

don't get the benefit of tax-free income or capital growth. You can still trade investments in the same way but crucially there is no limit on how much you can pay in in a tax year. However, you should be savvy with how you organise your investments so you don't get hit with large tax charges.

For example, you can earn £2,000 a year in dividends tax-free, but after that you'll pay 7.5%, 32.5% and 38.1% tax, depending on whether you're a basic-rate, higher-rate or additional-rate taxpayer.

For example, if you had £100,000 in a dealing account and it generated 4% income you'd have £4,000 of dividend income each year. £2,000 of that would be tax free, but the rest is subject to tax, meaning a higher rate taxpayer would pay £1,524 in tax on that money. If it was in an ISA that tax bill would be reduced to zero. As such, it's a good idea to put investments that generate a high income into your ISA (or your pension if you can afford to lock the money up for longer), to protect those dividends from tax.

You'll also need to consider capital gains tax (CGT), as any gains made in dealing accounts will be subject to this. Everyone has an annual allowance for CGT – £12,300 in the current tax year – and if you don't use it you lose it. After that you'll pay 10% tax on gains if you're a basic-rate taxpayer and 20% if you're a higher or additional-rate payer.

This means if you're sitting on significant gains in your dealing account you should think about whether it makes sense to crystallise them over more

than one tax year, or whether you can transfer the assets to your spouse in order to use their allowance too. You can also use investment losses to help offset your gains for tax purposes. It just requires a bit of planning so you don't get walloped with a big tax bill.

WANT TO HOLD SOME CASH?



If you've already maxed out your ISA allowance but you want to hold cash, you won't be able to use a cash ISA. An alternative option is Premium Bonds, from NS&I, as all prizes won are tax-free. You don't get an explicit interest rate like with other cash accounts, but you can deposit £25 to £50,000 and have the chance of winning from £25 up to £1m each month. The 'implied interest rate' is 1.4% - which is the return you'd get if you won the average amount – but this is not a guarantee.



By **Laura Suter**
AJ Bell Personal
Finance Analyst



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How to build your first investment portfolio

Portfolios should be thought of as a team, where the whole is greater than the sum of the parts

In the world of investing, the future is unknown leaving investors to make their collective 'best guesses' as to what is most likely to happen.

It's not unlike the weather with some days providing glorious sunshine and others a torrential downpour. In other words, it pays to take pack an umbrella as well as shorts and a hat.

Uncertainty is best tackled by choosing investments with different return expectations and different risks. Ideally you want to smooth out returns with some investments going up as other fall, rather than having all your eggs in the same basket.

Ryan Hughes, head of active portfolios at AJ Bell, says that one of the mistakes that beginners make is that they act like a collector, buying investments without regard to the way that each fit into the portfolio. Each investment should bring something different. The aim is to achieve the highest returns with the lowest risk.

This article will focus on building a portfolio using passive funds because they are a good way for first time investors to achieve diversification at competitive price. They enable you to get exposure to thousands of companies and bonds by buying just a few products.



ASSET ALLOCATION

This involves deciding what proportion of each asset, such as shares, bonds, and cash represent in the portfolio. One way of thinking about this is to divide assets into either stability or growth.

For example, cash held with a bank, assuming the amount is below £85,000, is protected by the government and safe. While this provides a high level of stability, any money you park there will attract very low rates of interest and therefore offer low growth. A typical UK bond fund such as the **Lyxor FTSE Actuaries UK Gilts Fund (GILS)** has a yield of 2.2%.

One important thing to mention here is the role that reinvesting income plays in growing capital and meeting your financial goals. By reinvesting

interest received, you are effectively growing your capital in a smarter way, because your interest is added to your original capital, which in turn attracts more interest.

Over time, whether reinvesting interest from bonds or dividends from shares, it always pays to reinvest income and over long periods of time it can make a huge difference to your returns.

Adding more stability to a portfolio usually means accepting lower growth and so asset allocation really comes down to your personal preference and how much risk you are willing to accept, as well as your personal financial circumstances.

Cash and government bonds provide more stability, while UK shares and UK corporate bonds offer less stability and more growth.

Over time, UK shares have provided average annual returns around 6%, which includes reinvested dividends, while government bonds returned just under 3%, with cash around 1.5%, according to the Barclays annual Equity Gilt study.

If you are relatively young, with potentially 30 years of investing in front of you, it can make sense to allocate more of your portfolio towards growth assets such as UK and global shares and even corporate bonds, and less in more stable bonds and cash. An example of a UK stock-based fund is **iShares Core FTSE 100 (ISF)**.

Armed with information about potential returns, your time frame and attitude to risk, you can begin to structure the best asset allocation to suit your needs. It might be helpful to think in ranges rather than trying to be very precise. For example, you may decide on a target range of say 50% to 65% in shares and 35% to 50% in bonds.

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Be sure to check the next part in this series when we will address how to maintain a portfolio and discuss when and how to re-balance it through time.

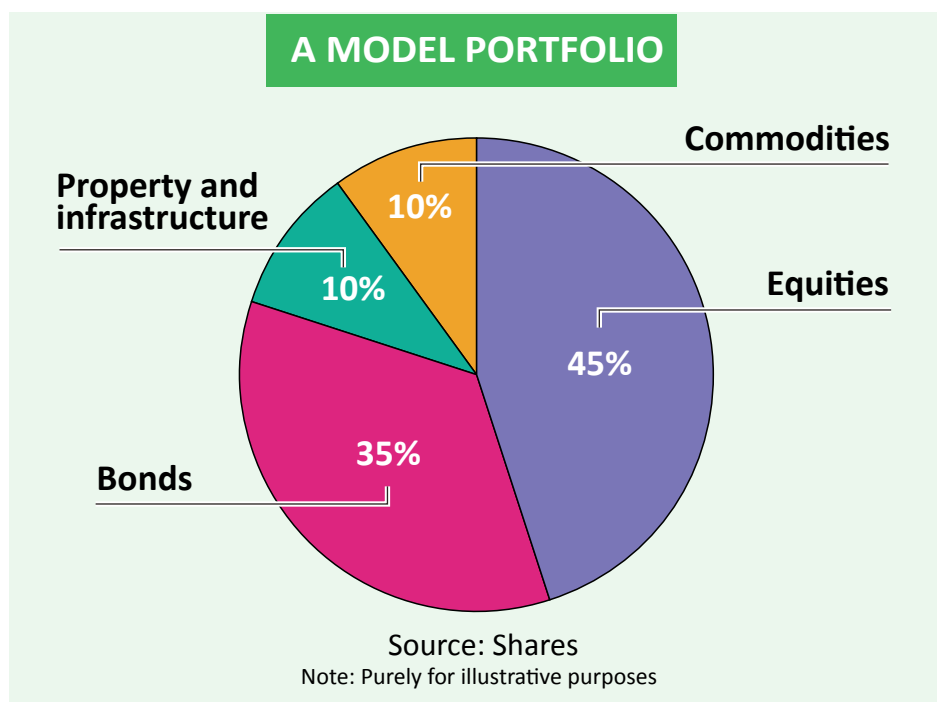
A good starting point and efficient way to get exposure to a broad class of shares is to think globally and consider one of the products that track the MSCI World index. This gives an investor access to thousands of companies based across the developed world. An example of a global shares fund is the **Fidelity Index World Fund (BJS8SJ3)**.

Once you have decided on the right mix to suit your needs, you have in effect created a core well balanced portfolio. With time and experience more specialist funds can be added to the mix. Think of it as a solid core surrounded by smaller specialist satellites, which provide different growth opportunities.

For example UK corporate bonds might be added as a growth satellite to the core, such as **iShares GBP Corporate Bond (SLXX)**.

You might also consider including other assets to the mix like property, infrastructure or commodities. Commodities exposure is possible through products such as **iShares Diversified Commodities Swap (COMM)**.

Just remember, each new investment should be considered in the context of what extra dimension it brings to the portfolio.



By **Martin Gamble**
Senior Reporter

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Full year results

5 June: Getech, Workspace. **8 June:** Ocean Outdoor. **9 June:** Aveva, Big Yellow, CML Microsystems, McKay Securities, Oxford Instruments, Speedy Hire. **10 June:** LondonMetric Property. **11 June:** Babcock, CMC Markets, Halma, JLEN Environmental Assets, Johnson Matthey, DS Smith, Syncona.

Half year results

10 June: Shaftesbury.

Trading statements

8 June: Frontier Developments. **11 June:** Fuller's.

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All chart data sourced by Refinitiv unless otherwise stated

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Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH.
Company Registration No: 3733852.
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