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DIFFERENCES
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TRENDS

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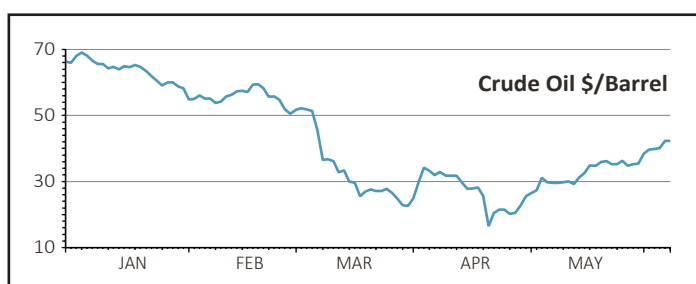
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Volatility in the oil market looks set to continue

A rapid recovery in the commodity is unlikely to be the end to an up and down period for prices

This year has proved to be one of the most volatile times for the oil market in living memory.



In January the oil price hit \$70 per barrel as tensions simmered between the US and Iran. Having then slumped on the hit to demand delivered by global lockdown conditions, US oil prices in late April briefly turned negative, while the global benchmark Brent traded at multi-year lows.

In just a few short weeks the tides have turned with Brent doubling in price and now back above \$40 per barrel. However, the revelation that **BP** (BP.) will cut 15% of its global workforce shows the improved price picture is not driving complacency in the oil industry.

Unlike its peer **Royal Dutch Shell (RDSB)**, BP has not yet cut its dividend. Yet it is hard to imagine it sustaining dividends given the scale of the planned redundancies.

In this context, the company's second quarter results on 4 August are likely to be closely watched for any movement on dividends.

There are good reasons for caution on oil's revival, whose price rebound can be attributed to three main factors.

Oil producers' cartel OPEC (and allies like Russia) has extended deep production cuts which has supported the oil price. There has also been a wider return to so-called risk assets (stocks, commodities) evident in the S&P 500 stock index surging close to pre-Covid levels.

Thirdly, the dollar has weakened. A weaker dollar

makes it cheaper for foreign buyers to purchase dollar-denominated commodities such as oil.

'MEANINGFUL' DOWNSIDE RISKS

Investment bank UBS says prices have reached levels 'where meaningful downside risks are starting to build'.

These risks include a potential increase in US shale production in response to firmer pricing, a similar move on the part of OPEC members, and the waning of a recent surge in Chinese imports. There is also reduced incentive to shut in production and a fragile recovery in demand as the world staggers out of lockdown.

What is clear from the recent actions of Shell and BP is that they will not miss the opportunity created by market dislocation to reposition themselves.

Shell had a perfect excuse to cut its dividend, ending a track record which went back to the Second World War, and rebase it at a more sustainable level.

BP's job cuts likely relate to the short-term impact of oil's collapse. However, from the outset of his tenure in January, chief executive Bernard Looney signalled an intent to reshape the business, looking to remain relevant amid a transition away from fossil fuels.

Cutting dividends could ultimately prove an important step in that direction as the company rethinks how it best deploys its cash.



By **Tom Sieber** Deputy Editor

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Capital at risk



The story behind a rumoured AstraZeneca and Gilead merger

Over the last five years AstraZeneca's shares have almost doubled while Gilead's have dropped by a third

Is the global pharmaceutical industry about to see a blockbuster merger?

On 7 June *Bloomberg* reported that **AstraZeneca (AZN)** had approached US firm Gilead Sciences, the firm behind the prospective COVID-19 treatment Remdesivir. Both firms have been at the forefront of developing therapies and vaccines to tackle the virus in recent months.

Astra has been working with the University of Oxford in the first human trials to develop a vaccine and now has the capacity to manufacture 2bn doses if the vaccine is proven effective.

Tellingly, there hasn't been an official comment from Astra. This suggests but does not guarantee that any talks, if they did actually take place, are now finished.

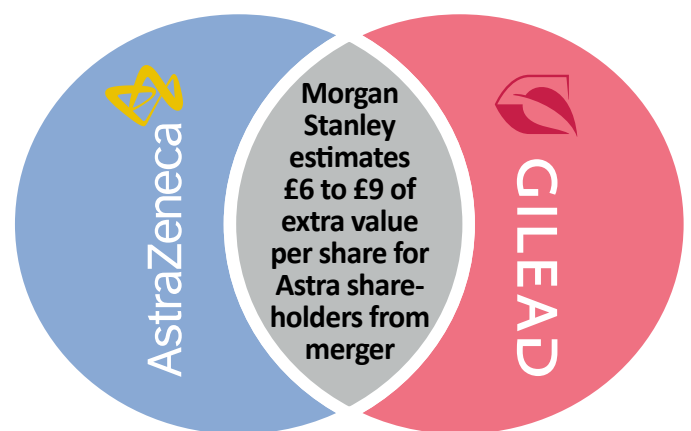
IS THERE A RATIONALE?

Analysts have for some time been questioning Astra's stretched balance sheet and asking when it would turn cash flow positive. This line of thinking has prompted some analysts to argue the reason behind the potential tie-up is Gilead's relatively stable cash generation.

In addition, Astra could purchase this cash at a significant discount to the valuation of its own shares.

According to Morgan Stanley Astra's shares trade at 21 times 2021 earnings per share compared to Gilead's 12 times. They estimate a deal financed 50% in shares and 50% in debt and assuming synergies worth around 8% to 12% would create an extra £6 to £9 per share of value for Astra's shareholders.

While positive in the short term, longer-term growth would likely be diluted by the relatively pedestrian growth expectations at Gilead.



Meanwhile analysts at Jefferies think a deal is unlikely so soon into Dan O'Day's chairmanship of Gilead, who was brought in to turnaround the company's fortunes. Why would he sell at such a low earnings multiple?

TURNING THE TABLES

Back in 2014, AstraZeneca was fighting-off the advances of a £55 pound a share offer worth £69bn from US giant Pfizer as well as facing a drug cliff which would see up to \$10bn in lost revenues due to patent expiries over the following five-years.

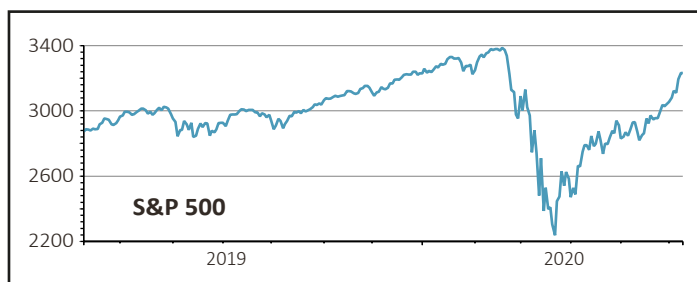
Six years on and broker Liberum observes that 'management has pulled off one of the most impressive turnarounds in the sector'. The company's share price around is 65% higher than 2014 levels making it the UK's largest listed company with a market capitalisation of £111bn, some 30% higher than peer **GlaxoSmithKline (GSK)**.

Astra has built one of the deepest oncology (cancer) franchises in the industry which last year generated revenues of \$8.6bn, around 36% of the group. Liberum reckons by 2025 oncology sales will reach \$19bn, representing half of the company's sales.

Danger signs from the current share rally

Easy money and a 'jam tomorrow' narrative have encouraged investors to speculate

If someone had said 12 months ago that a deadly virus would infect more than 7m people worldwide causing a global lockdown, resulting in the worst economic contraction and unemployment since World War 2, you probably wouldn't have expected to see the S&P 500 index trading 12% higher today at 3,232.



If investors are genuinely worried about the economic impact of coronavirus, unemployment, a wave of corporate defaults and the rising risk in equity and bond market valuations, they have a funny way of showing it.

The answer to this mother of all conundrums is, as usual, central banks. The world's central bankers decided in March to go all-in supporting markets by announcing coordinated global action to provide a 'liquidity backstop'.

Since then, they have announced the purchase of corporate bonds, including high-yield or 'junk' bonds, exchange-traded funds (ETFs) and even shares in order to prop up financial markets.

For their part, after years of trying to box clever, professional traders have given up trying to 'fight the Fed' and have taken to front-running it instead, buying the same assets that the world's central are targeting.

Last month the Bank of England cut its key lending rate to a record low of 0.1% while injecting £645bn of liquidity into markets.

At its next monetary policy committee meeting in a week's time, it is likely that all nine members of the committee will vote to leave rates where



they are.

With almost no interest on their deposits, and companies having slashed their dividends this year to preserve cash, the only option for investors is to pursue capital growth by chasing share prices higher.

Market commentators are spinning the narrative that we are 'looking through' this year's earnings dip to a recovery next year, with no certainty that there will be a recovery or what shape it might take, in order to justify the continued upward price spiral.

With the death toll rising and economic damage worsening, this may not feel like a normal bubble, but so far nothing about 2020 has been 'normal'.

In the US, small investors have chased up S&P 500 call options – giving them the right to buy the index at a specified price within a specific time period in the future – by a record amount.

Historically this level of speculation has led to negative returns for the index over the next 12 months, making small investors a reliable contrarian indicator.

Essentially, we are witnessing a 'bigger fool' rally, where investors think they can continue making money buying and flipping stocks to the next credulous buyer before the music stops.

You might want to review your portfolio and lock in some profits on more speculative investments now, thereby providing cash to invest on the dips should there be another market sell-off.

Airlines in quarantine backlash as BA owner feels heat over staff plans

Quarantine rules to hit airline recovery, while International Consolidated Airlines staff moves could lead to a lower ESG ranking

New rules requiring passengers to quarantine for 14 days upon arrival in the UK could deal a hammer blow to demand for travel firms in the midst of their crucial summer trading period.

The country's three biggest airline firms – **Ryanair (RYA)**, **EasyJet (EZJ)** and British Airways owner **International Consolidated Airlines (IAG)** – have come together to launch a legal challenge against the rules, which threaten to derail their plans to ramp up capacity for the summer period if the matching demand isn't there.

The three firms have sent a pre-action protocol letter, calling the 14-day quarantine rule illogical and unfair, arguing it has been brought in too late and could kill off any nascent recovery in the aviation sector this summer.

Ryanair has been especially vocal against the plans, and chief executive Michael O'Leary revealed the quarantine doesn't seem to be putting off UK passengers with outbound bookings to Mediterranean having doubled compared to last week before the rules were in place. Inbound bookings are down however.

The legal action against the quarantine has been spearheaded by IAG, which has also been in the spotlight over the past week having been accused of 'exploiting' the coronavirus pandemic to cut staff costs.

The group, which also owns Irish carrier Aer

Lingus and Spanish airlines Iberia and Vueling, plans to fire all 42,000 staff and rehire a majority of those not made redundant on worse terms, something it says is essential for the future of the business.

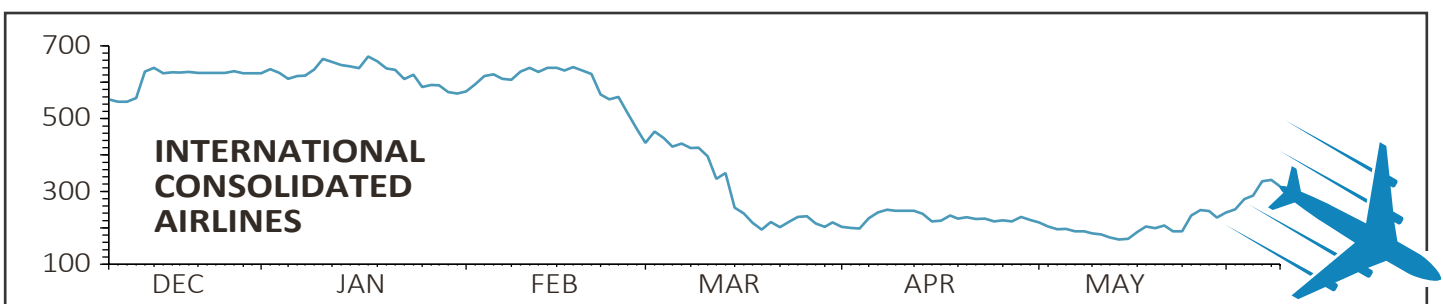
Union Unite says the plans could make British Airways cabin crew the worst paid of all UK airlines.

In a letter to staff last week, British Airways chief executive Alex Cruz said the airline does not have an 'absolute right to exist', with 'major competitors ready and poised to take our business'. He also revealed IAG has an operating cash burn of £178m a week.

The move has not harmed the company's share price, which is up around 20% since the start of June, with markets tending to view job cuts and renegotiations most of the time as prudent cost saving measures.

However, IAG's plans appear not to have gone down well with the public and also risk the firm performing poorly from an environmental, social and governance (ESG) point of view, in particular on the 'S' part of ESG.

According to S&P Global, social factors can affect how consumers judge a company's behaviour, with things like labour issues – something which has consistently affected IAG – potentially affecting a firm's profitability by creating a scarcity of skilled employees or controversy that is damaging to a company's reputation.



Capex cuts matter to investors

Spending will be massively reeled in in areas like oil, retail, travel and transport with far-reaching consequences

The coronavirus pandemic has forced businesses around the world and across the industrial divide to pull emergency levers to conserve cash.

As most private investors will be acutely aware, a hefty toll has fallen on company dividends, with billions of pounds worth of planned payouts from UK stocks now taken off the table and out of investor's pockets.

James Dow of **Scottish American Investment Company (SAIN)** estimates that UK dividend payments will be slashed by 62% this year, not so much a dent in investor's income as a massive black hole. This compares, according to Dow, to a rough 20% decline globally during the financial crisis of a decade ago.

Yet the company cost cutting, cash savings emergency measures do not stop there, with capex, or capital expenditure, budgets widely reeled in. Analysis by Peel Hunt suggests that up to £23bn of capex has been axed by UK listed businesses in 2020.



Royal Mail have updated its fleet of vehicles many times

'Capex is one of the easiest cash items to defer or cancel,' says Peel Hunt.

'In the uncertain environment, we suspect most chief financial officers will cancel capex if possible in the short term rather than just deferring as there's no guarantee of an acceptable return on investment (ROI) on growth capex.

This is not exclusive to the UK. According to the Ifo economic institute, roughly half of companies in Germany postponed investments in April and May as the coronavirus pandemic takes its toll. The plug being permanently pulled rose from 22% of investment projects in April, to 28% in May.

'These are worrying figures for the long-term development of the economy, said Klaus Wohlrabe, Ifo's head of surveys.

WHAT IS CAPITAL EXPENDITURE

That concern comes because of the potential toll reduced capex could exert on company performance. 'The problem is that one company's reduced capex results in a reduction in turnover for many other companies,' point out Peel Hunt analysts.

Capex largely falls into one of two camps; it is either funds used by a company to keep operations running smoothly, or it is spending designed to improve the future prospects of a business. This is true for tangible assets that you can see and touch, like, property, plant, tools and equipment and office furniture, and for intangibles, such as software licences.

For example, **Royal Mail (RMG)** will periodically have to update its vehicle fleet, trading in exiting van and lorries with newer models before becoming unreliable. Similarly, **Barclays (BARC)** might licence particular accounting and payroll software, and will have to buy new licences with maintenance and servicing agreements, perhaps every three years.



SECTORS HIT HARDEST

Sector	Capex cut
Oil & Gas	£10.4bn
Transport	£3.3bn
Travel	£946m
Retail	£807m
Industrials	£482m

Source: Company accounts, Peel Hunt

MOST SUBSTANTIAL CAPEX CUTS

It comes as no surprise that the deepest cuts come in sectors shaken hardest by Covid-19 and its fallout, industries such as retail, travel, transport and oil.

'In April oil faced a perfect storm of a circa 30% reduction in demand due to Covid-19, and a flood of supply due to OPEC's initial failure to agree a new deal for supply cuts,' said Peel Hunt.

This saw Brent crude prices collapse by about 50% to less than \$30 a barrel and 'forced oil companies to make major cuts to capex.'

BP (BP) and **Royal Dutch Shell (RDSB)** will slash £9bn of capex in 2020, 25% and 20% of their previous budgets respectively, while names familiar to many private investors, such as **Tullow Oil (TLW)**, **Enquest (ENQ)** and **Gulf Keystone (GKP)** have cut capex by between 43% to 69%.



OIL FACING £10BN-PLUS OF CAPEX CUTS

Company	Capex cut
Royal Dutch Shell	£5bn
BP	£4bn
Tullow Oil	£215m
Energiean	£155m
Jadestone Energy, Cairn, Gran Tierra*	£140m

Source: Company accounts, Peel Hunt. *£140m for each company.



Another £5bn of capex investment has been slashed across the retail, travel and transport sectors, with grounded plane fleets seeing BA-owner **International Airlines Group (IAG)**, **Ryanair (RYA)**, **EasyJet (EZJ)** and **Wizz Air (WIZZ)** responsible for more than half of that (2.65bn).

There are also parts of the stock market that have largely kept capex plans in place. Negligible changes to 2020 investment in financial services, mining and healthcare sectors stand out from the Peel Hunt study, while UK technology companies are forecast to increase capex investment considerably on 2019, based on available data.

Peel Hunt's latest forecasts for a universe of 23 UK tech companies will spend more than £820m on capex this year, up from £503.4m in 2019. That will jump again in 2021 to more than £1bn.

This includes a diverse selection of tech companies listed in the UK, including soon to be new FTSE 100 cyber security firm **Avast (AVST)**, software reseller **Softcat (SCT)** and **Ocado (OCDO)**, plus a number of AIM-quoted companies drawn from financial software, technology hardware, computer gaming and other fields of expertise.



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AberdeenStandard
Investments

Drive for efficiency in US healthcare is great for Craneware

Scotland-based software firm will be a winner from digital streamlining

US healthcare organisations are embracing new technology to navigate the complexities of a post-coronavirus world, and this is great for made in Britain software firm **Craneware (CRW:AIM)**.

The company uses automation and analytics tools to highlight operational and financial risks, identify new income opportunities to US hospitals management and improve patient experience. The financial health of all US hospitals is already faced with challenges as the healthcare system across the pond transitions to a value-based approach.

The continued imposition of regulations on pricing transparency from the Trump administration and the pressures from the pandemic are likely to reinforce its place as a key trusted

CRANEWARE



(CRW:AIM) £18.30

Market cap: £491m

hospitals technology partner.

Craneware estimates that it can help an average 350-bed hospital tap an extra \$22m of revenue a year.

DE-RATING IS TEMPORARY

The stock had been hit hard prior to the Covid-19 outbreak because of a new sales slowdown and the loss of a hospitals network customer, the latter of which was due to a revolving management door at the client meaning Craneware's tools were never fully integrated into its system. That implies a one-off issue rather than anything more sinister.

The brake on sales was caused by the introduction of Trisus Health Intelligence, Craneware's cloud-based analytics platform that launched in 2019. Developed over many months, it combines the best of the firm's core price, cost and compliance features with new financial, operational and clinical data tools.

Those extra features and complexity mean demonstrating the platform's scope to slash costs, drive new revenue streams

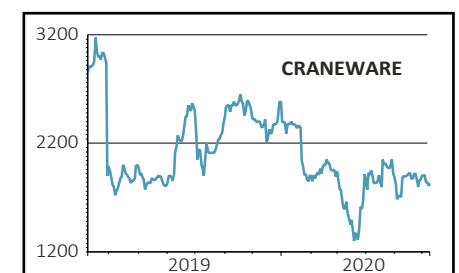
and speed up administration takes that bit longer, something to be aware of but already partly smoothed out.

Still, on a premium rating, the impact on the share price was dramatic, slashing the June 2021 price to earnings multiple from 50 to today's more interesting 32.

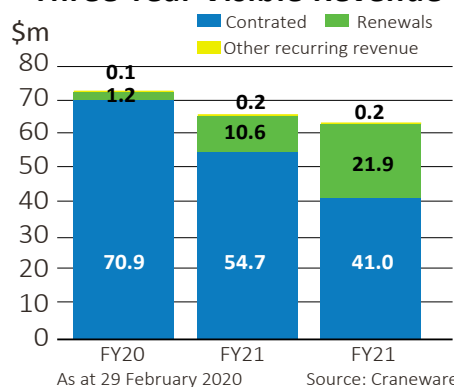
COMPELLING LONGER-TERM STORY

Demonstrating that this was all temporary will obviously be vital in getting the share price going again, but Craneware has a hard-earned reputation for operational excellence to lean on. The improvement in sales reported in March suggests that the business strategy is back on track.

Dominating an exciting niche, deriving only recurring revenue on average five-year contracts, and enjoying an entrenched competitive position at the top of its industry, Craneware is a compelling proposition for investors comfortable taking a bit more risk for the better growth implied.



Three Year Visible Revenue



Buy pawnbroker H&T as it gets back to business

Company's services likely to be in greater demand as economy slows

As the leading pawnbroking business in the UK **H&T Group (HAT:AIM)** is well positioned to see an upswing in new business from any economic downturn brought about by the pandemic.

As an added benefit investors are not currently being asked to a pay-up with the shares trading at miserly 6.5 times consensus 2020 net profit, and roughly one times book value.

The quality of the business has improved in recent years with returns on equity hitting an impressive 15% in 2019 as a result of larger scale and more diversified income streams.

Lastly there is likely to be pent up demand from customers who have been deprived of H&T's services during lockdown and most of the shops have re-opened in the last few weeks.

H&T is the UK's largest pawnbroker, founded in 1897 as Harvey & Thompson which floated on the AIM market through a management buy-out in 2004. While the UK high street banks have remained open during lockdown because they are deemed as essential services, H&T closed all of its 253 stores to keep its employees safe.

COVID-19 IMPACT

The closure of stores seemed somewhat at odds with the fact the business serves a growing segment of the community

H&T GROUP

(HAT:AIM) 316.7p
 Market cap: **£125m**

which don't have access to traditional bank or online finance and therefore rely on the services provided by H&T to meet emergency expenses.

The firm has taken advantage of the Government furlough and rent holiday measures, while senior management have taken a 50% cut to salaries. The final dividend was withdrawn and management believe they have enough cash on hand and unused headroom in lending facilities, together with stocks of gold and jewellery, to be able to ride out the crisis.

DELIVERING ON EXPANSION STRATEGY

Last year the company integrated assets purchased from the Money Shop and Albemarle and Bond which increased its footprint by 70 additional stores and expanded its geographical reach. These have added scale and provided an opportunity to cross sell products from the company's increasing breadth of offerings.

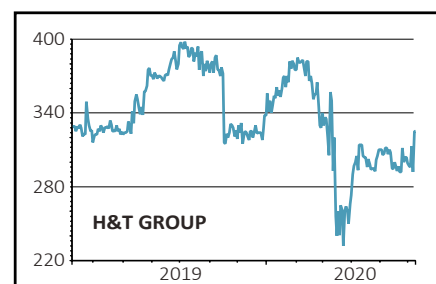
The pawnbroking core business, represents 48% of revenues, and provides

attractive returns from a stable market, with gross profits after impairment increasing by 26% last year to £39m which represented a 64.6% return on average net pledge book assets.

Retail is the next biggest segment (16%) selling value-for-money new and second hand jewellery from sites, with the physical sites fulfilling 85% of online orders.

The personal loans segment make up 13% of revenues and has been refocused on providing higher quality, longer term loans at lower interest rates. Pawnbroking scrap, gold purchasing, foreign exchange and cheque cashing services make up the rest of the business.

In our view H&T's improved quality and scale are yet to be rewarded by investors.



BEGBIES TRAYNOR

(BEG:AIM) 107p

Gain to date: 21.6%

Original entry point:

Buy at 88p, 19 Dec 2019



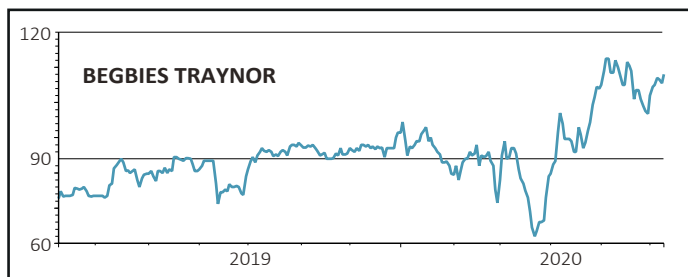
SHARES IN INSOLVENCY and business recovery firm **Begbies Traynor (BEG:AIM)** have closed in on new highs after it announced the acquisition of a portfolio of 500 Scottish personal insolvency cases from auditors Grant Thornton for an initial cost of £250,000.

The deal takes Begbies' personal insolvency portfolio in Scotland to 1,500 cases and adds five fee earners to its existing team of 36 partners and staff.

Dependant on the outcome of the cases Grant Thornton could get another £250,000, but the Scottish business already generates annual fee income of £600,000 so the cost is more than outweighed by the long-term earnings potential of the portfolio.

Begbies has had a 'good crisis' with revenue for the year to the end of April seen up more than 15% at £70m and pre-tax profit seen up more than 30% to £9.2m despite a £600,000 hit for the impact of lockdown in the final six weeks.

The business recovery and advisory teams have continued winning and progressing cases as usual while most of the property service teams have continued to operate as normal except for valuation and sales activities.



SHARES SAYS: ↗

Begbies continues to do well and its services could be in higher demand in the coming year.

APPLEGREEN

(APGN:AIM) 365p

Gain to date: 14.1%

Original entry point:

Buy at 320p, 4 June 2020



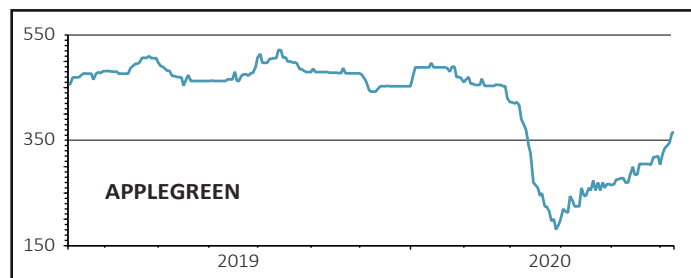
Our 'buy' call on roadside convenience retailer **Applegreen (APGN:AIM)** has generated a rapid-fire return, with the shares speeding as high as 380p on 8 June.

Though they've settled back to 365p, eagle-eyed investors who spotted the surge will have been able to lock-in the 15% profit we targeted once the shares hit 368p. Anyone else could still at the time of writing take a very respectable 14.1% profit off the table on this short-term trade.

We identified that shares in the Applegreen brand owner, which also has a majority stake in motorway service operator Welcome Break, had positive momentum at their heels.

Investors have begun to price in a recovery of fuel volumes and food and drink sales as measures to come out of lockdown drive a gradual increase in road usage. We also suggested that if consumers are unable to travel overseas for summer holidays, then Applegreen might also benefit from a staycation boom.

Applegreen is a high-quality, cash-generative concern, but it also has a large net debt position – €545m as at 20 March – which means the investment comes with risk, although management insist the business has enough cash resources to trade through a downside scenario where the recovery period is more prolonged into 2021.



SHARES SAYS: ↘

Shares in Applegreen recently motored past our 368p target return price and we think risk-averse investors should take profit and move on.

Never from concentrate

We don't think it's a good idea to squeeze all your income from just a few stocks.

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.

The value of your investment, and any income, can fall or rise. You may get back less than you invest. Smaller companies can fluctuate more in value and they may be harder to sell.

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OCF of
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octopusinvestments
A brighter way



* The discounted Ongoing Charges Figure (OCF) of 0.45% is available if you invest before the fund's assets reach £50m. After this point the OCF will be 0.90%

	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

fund specific risk warnings and will form the basis of any investment. The Prospectus, KIID and application forms are available in English at octopusinvestments.com. Issued by Octopus Investments Limited, which is authorised and regulated by the Financial Conduct Authority. Registered office: 33 Holborn, London, EC1N 2HT. Registered in England and Wales No. 03942880. CAMOO9620-2005

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.

FOUR FUNDS TO OWN IN RETIREMENT

**Why income
matters and
why you need
to spread your
investments**



By **Ian Conway** Senior Reporter

If you've recently retired, congratulations. After a lifetime of work, you can finally enjoy the fruits of your labour, including that pension pot which has been building up month after month, year after year, waiting for just this moment.

Historically most of us would have used this sum of money to purchase an annuity, offering a guaranteed income through the course of our retirement.

However, with annuity rates extremely low and greater flexibility now available to you, many are taking control of their own destiny and remaining invested in retirement.

In this article and with the help of AJ Bell's head of active portfolios Ryan Hughes we have identified four funds tailored to someone in retirement.

You may be lucky and have a big enough pot that you can use the regular dividends you receive on your investments to pay the bills and get by on, thereby leaving your capital untouched.

Indeed, some people have even structured their investments so that every month or every quarter they receive enough in dividends to pay that month's or that quarter's bills.

In the short term income may be disrupted by the coronavirus crisis and many of us will also need to dip into our pensions, taking out a set amount each year.

How much we take has a direct effect on both how long the pot lasts and how much it grows in the meantime.

You may be lucky and have a big enough pot that you can use the regular dividends you receive on your investments to pay the bills and get by on, thereby leaving your capital untouched.

ACCORDING
to data from
MONEYFACTS,
AVERAGE
ANNUITY RATES
are at record
LOWS



THE IMPORTANCE OF INCOME

As you can't rely on the market going up indefinitely, capital gains aren't going to do all the 'heavy lifting' for you in retirement.

You also need to hold a range of income generating assets so that with luck you can match what you take out each year with what you receive in income payments.

If for example you have a pot worth £500,000 and you want to take out £15,000 or 3% each year, in order not to run down your capital you'll need to earn slightly more than 3% – net of tax, and assuming that your pot hasn't increased in value – to keep your pot from going down.

Clearly with so many firms having chosen not to pay dividends this year in order to conserve cash, finding a reliable source of income isn't going to be easy.

One thing to look for is firms or funds which have a strategy built on the sustainability of dividends rather than just targeting a higher yield which is potentially more risky.

SPREAD YOUR INVESTMENTS

You obviously wouldn't put all of your money into a single fund or stock.

If you put all of your eggs in one basket and the unthinkable happens, you could lose far more in capital than you are earning in income so including a range of income-paying assets as part of a diversified portfolio is a more sensible approach.

To help you with the process of building that portfolio we have identified the quartet of funds discussed overleaf.

ARTEMIS STRATEGIC BOND FUND

(BJTOKT2) 70.5P

THIS £1.7BN FUND aims to provide a combination of income and capital growth over rolling five-year periods. The managers James Foster and Alex Ralph have nearly 40 years' combined experience managing bond funds.

The duo have a flexible investment approach which means they aim to preserve capital in tough times and seek to profit from favourable conditions. They achieve this by shifting between different types of bonds as the economic cycle turns and market conditions change.

The broad experience of the team and the flexibility to capture income from all areas of the global bond markets and from different economic conditions make this a good fund to consider for retirement income. The dividend is paid quarterly which is an advantage for investors looking for products which deliver a more frequent income.

Typically the fund has around 130 bond holdings diversified across different sectors of the economy and different credit ratings of bond issuers. This allows the managers to hold riskier, but higher yielding non-investment grade debt as well as safer high grade corporate and

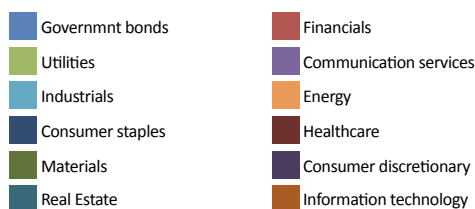
AJ BELL HEAD OF ACTIVE PORTFOLIOS RYAN HUGHES SAYS:

James Foster has a long pedigree of investing in fixed interest and this fund has the flexibility to invest right across the range of fixed interest from government bonds to high yield. The fund has the option of either monthly or quarterly income making it well suited for income seekers while the flexibility in the approach makes it a long term holding as it can adjust to the prevailing market conditions.

**FIVE YEAR ANNUALISED
PERFORMANCE: 3.98%**

HISTORIC YIELD: 2.70%

SECTOR BREAKDOWN



Source: Artemis

government debt.

Recently the managers have purchased a range of new issues in the investment grade market and a few high-yield issues across a broad range of companies including **Tesco (TSCO)**, Pepsi and **Royal Dutch Shell (RDSB)**.

The funds' holding in investment grade bonds has increased to 40%, while high-yield has gone up to 28%, with government bonds now at 30%.

The fund has a good long-term track record and has delivered average annual returns of 3.98% over the last five years, a considerably better result than with the 1.4% return of the Morningstar Flexible Bond category.

TOP 10 HOLDINGS

	%
US Treasury 1.5% 2030	9.7
US Treasury 1.25% 2024	9.6
US Treasury 2.375% 2029	5.6
US Treasury 1.625% 2026	3.1
US Treasury 1.75% 2024	2.1
BNP Paribas 1.875% 2027	1.0
La Poste 3.125%	1.0
Comcast Corporation 1.5%	1.0
HSBC Bank 1.1875%	0.9
Wells Fargo & Company 2.5%	0.9

Source: Artemis

FIDELITY SPECIAL VALUES (FSV) 194P

DESCRIBED AS CONTRARIAN, the fund invests in 'unloved companies with potential for positive change'. It typically has a bias towards medium and small-cap companies and value, but steers clear 'deep value' or recovery situations which are inherently higher risk.

Historic performance has been extremely strong thanks to the fund's ability to maximise gains on its winning positions and minimise losses.

Lead manager Alex Wright is a Fidelity veteran, having begun his career as an analyst in 2001, moving on to manage smaller funds from 2008 and taking the lead role at Special Values in January 2014. Wright also manages **Fidelity Special Situations (B88V3X4)**.

Co-manager Jonathan Winton, who was appointed in February this year, is another long-time Fidelity alumnus having been an analyst and fund manager since 2005.

The fund takes a three-stage approach to investing. To begin with it looks for signs of change in companies which are out of favour with the market.

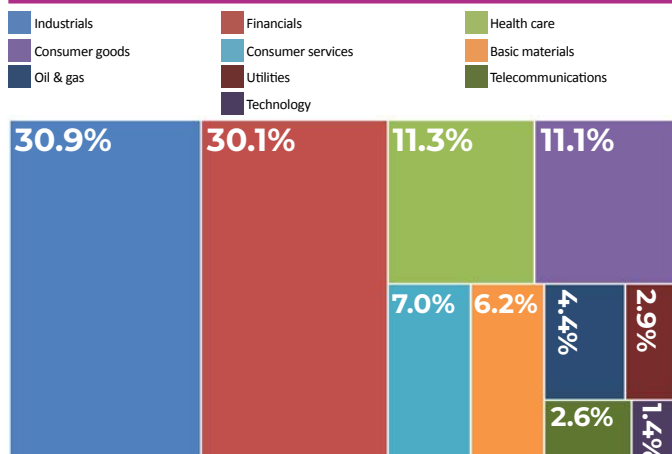
Change could either be internal, such as restructuring or the appointment of new management, or external such as a shift in the competitive or regulatory outlook. Examples of

FIVE YEAR ANNUALISED PERFORMANCE: 1.30%

HISTORIC YIELD: 2.90%

LATEST DISCOUNT TO NAV*: 2.90%
*as of Friday 5 June

SECTOR BREAKDOWN



Source: Fidelity International

AJ BELL HEAD OF ACTIVE PORTFOLIOS RYAN HUGHES SAYS:

In retirement, it's not only about generating income, some growth is needed too to help sustain the capital value of the pot. Fidelity Special Values is a core growth investment trust, managed by Alex Wright with the support of Fidelity's extensive team of analysts. The trust is value tilted so looks different to the index and will result in periods of underperformance but in the long run, a focus on those businesses which are fundamentally cheap but unloved should be a strong combination.

companies in this first stage include publisher **Pearson (PSON)**.

Once the market begins to recognise that change is under way and the shares start to re-rate, the managers let the stocks be. Stocks in this stage include outsourcer **Serco (SRP)**.

When change is fully priced in, the fund looks to exit the holdings. Current examples include defence firm **Ultra Electronics (ULE)**.

With value as a strategy currently at a historically wide discount to growth, the fund is finding plenty of fresh names to buy at attractive prices although Wright believes it is too early to be aggressively positioned.

TOP 10 HOLDINGS	%
CRH	5.9
Imperial Brands	5.2
John Laing Group	5.0
Legal & General	4.6
Roche	4.6
DCC	3.6
Serco	3.5
Ultra Electronics	2.9
ContourGlobal	2.9
Aviva	2.8
Total	41.0

Source: Fidelity International

TB EVENLODE GLOBAL INCOME (BF1QMV6) 331.4P

SOMEONE IN RETIREMENT would want the income they get from their investments to be as reliable as possible. The focus of **TB Evenlode Global Income (BF1QMV6)** on quality companies should help deliver that, even if income may be reduced in the short term by the coronavirus crisis.

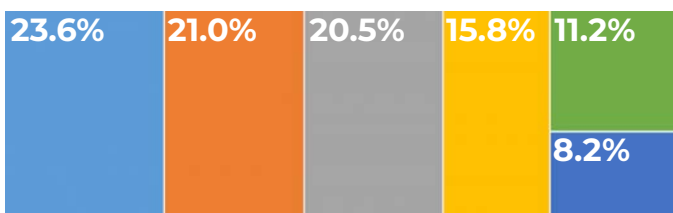
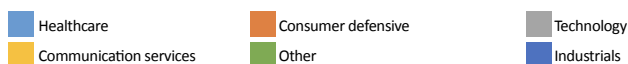
The strategy of the fund is to invest in global businesses capable of delivering the growth in earnings and cash flow required to underpin a progressive dividend.

The company looks to hold on to stocks for the long term and there is a bias towards larger companies. Managers Ben Peters and Chris Elliott have managed the fund since its inception in 2017.

Although this is a limited track record on which to judge the fund, it is leaning heavily on the approach that has proved successful for UK-focused **TB Evenlode Income (BD0B7D5)** and

HISTORIC YIELD: 2.33%

SECTOR BREAKDOWN



TOP 10 HOLDINGS	%
Unilever	4.7%
Henkel AG	4.7%
Intel	4.3%
Reckitt Benckiser	4.1%
Essilor	4.0%
RELX	3.8%
eBay	3.5%
Meditronic	3.5%
Sanofi	3.5%
Quest Diagnostics	3.0%

Source: Morningstar

AJ BELL HEAD OF ACTIVE PORTFOLIOS RYAN HUGHES SAYS:

Evenlode has a focus on high quality companies that can grow sustainably over the long term.

Through this sustainable growth, the companies should then be able to pay growing dividends over time, helping to compound long-term capital growth. While the trade-off for this sustainability of income may be a lower yield, the potential consistency in the payments should make up for this.

then using it to find companies globally. The latter has consistently outstripped its benchmark.

On a cumulative basis the global fund is up 19.2% since launch against 11% for its identified benchmark – MSCI World (with net dividends reinvested).

In commentary published in April, Elliott and the Evenlode team noted examples of businesses in the portfolio which were good corporate citizens in the early stages of the pandemic.

‘To put it simply, our view is that the “right thing” is most often the “profitable thing” in the long term,’ they said.

‘At Evenlode we continue to carefully monitor the actions of the companies in our investable universe and we fully support the good that they are doing in times of crisis.’

Well-known names in the portfolio include **Unilever (ULVR)**, **Reckitt Benckiser (RB.)** as well as chip manufacturer Intel and online marketplace eBay.

In May the company took a position in medical equipment maker Siemens Healthineers – a world leader in imaging and testing equipment with strong positions in areas like X-ray and CT scans.

DISCLAIMER: Editor Daniel Coatsworth has a personal investment in Evenlode Income and Evenlode Global Income.

TROY INCOME & GROWTH (TIGT) 74P

IF YOU'RE TRYING to achieve an attractive dividend yield, with the prospect of some capital growth, then we think **Troy Income & Growth (TIGT)** could be a good option over the course of your retirement.

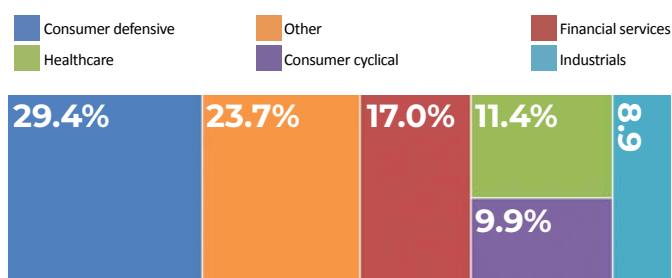
A rejig of its portfolio last year, selling out of high yielding stocks with question marks over the sustainability of the dividend and into more solid companies with strong dividend cover and potential for growth, seems to have been particularly well-timed given the coronavirus crisis.

Troy Income & Growth has already said it will maintain the dividend at the current quarterly rate of 0.695p for the current financial year to 30 September 2020, but will rebase it from that point.

FIVE YEAR ANNUALISED PERFORMANCE: 3.55%

HISTORIC YIELD: 3.76%

SECTOR BREAKDOWN



TOP 10 HOLDINGS

	%
Unilever	5.4%
Reckitt Benckiser	5.2%
RELX	5.1%
GlaxoSmithKline	4.8%
AstraZeneca	4.6%
Experian	4.2%
Nestle	3.8%
National Grid	3.7%
British American Tobacco	3.4%
Diageo	3.4%

Source: Morningstar

AJ BELL HEAD OF ACTIVE PORTFOLIOS RYAN HUGHES SAYS:

Troy have a core UK equity exposure with a real thought to managing downside risk through a focus on high quality businesses that can generate cash.

This approach makes it a great core holding and should provide some downside protection if things get a little tricky. With a quarterly dividend, it is well placed for income seekers while an experienced team of three portfolio managers ensure that fund is positioned appropriately for what is happening in the market and economy.

As far as capital growth goes, performance has been steady with the trust five year annualised growth of 3.55% in its share price, with its net asset value rising an annualised 4.14% over five years.

We like the trust as we think it should be a good long-term option for income investors, and its new approach under managers Francis Brooke and Hugo Ure should enable to increase shareholder returns over time.

The signs were encouraging before the market selloff, with its share price rising from around 73p in the start of 2019 up to 86.4p on 21 February this year.

Its top holdings include consumer goods giant **Unilever (ULVR.)**.

Another core holding is **Reckitt Benckiser (RB.)**, which has come out of the coronavirus crash in a stronger position, along with pharma stocks **AstraZeneca (AZN)** and **GlaxoSmithKline (GSK)** and utility play **National Grid (NG.)**.



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YOUNG
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Why the UK market has lagged behind



Looking at the reasons behind London-listed stocks' underperformance relative to global peers

At the time of writing, the FTSE All-Share stands 32% above its March lows, which sounds pretty good, even reassuring, on the face of it.

However, that rebound means that the All-Share has still lagged the FTSE All-World over the same period. It also means that the UK has underperformed most major equity markets during the current recovery phase and indeed for the year as a whole.

Cynics may be tempted to argue that this is down to the clarity and efficacy – or otherwise – of the UK's policy response to the COVID-19 crisis, since the UK has only outperformed India, Brazil and Russia so far in 2020 as a whole, nations where there is also debate over either the quality of either government policy or the local data on the degree of the outbreak.

However, markets usually care little for politics and when they do worry about them they rarely do so for long. The tenure of politicians in office – and their influence – tends to be pretty ephemeral and ultimately corporate profits, cash flows and dividends are the most important drivers of company valuations and thus the indices of which they are a part, although the role of central bank stimulus appears to be getting greater by the month.

No-one would argue that the White House has offered a coherent policy on COVID-19 – or for that matter many other pressing issues – yet the US sits at the top of the performance tables for 2020 to date. And even if questions are being asked about Russia and Brazil, it is not stopping their stock markets from being the best performers since the year's lows in late March.

Other factors above and beyond politics and

UK HAS BEEN A LAGGARD ON THE GLOBAL EQUITY STAGE IN 2020

Year to date		1 Jan to 23 Mar		Since 23 Mar	
USA	-1.1%	China	-12.8%	Brazil	47.6%
Germany	-3.2%	Hong Kong	-23.0%	Russia	47.3%
Japan	-3.4%	Switzerland	-23.1%	Germany	46.8%
China	-3.9%	Japan	-28.6%	USA	42.8%
Switzerland	-4.2%	USA	-30.7%	Japan	35.4%
Hong Kong	-12.1%	Germany	-34.0%	India	33.4%
France	-13.2%	France	-34.9%	France	32.6%
UK	-14.1%	UK	-35.0%	UK	32.2%
Russia	-16.0%	India	-37.2%	Switzerland	24.6%
India	-16.2%	Russia	-42.4%	Hong Kong	14.2%
Brazil	-18.9%	Brazil	-45.0%	China	13.2%
FTSE All-World	-4.5%	FTSE All-World	-32.1%	FTSE All-World	40.7%

Source: Refinitiv

RUSS MOULD

AJ Bell Investment Director



Insightful commentary on market issues

COVID-19 could therefore be at work. A huge rally in oil and improvement in other commodities prices may be helping Sao Paulo's and Moscow's markets while America's well-documented strength in areas such as technology and biotechnology is being reflected in equity returns from the S&P 500 overall, as well as certain high-profile companies.

The industry mix within an index is therefore an important factor and this is something which any investor must consider when they are perhaps contemplating buying a tracker fund or even an actively-managed one; in the latter case they will need to assess the manager's views on the major sectors within a country and also check whether the predominance of certain industries, such as say oil or defence or tobacco mean there are ethical or other grounds for giving somewhere a wide berth.

LEAGUE TABLES

Some clues to the UK's relative underperformance can be found in the FTSE All-Share index's make up and which industrial groupings have done best and worst in 2020.

Leisure Goods (which is essentially Warhammer gaming specialist **Games Workshop (GAW)**) is the top performer, which relatively defensive areas such as Pharmaceuticals & Biotech, Food & Drug Retailers, Household Goods, Personal Goods and Tobacco also among the top ten. The laggards include some areas which have been hit hardest by the lockdown, such as Travel & Leisure (and by association with that Aerospace & Defence), as well as Real Estate Investment Trusts, by dint of landlords' exposure to retailers.

Some of those sectors have come roaring back since the late-March low, in the view that if revenues are down nearly 100% then it cannot get much worse and if it cannot get much worse then it will soon start to get better. Hopes for wider, global economic upturn are also giving fresh life to sectors such as Mining, Industrial Metals and General Industrials.

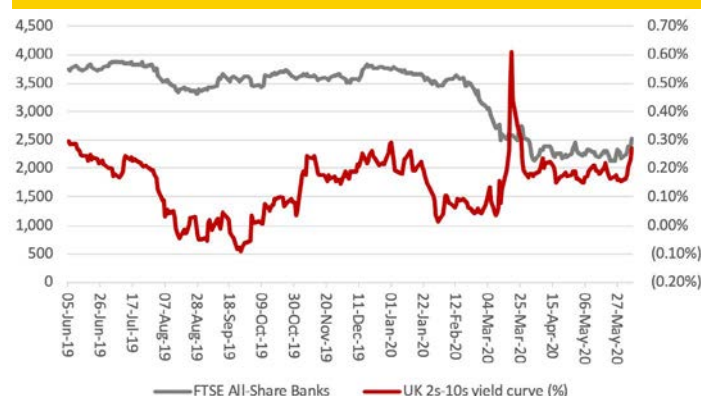
But the underperformers which seem to be weighing most heavily on the All-Share include the oil companies (down nearly 30% for the year) and financials, where non-life insurance (presumably

owing to its business continuity, event cancellation and other outbreak-related exposures) and banks are down near the bottom of the performance tables for 2020 as a whole.

Financials represent 17% of the FTSE All-Share's market cap, the oil firms 10% so a quarter of the index is in investors' doghouse right now. Other substantial weightings are the index-leading 17.4% at Consumer Staples and 12.8% at Healthcare. They are both defensive in nature so if global markets are going to stay in 'risk-on', recovery mode, then the UK could continue to less well relative to other geographic options which are more sensitive to the global economy and trade flows, such as Germany.

As a final point, the rotten performance of the banks is eye-catching. It is the single-worst performing sector since the recovery began in March. This seems odd, as the yield curve has steepened for much of the last nine months and the wider gap between the UK two- and ten-year Government bonds would normally herald higher lending margins.

STEEPER UK YIELD CURVE IS YET TO BRING SUCCOUR TO BANKS SECTOR



Source: Refinitiv

Perhaps this reflects concerns that banks are being used as public utilities during the crisis, with the forced scrapping of dividends and obligations to offer fresh loans, or at least payment holidays, to corporations and consumers alike, almost regardless of whether the money can be finally paid back. Throw in **HSBC's (HSBA)** and **Standard Chartered's (STAN)** political discomfort in Hong Kong and China, and it is indeed a grim time to be a bank.

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Just do it: why you should invest in Nike

The case for following in fund manager Terry Smith's footsteps

Star money manager Terry Smith recently purchased shares in **Nike (NKE)** for **Fundsmith Equity (B41YBW7)**, the first time his flagship fund had invested in the world's largest sportswear company.

This is a testament to the high-quality characteristics of the American company famed for its iconic swoosh logo, as the discerning Smith favours cash-generative firms that have historically made very strong returns on the money they invest in their business.

However, the shares have just reached an all-time high (3 June). So is now a good time to follow Smith's lead and put money to work with the sneakers-to-soccer balls behemoth?

Shares' research leads us to believe Nike will remain the world's preferred sportswear brand for years to come given its scale.

Thanks to this scale, strong brand and digital savvy, Nike is well placed to navigate the pandemic's challenges and even gain market share due to the relative struggles of rivals. This makes it a compelling long-term investment.

As well as its growth credentials, Nike will continue to return significant cash to shareholders too.

Jay Sole, the rather aptly-named UBS analyst, is similarly



NIKE INC

TICKER: NKE

SHARE PRICE: \$103.17

MARKET CAP: \$161.9BN

Source: Morningstar

positive, insisting: 'Nike is a long-term winner in our view. Nike's investments in product innovation, supply chain speed and digital are about to unlock a multi-year period of above average growth once Covid-19 ends.'

While the coronavirus outbreak led to physical stores being shuttered around the globe, the crisis may actually provide a long-term tailwind for the sportswear industry as the disease has intensified the public focus on health and wellbeing.

Exercise has been one of the few freedoms many societies have had during lockdown.

And the structural increase in people working from home is accelerating trends towards the casualisation of fashion and the growth in athleisure.

HOW NIKE MAKES MONEY

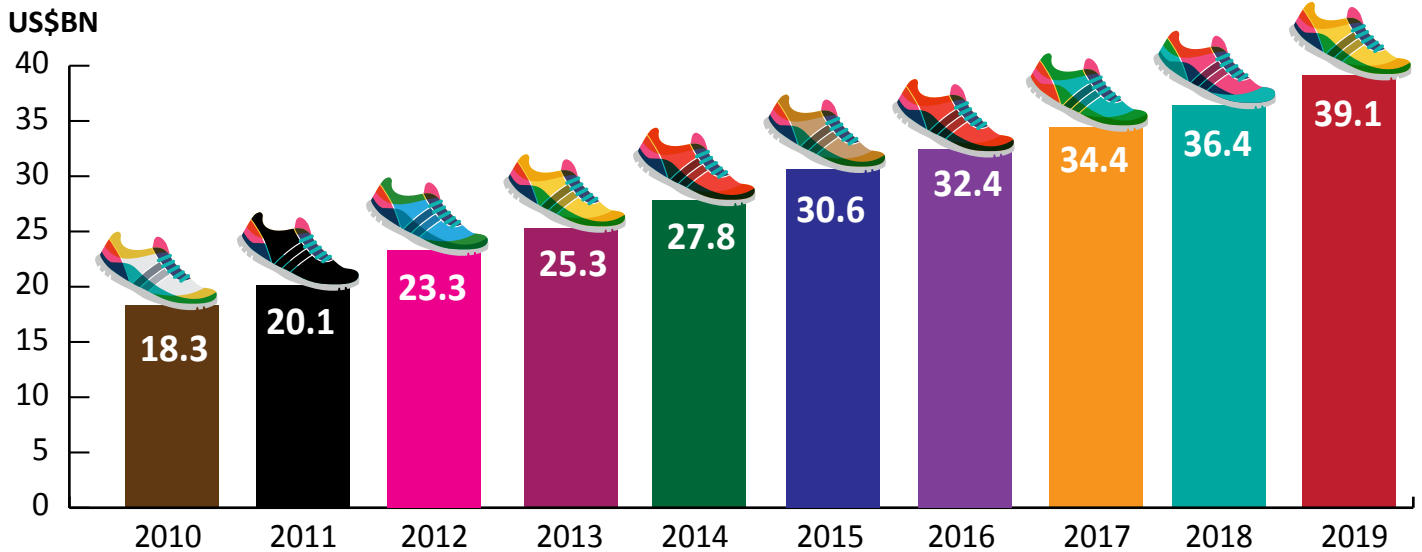
Nike, based in Beaverton, Oregon, is among the brands best-placed to profit from the changes Covid-19 is making to the way we live and work. The globe's largest sportswear company, Nike generates about two thirds of its sales from footwear.

It has been famed for its innovative products ever since it introduced running shoes with pressurized air in their soles in the 1980s and frequently releases new styles of 'must-have' running shoes and sneakers.

Nike sells products worldwide and outsources its production to more than 400 factories in more than 40 countries. Products are sold through Nike-owned retail

NIKE 10 YR REVENUE HISTORY

Source: NIKE



stores and digital platforms, and via major retail chains and independent distributors.

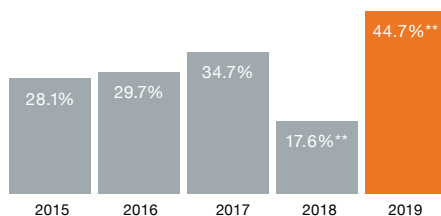
The sportswear designer and marketer is focused on six key categories; Running; Nike Basketball; the Jordan Brand; Football; Training; and Sportswear. Nike's brands include Nike, Jordan and Converse (casual footwear).

WHY NIKE IS A WIDE MOAT BUSINESS

Nike has all the hallmarks of a high-quality business. Revenue has more than doubled over

NIKE, Inc. Return on Invested Capital*

Fiscal Years 2015-2019



* Return on Invested Capital calculation is included in the quarterly earnings section of our investor relations website, <http://investors.nike.com>, as one of our key financial metrics. Please refer to this site for more detail on this calculation.

** Includes the impact of the U.S. Tax Cuts and Jobs Act, primarily the tax and remeasurement of deferred income tax assets and liabilities. Excluding transition the impact of the U.S. Tax Cuts and Jobs Act, our Adjusted Return on Invested Capital would have been 37% and 33% as of Q4 FY19FY18, respectively, which is a non-GAAP approximately financial measure. Refer to Note 9 — and Q4 Income Taxes in the Company's FY19 Annual Report on Form 10-K for additional information on the impact of the U.S. Tax Cuts and Jobs Act.

Source: NIKE

the past 11 years, from \$18.6bn in Nike's 2008 financial year to \$39.1bn in fiscal 2019, and has increased in 10 of the past 11 years.

The company has a strong track record of value creation as measured by high returns on capital employed and returns on invested capital, metrics that indicate the presence of a sustainable competitive advantage.

The NIKE brand was ranked the 16th most valuable brand in the world in 2019 by Interbrand, one of only two sportswear brands that made the top 100, and valued roughly three times that of the adidas brand by the way.

Nike generates premium pricing on many products, demonstrating its brand power, with its performance athletic shoes being the most expensive on the market.

In fact, Nike shoes retail for prices associated with luxury footwear brands. Financial data and research provider Morningstar notes that luxury retailer farfetch.com lists some

styles of Nike sneakers at prices above \$1,000 per pair.

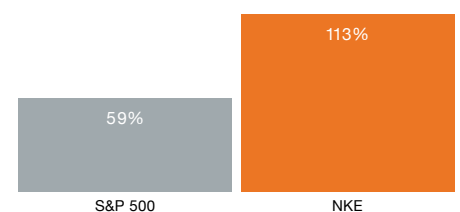
Older and limited-edition Nike shoes regularly sell in resale markets for thousands of dollars per pair, attesting to the enduring power of the brand. Morningstar has a wide moat rating on Nike, based on its intangible brand asset, and believes Nike will 'maintain premium pricing and generate economic profits for at least 20 years'.

Scale can allow for greater relative reinvestment back into a business in order to maintain a brand's desirability and relevance, something which Nike is a master at.

It has forged partnerships with

NIKE, Inc. Stock Performance vs. S&P 500*

Fiscal Years 2015-2019



* Performance of the S&P 500 and NIKE stock is calculated by comparing the total returns of each assuming the reinvestment of dividends over the time period of 5/31/2014 to 5/31/2019.

Source: NIKE

an enviable roster of the world's leading athletes and sports teams and supports its brand through technical innovation which is used to improve the performance of its products.

So whilst the athleisure boom and growth in activewear has attracted new competition for Nike, rivals include Adidas, Puma, Under Armour and Lululemon, not to mention Skechers, VF Corp's Vans brand and China's Anta, Morningstar believes Nike has 'proved over a long period that it can maintain share and pricing'.

And the company remains as relevant as ever. As UBS number cruncher Sole explains: 'Athleisure is still about comfortable and casual attire, but is moving away from "performance" to more "streetwear" styles. Fortunately for Nike, sneakers are at the centre of streetwear culture and consumers accept it as a streetwear brand.'

GOING DIGITAL & DIRECT

Nike also invests to support its brand through its well-developed digital strategy, which includes Nike.com and its ecosystem of training apps known as NikePlus, which do things such as track runs or provide users with a variety of workouts that can be done at home.

Results for the third quarter ended 29 February (24 March) showed 5% revenue growth to \$10.1bn, driven by 13% growth in NIKE Direct with digital growth of 36%. Digital sales in Greater China increased more than 30%, mitigating the impact of temporary Covid-19-related store



closures in the Middle Kingdom.

Tellingly, the appointment of former eBay boss John Donahoe, a Nike outsider with a Silicon Valley background, as chief executive at the start of 2020, signalled the importance of technology and e-commerce to Nike's future.

The shuttering of physical retail stores around the globe presents a challenge, but also a huge opportunity for Nike, which may be able to make up for weakness in some areas of retail through direct-to-consumer sales and sales through successful retailers, among them **JD Sports Fashion (JD.)**.

In 2017, Nike announced a consumer-focused realignment. It is investing in its direct-to-consumer network while reducing the number of retail partners that carry its product.

Nike is reducing its exposure to undifferentiated retailers, while increasing distribution through a select band including Nordstrom, Dick's Sporting Goods and Foot Locker, thereby bringing the Nike brand closer to consumers and allowing Nike to control the brand message.

This consumer plan is

spearheaded by its 'Triple Double' strategy to double innovation, speed, and direct connections to consumers.

Triple Double includes cutting product creation times in half, increasing mobile app memberships and improving the selection of key franchises while reducing its styles by 25%. 'We think these strategies will allow Nike to hold share and pricing,' note Morningstar's analyst team.

It also believes the \$161.9bn cap has a great opportunity for growth in emerging markets, notably China, where Nike has experienced double-digit growth in each of the last four financial years.

Investment in sports by the Chinese government should benefit Nike, which offers a compelling portfolio play on the burgeoning ranks of emerging market consumers in China and India and elsewhere that are moving into the middle class and gaining broadband access to boot.



James Crux, Funds & Investment Trusts Editor

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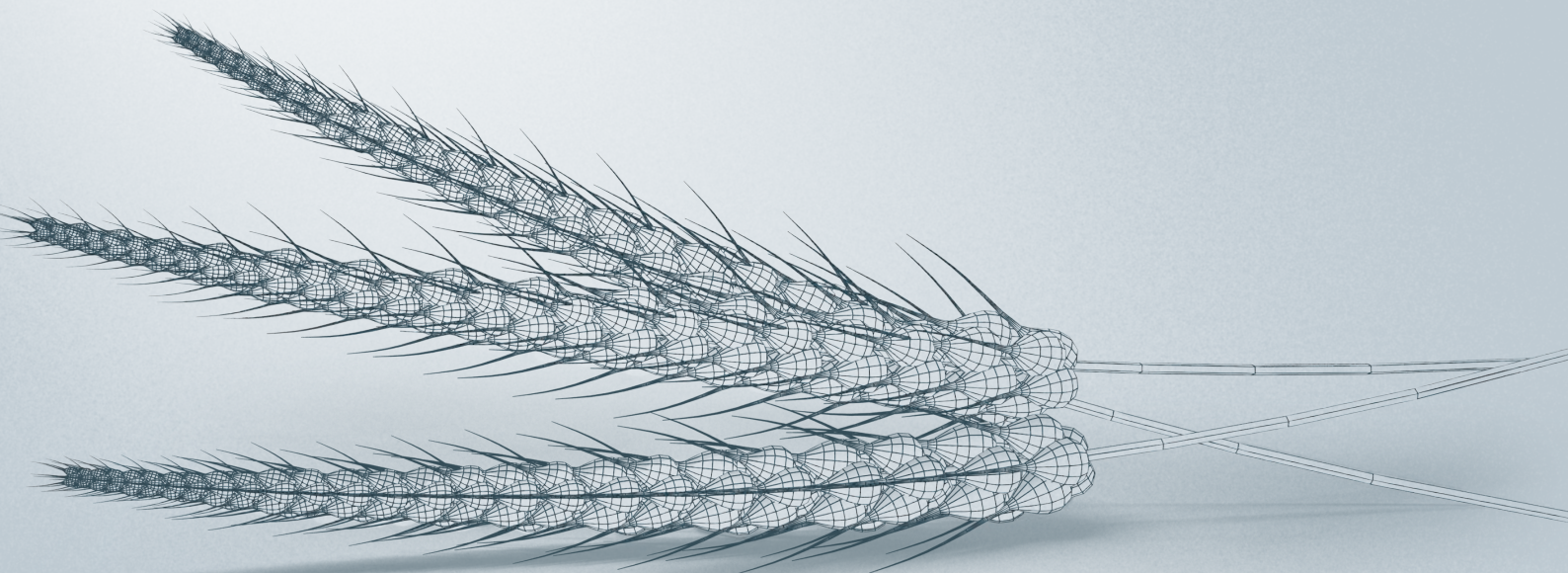
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HOW I INVEST:

Rebuilding an ISA to save for retirement

After using his savings to do up the house, Duncan from London is looking to take advantage of any market pullbacks as he targets a new investment goal



Having invested in shares since he was a kid, Duncan from London is using his investment expertise to rebuild his ISA after spending most of his savings on house renovations.

Duncan, who is in his early 40s, has been investing actively for around 15 years. He works full-time and owns his own home with a mortgage.

He describes investing as his hobby and says: 'My late grandfather was an accountant. As a young child he gifted me with a small amount of shares in Boddingtons Brewery and Kwik Fit so I had a small interest in following two share prices in the 90s.

'I first started investing in passive equity and bond funds with a small amount inherited when my grandfather passed away. This was terrible timing

to start as it was just before the 9/11 market correction.

'By around 2005 I had saved up enough money to start trading single name equities. I've been active to trade my own money ever since as it has become a bit of a hobby which I enjoy, and I like not paying any fees for active management.'

SAVING FOR RETIREMENT

His main investment priority is saving for retirement, so he is ideally looking to compound as much as possible while trying to limit downside.

He has a high risk tolerance and can stomach a bit of volatility if it ends up with a higher end outcome, and believes he can generate around 6% to 10% a year through economic cycles with this approach.

Duncan has also started saving money into Junior ISAs for his

two children, buying stocks for them which he hopes will grow to pay for any educational needs or a flat deposit when they're older.

In his ISA portfolio, Duncan holds between 15 and 20 stocks, which he believes provides enough diversification as he is 'thoughtful' about exposures to sectors, regions and factor risks like the oil price or coronavirus, with position sizing anywhere between 2% and 10%.

'I can probably split my current portfolio into the areas of blue chip compounders, themes, special situations and more Covid-sensitive names,' he says.

The top positions in his portfolio include **Rentokil (RTO)**, **Ashtead (AHT)** and **Experian (EXPN)**.

THE BIGGEST WINNER

Duncan says Ashtead has been

his biggest winner, having held it since 2013 and adding extra exposure on a couple of pullbacks in the company's share price.

Originally looking for some US exposure via a UK listed name, Duncan believes Ashtead has a strong market position in the equipment rental sector. He added exposure having thought they were well placed to do bolt-on acquisitions and take further market share from so-called 'mom and pop' operators in the US.

Duncan says he has had 'many successes' in his 15 years of investing, but also made many mistakes. 'You definitely learn more from your mistakes and try not to repeat them,' he adds.

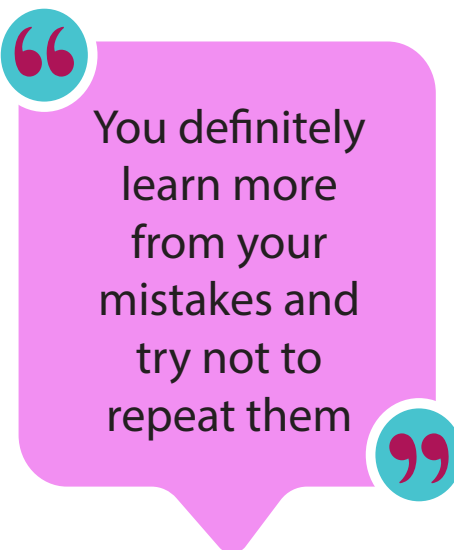
Some of his best investment decisions have been selling positions, and he got a call on housebuilder **Barratt Developments (BDEV)** spectacularly right ahead of the global financial crisis in 2008.

He explains: 'I read a report on the BBC news in early 2007 about the bad state of the US mortgage market/US housing market and immediately sold my shares in Barratt Developments so missed out on a c.90% collapse in 2008.'

'I couldn't believe how little they reacted that day I sold and spent the following months thinking I was crazy.'

REACTING TO THE CORRECTION

Since then Duncan has traded in and out of UK housebuilders, building into a core position from 2010 and selling out in 2019. He recently added **Persimmon (PSN)** and **Berkeley (BKG)** after a pullback in their shares amid the



coronavirus market sell-off.

In late March, Duncan went through his portfolio 'line by line to clean it up' following the market correction.

Duncan says he sold stocks in early March that he thought would be directly impacted by coronavirus, such as **Trainline (TRN)**.

But he adds that he got 'caught out' by some names which have had 'more of a secondary impact' than he expected, like **Intermediate Capital (ICP)** which he has since sold. Then there are others impacted which Duncan says he will 'probably try to ride it out' and look for a longer-

term recovery.

Duncan used the market drop to rotate his portfolio, selling some stocks which held up well like **Grainger (GRI)** and **RELX (REL)** and rotated into other areas which were weaker, picking out **Greggs (GRG)** and **Compass (CPG)**, as well as UK housebuilders and insurance stocks like **Prudential (PRU)** and **Legal & General (LGEN)**.

FUTURE PLANS

Duncan's plan going forward is to keep adding new exposure on further pullbacks, and will look to add to a mix of high-quality stocks and some more Covid-hit names.

He adds: 'I think there is a chance that we roll over again to make new lows in the next six to 12 months but I think in two to three years if there is a vaccine we will be back to normal albeit at lower economic levels as we come out of this recessionary period.'



By Yooosof Farah
Reporter

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Tim Watts, CEO
Shield Therapeutics (STX)

SHARES INVESTOR EVENING

Iron replacement therapy
Typically initiated with oral, followed by IV therapy if needed

1st line treatment

- Oral
 - Mostly salt-based iron compounds
 - Inexpensive and convenient to take but...
 - Poor absorption = slower to restore iron levels and...
 - Not well tolerated = poor compliance = unable to restore iron levels
- Intensive (IV)
 - Used mainly in patients intolerant of oral therapies
 - Requires hospital administration due to safety risk
 - Resource heavy, inconvenient & costly

The poor tolerability of salt-based oral iron therapies and the cost and inconvenience of IV iron together create a major unmet need and commercial opportunity for Ferrocenyl / Accrufer

Tim Watts, CEO Shield Therapeutics (STX)

Shield Therapeutics (STX) is focused on the development and commercialization of late-stage, hospital-focused pharmaceuticals. It is a specialty pharmaceutical company.

Cathal Friel
Executive Chairman
Open Orphan (ORPH)

SHARES INVESTOR EVENING

hVIVO lab services and testing capability

Post merger we started working with third party pharma / biotech co's in the US, Europe and Asia

Monday 11 May Open Orphan received with contract to commence up to 3,000 Covid-19 antibody tests per day

Potential to generate revenue of millions in early testing

In the past 12 months we have generated £1m in revenue

Currently the only company in the UK to be able to provide a bench in-class Quantitative Antibody testing platform, which has a 100% accuracy and 99.8% specificity

£10m replacement cost for the laboratory

Cathal Friel, Executive Chairman Open Orphan (ORPH)

Open Orphan (ORPH) goal is to become Europe's leading rare disease and orphan drug focused pharma services company. Its management team have extensive industry and financial expertise.

Dr Rob Quinn
CFO
Silence Therapeutics (SLN)

SHARES INVESTOR EVENING

Inhibiting Expression of Disease Causing Genes with RNAi

RNAi TECHNOLOGIES

RNA → **mRNA** → **Protein**

SILENCE

Natural
Harnesses natural cellular mechanisms present in every cell in the human body. Transient mechanism - does not produce permanent changes to DNA (unlike gene therapy)

Durable
Long lasting gene knockdown possible for > 2 months following a single injection

Safe
siRNA specifically designed to bind only to target sequence

Dr Rob Quinn, CFO Silence Therapeutics (SLN)

Silence Therapeutics (SLN) is a biotechnology company in the United Kingdom. It uses its RNA technology to develop drugs to address genetic disorders.

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The impact of Covid-19 on the property market

What the pandemic meant for moving house and what could be in store

The coronavirus crisis has had an unprecedented impact on the UK property market, as viewings and sales ground to a halt and the market stalled during lockdown.

Activity is now starting to resume, but at a slow pace and with a number of big changes that househunters and sellers will have to adapt to. So what does that mean if you're trying to buy a property or sell your pad?

WHAT HAPPENED DURING LOCKDOWN?

The property market effectively stopped during lockdown. No-one was allowed to carry out viewings of properties as it would have breached lockdown rules. Some estate agents came up with video tours of houses, but who was likely to make the biggest purchase of their life just based on a video?

What's more, removal companies were not meant to operate, so actually moving house was tricky – although there were some exceptions if you were moving into an empty property.

What's more, during this time mortgage companies started pulling their products. It meant that only those who had the highest loan-to-value, so the largest deposits, were able to get new mortgages.



Mortgage companies said they were overwhelmed with work and facing staff shortages so needed to reduce new customer numbers, meaning they restricted their new loans to just the highest-quality ones – so those people borrowing relatively less compared to the value of the property.

WHAT ABOUT NOW?

Viewings can happen in properties now, so long as they stick to strict guidance. Estate agents are advised to offer virtual viewings as a first step, which is either a video tour where the estate agent is live in the house, or a pre-recorded video of a walk-through of the property.

The Government advises that in-person viewings should only be carried out by buyers who are already strongly considering putting an offer in.

In-person viewings will have to follow social distancing guidelines and it's advised that the homeowners leave the property while the viewing happens. Afterwards the house should be cleaned.

Two big changes are that open houses aren't allowed and estate agents are not allowed to drive potential buyers to viewings – which could present some problems if you're searching outside your home area and don't have your own transport.

If you were ready to move before the crisis struck you can

now also move, as removal companies have resumed their work. The advice is to do as much of the packing yourself as possible, and when moving day arrives make sure the movers can wash their hands and open internal doors for them so they don't have to.

If anyone in the household has coronavirus symptoms or is self-isolating then the move should be delayed.

The mortgage market has also improved, with providers offering more products now. This means if you have a smaller deposit

you'll likely have more options now than you would have done a month or so ago.

WHAT ABOUT HOUSE PRICES?

You'd need a crystal ball to be able to tell what's going to happen to house prices. The Government has an official measure of house prices, which tracks the direction their moving in.

However, it has suspended the measure as it says there isn't enough reliable data to generate the figures – this is because so

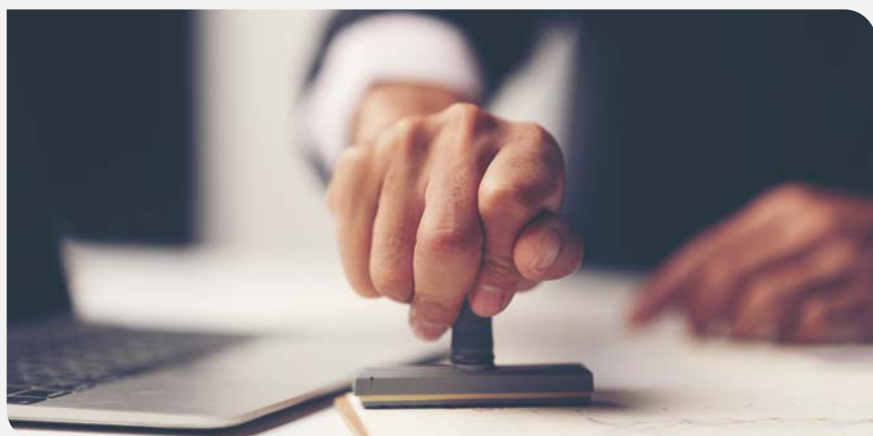
few house moves happened in March and April and the market hasn't fully resumed yet, so the data would be based on a small sample size.

Nationwide, which has data of its customers (so only includes mortgaged purchases and no cash-buyers), says house prices fell 1.7% in May when compared to April – representing the largest fall in its data in 11 years. However, the sample size of this is likely to be even smaller than usual, so it's difficult to know if it's a reliable measure.

The logic behind house prices falls is that fewer people might move as their income is more precarious and fears about the wider economy mean people are less likely to pay top whack for a property.

In contrast, the property search portal **RightMove (RMV)** said it had its busiest ever day towards the end of May, with 6m visits to the site – up 18% on the same time the previous year. The site also said there was an increase in calls and emails to estate agents – showing that at least some of the demand isn't just bored people on lockdown browsing property listings.

There's some expectation that with people having spent more time in their homes they've realised they need to upsize or get a bigger garden, for example, or they want to live in a new area. There may also be some pent-up demand from the market having halted for seven weeks in lockdown.



STAMP DUTY REFUND DEADLINE EXTENDED

People who have paid higher stamp duty after buying a new property before selling their existing one will now have longer to sell their original home in order to claim a stamp duty refund.

Homeowners who buy their next property before offloading their current home pay additional stamp duty, as though they are buying a second property.

This means they'll pay a three percentage point surcharge on the purchase, which can easily run into the tens of thousands of pounds. Ordinarily if they sell their original property within three years they can reclaim the additional stamp duty from HMRC.

However, the Government has now extended this three-year period if your home sale has been affected by the Covid-19 crisis.

It means anyone who bought their home from 1 January 2017 onwards will have longer than three years to sell it and get the refund, assuming they can prove the coronavirus crisis was the reason for the delay in the sale. Find out more information [here](#).



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

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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.



How to maintain a portfolio

Keeping your investments well balanced is easier than it sounds if you follow some basic principles

Last week we looked at effective ways to build a portfolio and why it's so important to construct a well balanced portfolio. In this article we focus on maintaining good balance as the performance of different assets diverges.

If you have done a good job constructing your portfolio, you should expect to see performance vary between the different assets, and this divergence brings more stability to your returns.

If that divergence increases, over time some areas of your portfolio may become significantly larger or smaller than you first intended. What should you do?

DON'T REBALANCE TOO OFTEN

It might be tempting to use a blanket rule to rebalance your portfolio say every quarter or perhaps biannually. However

You may need
to slowly build-
up your savings
before starting
to invest



you should think carefully before tinkering with something you spent so much time building.

Matt Brennan, head of passive portfolios at AJ Bell highlights the hidden costs of trading which are not only restricted to broking commissions, but include bid/offer spreads, which also need to be taken into account. That is, the difference between the cost of buying and selling units.

These costs can add up, especially if you choose to rebalance four times a year, but first you might be thinking, if it costs money why would I want to do anything in the first place, why not just let the asset proportions diverge?

The short answer is that as asset prices move around, the overall portfolio risk changes. And that matters because your initial asset allocation was based upon your individual risk tolerance, age and financial circumstances.

For example, if the shares part

of your portfolio started out at 60% and a few months later they represented 70%, you are implicitly taking more risk overall, and your asset allocation may no longer match your needs.

That's primarily because the portfolio's government bonds proportion will now be lower and these assets provide not just stability but also some protection if shares suddenly went into reverse. Your portfolio would be less stable and more volatile.

THINK IN BANDS

The trick is to strike a balance between keeping a balanced portfolio which matches your needs and tweaking too often and incurring lots of charges. According to Brennan a sensible way to go about this is consider making changes when one part of the portfolio outperforms by at least 10%.

A practical consideration to appreciate, especially if you adopt a regular savings habit,

is that you will be constantly investing every month or whenever you have built up enough savings to deploy into your portfolio.

That may mean, in practice you will not need to make any sales in order to reduce weightings, but deploy capital into the parts of the portfolio that have underperformed. This is a far more effective way to rebalance as it involves lower transaction costs.

AN ILLUSTRATION

To illustrate the principles, we have put together a random portfolio using passive products

A PORTFOLIO CHECKLIST

- ✓ Keep your short-term and long-term goals up to date.
- ✓ Check your returns.
- ✓ Check the current allocation of assets in your portfolio and ensure it is in line with your strategy.

and we have allocated 57% to shares and 43% to bonds. This is a relatively conservative asset allocation.

Some of the products cost hundreds of pounds to buy one unit, so you may need to slowly

build-up your savings before starting to invest.

With the products illustrated here you would need to save around £1,000 in order to construct the whole portfolio in one go. This makes sense as it allows you to achieve the best asset allocation for your needs from the start.

We have assumed divergent asset returns over the following nine months which has resulted in the shares portion of the portfolio growing from 57% to 64%, around 10% higher, which is the trigger to consider re-balancing the next time you deploy new funds.

Simply purchasing one more unit of either of the bond ETFs would bring the asset allocation back closer to the original position.

The important thing to remember once you have built your portfolio is to keep adding new money regularly or when your financial circumstances allow. Focus on long-term results and use shorter-term market volatility to rebalance your assets.



By **Martin Gamble**
Senior Reporter

HOW THE BALANCE OF A PORTFOLIO CAN CHANGE

PORTFOLIO START

Equities	Units	Value (£)	%
Fidelity Index World Fund (BJS8SJ3)	200	343	36%
iShares Core FTSE 100 Dist ETF (ISF)	33	202	21%
Bonds	Units	Value (£)	%
Lyxor FTSE Actuaries UK Gilts Fund (GILS)	2	309	33%
iShares Global Govt Bonds ETF USD (SGLO)	1	92	10%
		946	100%

PORTFOLIO NINE MONTHS LATER

Equities	Units	Value (£)	%
Fidelity Index World Fund (BJS8SJ3)	200	440	39%
iShares Core FTSE 100 Dist ETF (ISF).	33	281	25%
Bonds	Units	Value (£)	%
Lyxor FTSE Actuaries UK Gilts Fund (GILS)	2	318	28%
iShares Global Govt Bonds ETF USD (SGLO)	1	94	8%
		1,133	100%

Source: Shares. Note: Illustrative example only.

OPPORTUNITIES FROM THE COVID-19 CRISIS



Ian Hargreaves
Co-Head of Asian and Emerging Market Equities
Invesco

Periodically, we are faced with a 'black swan': an unexpected event with significant repercussions. The Covid-19 pandemic is one of those events. This has led to a significant contraction in economic activity and considerable uncertainty over the timing and pace of recovery. It has also caused a sharp fall in equity valuations. While unsettling in the short term, especially given the human cost of this crisis, the opportunity to buy stakes in companies at bargain prices is what we live for as active managers.

What effect has the downturn had on the Invesco Asia Trust plc?

The NAV performance of the Invesco Asia Trust has been really disappointing so far this year both in absolute and relative terms (see Figure 1) and can be attributed to the way the portfolio was set-up going into 2020. Before Covid-19, there was growing evidence that the long slowdown of global growth, that began in early 2018, was beginning to reverse supported by the lagged effect of global policy easing. Trade tensions between the US and China had also been improving. We believed that this would lead to a recovery in earnings momentum and a broadening out of market performance. The portfolio was positioned with the aim of benefitting from this turn in the cycle.

Figure 1: Performance

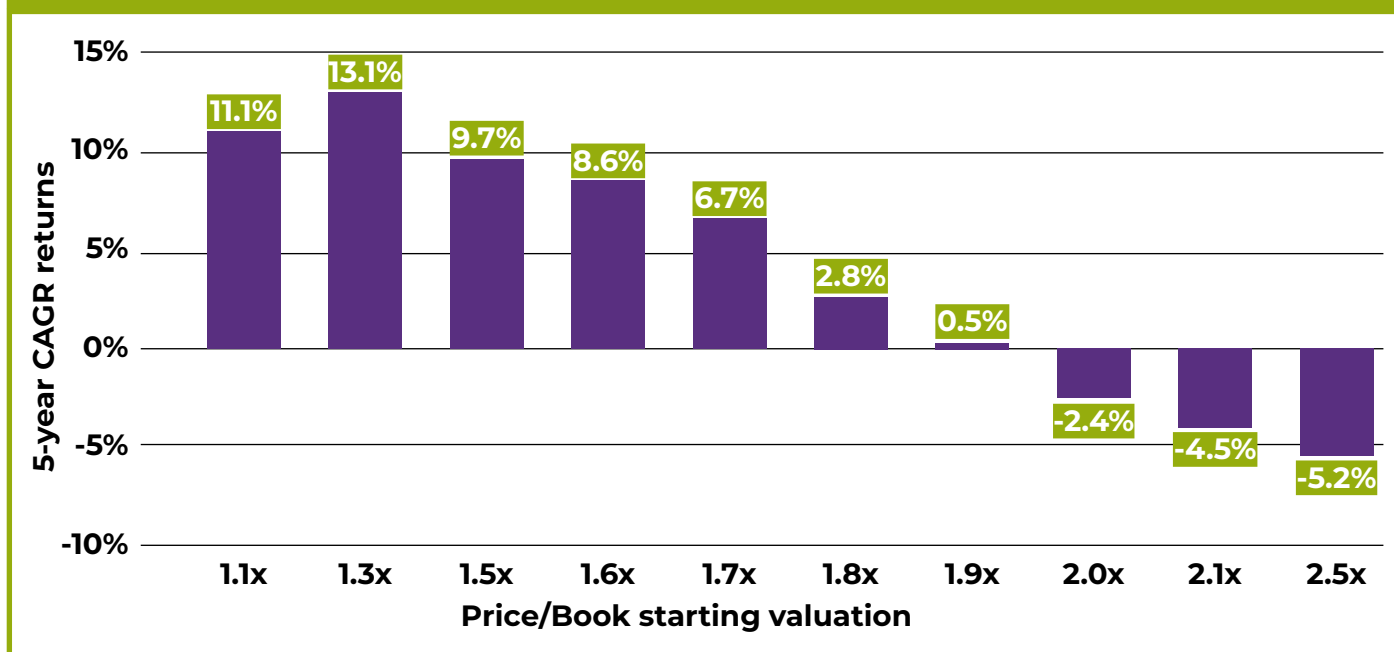
Ordinary share price, NAV and index cumulative performance, % as at 30 April 2020	Share price	NAV	Index	Difference (NAV vs Index)
1 year	-10.0	-10.2	-4.1	-6.1
3 years	7.8	3.6	13.9	-10.3
5 years	38.2	35.1	34.2	+0.9

Standardised rolling 12-month performance, %	31.03.15 31.03.16	31.03.16 31.03.17	31.03.17 31.03.18	31.03.18 31.03.19	31.03.19 31.03.20
Ordinary Share Price	-4.4	40.9	8.1	5.0	-15.4
Net Asset Value	-3.9	41.2	8.2	3.9	-16.8
MSCI AC Asia ex Japan Index	-9.9	35.4	12.5	2.3	-8.8

Past performance is not a guide to future returns.

Source: Invesco, as at 30 April 2020, unless otherwise stated. The index is the MSCI AC Asia ex. Japan Index. Performance figures are shown in Sterling. Ordinary share price performance figures have been calculated using daily closing prices with dividends reinvested. The NAV used includes current period revenue and values debt at fair.

Instead, the spread of Covid-19 has turned this prospect on its head, or at the very least delayed it significantly. The economically sensitive sectors, such as financials, which were likely beneficiaries of a recovery, were sold off, in some cases indiscriminately. The portfolio's exposure to technology, health care and internet businesses has offered some reprieve but not enough to fully offset the weakness in cyclicals. However, Asia has historically delivered strong positive returns from current valuations levels (see Figure 2 below as of 8 May 2020) and we believe that the trust currently holds a number of significantly undervalued businesses.


Figure 2: Starting valuations are important to subsequent returns


Source: Bloomberg, Invesco. Weekly returns and valuation levels of MSCI AC Asia ex Japan index from February 1995 to 20 October 2017. The chart divides into deciles the historic price-to-book valuation of the index and the subsequent average 5-year CAGR returns. Using these observations, we can infer that investing in the MSCI AC Asia ex-Japan index at an average valuation level of 1.6x book value (4th decile) has historically led to a 5-year CAGR return of 8.6% on average.



Re-evaluating the portfolio in testing times

Even accounting for the weak economic backdrop that is expected over the next year or so, some companies will emerge stronger. The most innovative technology companies, as well as Chinese internet companies we own, come to mind. Working from home has led to increased demand for PC-related equipment and cloud capacity. There has also been an acceleration in the trend towards online shopping and gaming. These are enduring themes that are well represented in the portfolio and will remain so for as long as valuation levels permit.

Conversely, some businesses will take time to return to the level of profits they achieved in 2019. This may include high quality businesses in more economically sensitive areas. In many cases, valuations reflect limited expectation of recovery and we see this as a source of opportunity. The key questions for us during this period of uncertainty are as follows:

- Is the business robust enough to withstand the current economic downturn?
- Is the business worth much more than reflected in the share price using conservative assumptions about the next 3 years?
- What's the best way to position the portfolio in these markets?

We have run the ruler on every single portfolio holding with this framework in mind.

Currently¹, over 75% of the portfolio (excluding financials) is held in companies with net cash positions².

What actions have we taken in the Invesco Asia Trust?

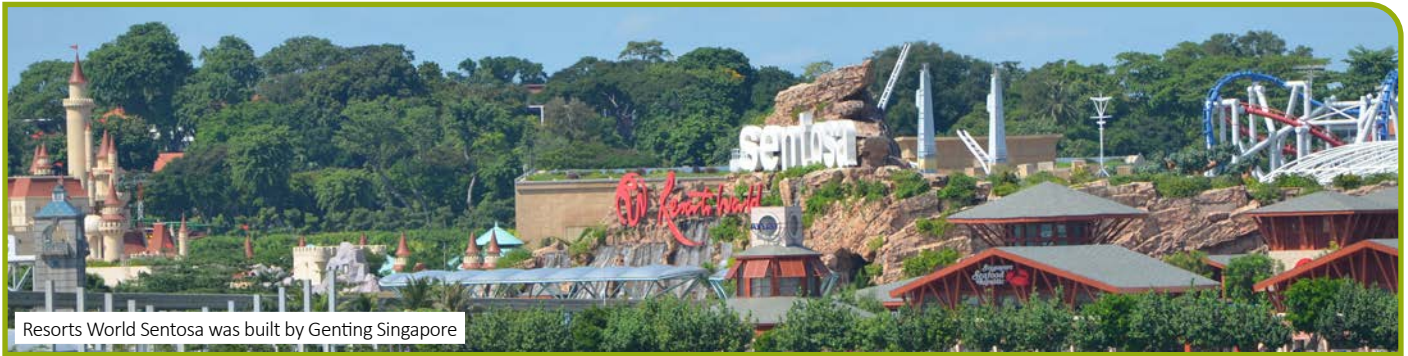
Firstly, we have not changed the way we manage money or how we analyse companies. We believe that buying companies at a discount is the most sustainable way to make money for investors over the long term.

We have significantly reduced our overweight in financials given the likelihood of a low interest rate environment and the potential for some asset quality deterioration. Our remaining bank holdings tend to be very well capitalized, have loss-absorbing capabilities and are focused on the more under-banked parts of Asia like India.

We have also identified several companies which we believe have been hit indiscriminately and have scope to do well in a rebound, without making too optimistic an assumption about the trajectory of earnings over the medium-term. For all our holdings, balance sheet strength remains an important consideration. In India, we have continued to build a position in Mahindra & Mahindra which has a highly profitable tractor business trading at a mid-single digit multiple. We also believe that there is an emerging capital allocation improvement story which the market has yet to appreciate. In China, we have purchased Tencent Music Entertainment, a livestreaming and music subscription company. It has more than twice Spotify's monthly active users but only a quarter of its market value. We believe the market

¹ All data sourced from Invesco 30 April 2020.

² All data sourced from Invesco 30 April 2020.



is underestimating its ability to convert its users into paying subscribers. We have also introduced Genting Singapore: an integrated resorts operator with a strong balance sheet and material upside potential over a three-year horizon, in our view. We think that its growth prospects are being significantly undervalued even if we assume no earnings for 2020. It has over 30% of its market cap in net cash and a dividend yield of almost 6% which is unlikely to be cut³.

It's impossible to predict how and when Covid-19 will be defeated but history has repeatedly demonstrated that buying the market at low valuations has led to very good subsequent returns. This is because markets tend to extrapolate short term news too far into the future, leading to low expectations, and policy responses eventually provide enough impetus for an economic and earnings recovery. This time the monetary and fiscal easing is unprecedented.

Our job is to hold the shares of around 60 Asian companies we believe have strong upside potential while aiming to minimise the risk of a permanent loss of capital as we navigate through these testing times.

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The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

The product invests in emerging and developing markets, where difficulties in relation to market liquidity, dealing, settlement and custody problems could arise.

The product uses derivatives for efficient portfolio management which may result in increased volatility in the NAV.

The use of borrowings may increase the volatility of the NAV and may reduce returns when asset values fall.

³ Source, Bloomberg, 30 April 2020.

Important Information

Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice.

For more information on our products, please refer to the relevant Key Information Document (KID), Alternative Investment Fund Managers Directive document (AIFMD), and the latest Annual or Half-Yearly Financial Reports. This information is available using the contact details shown.

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When making an investment in an investment trust you are buying shares in a company that is listed on a stock exchange. The price of the shares will be determined by supply and demand. Consequently, the share price of an investment trust may be higher or lower than the underlying net asset value of the investments in its portfolio and there can be no certainty that there will be liquidity in the shares.

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Which should I choose, tracker funds or ETFs?

Exchange-traded funds and tracker funds do similar things, but there's important differences investors need to understand

I'm fairly new to investing and have been looking to gain low-cost exposure to stocks. With this in mind could you explain which are the better option, ETFs or tracker funds?

Michael



Reporter **Yoosof Farah** replies:

On the surface they may seem like the same thing, but index tracker funds and exchange-traded funds (ETFs) are two distinct investment products with significant differences.

Both are typically used for passive investing, following an index like the FTSE 100 or S&P 500, and are also similar in that they offer a low-cost way of accessing the stock market.

But there are differences between the two which are important to know.

For starters ETFs are traded on a stock exchange like shares, and so are treated in the same way shares in companies and

ETFs are
treated
like shares



are priced throughout the day. A tracker fund is structured as a unit trust or open-ended investment company (OEIC), and priced once a day.

But as ETFs are treated like shares, this also means they are likely to incur higher dealing charges than if you were buying tracker funds, which have the same structure as regular active funds.

Tracker funds will also have different share classes for retail and institutional investors, with institutional share classes tending to be cheaper.

Tracker funds still dominate the passive landscape in the UK in terms of overall assets, partly as a legacy of ETFs having initially been more expensive five to 10 years ago, with the ETF market not as developed in the UK as it was in the US for example.

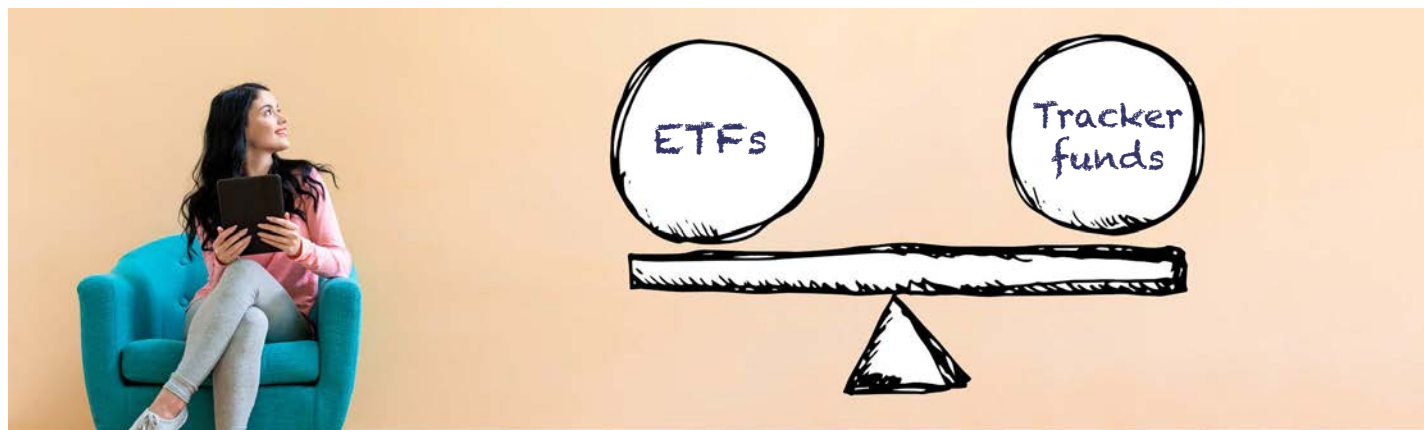
ETF COSTS HAVE FALLEN

However that has changed significantly over the last decade and often for individual investors, ETFs can have noticeably lower costs. Almost all new passive product launches now also tend to be ETFs, with thematic investments in particular tending to be launched as an ETF.

If you are looking to build a portfolio, ETFs could be a better option for several reasons.

The fact that ETFs have a single share class means there is more price competition, as providers have an incentive to bring costs down for everyone, whereas fund companies pulling in big amounts of money from institutional investors sometimes only need to cater to that audience.

In addition the tight bid/offer spread on ETFs, particularly the



more popular ones, and the fact it is traded on an exchange means you have a pretty good idea how much you're going to get when it comes to selling your ETF.

For index funds however it is less clear, given the once a day pricing and some of the opaque charges used by fund companies.

PRICING TRANSPARENCY

One pricing method commonly used is swing pricing, whereby a single price is issued for the fund and all clients buy and sell shares at this price.

This single price incorporates a swing in the net asset value (NAV) of the fund depending on whether there were net inflows or net outflows on that particular day. You won't know until the next day how much you got for selling your holding.

But one thing to consider with ETFs is that there is no fractional trading. Say you want to invest £50 in an ETF but each share is priced at £100, there is no option to invest just the £50, you can only buy the shares for £100.

Units in funds on the other hand trade to four decimal places, meaning if you're starting out by regularly investing £25 or £50 a month for example, you

can potentially put that into any index fund you want, with lower dealing charges too.

Overall ETFs may be the better option rather than index funds for investors building a portfolio, but for those looking to switch from an index fund to an ETF, consider the cost of trading before you do so.

REAL-WORLD EXAMPLES

For some markets, switching from an index fund to an ETF can be a relatively straightforward decision. Take for example **iShares Core FTSE 100 ETF (ISF)** and **Halifax UK FTSE 100 Index Tracking Fund (3181225)**.

Both do the same thing, yet the iShares one charges 0.07% a year and the Halifax one charges 1% a year. So if you wanted to

invest £10,000 in the FTSE 100, iShares will take £7 a year from your investment and Halifax, for tracking the index like iShares, will take £100 a year from you. Picking between the two is not difficult.

Usually the bid/offer spread for ETFs tracking indices like the FTSE 100 tends to be between 0.03% 0.04%, but for areas like certain emerging markets or bonds for example this can increase to 0.3% to 0.4%, making the cost of switching significantly more expensive.

But for an investor looking to add passive investments to their portfolio, choosing ETFs over index funds can prove lower cost and provide greater choice, as well as more flexibility and transparency.

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.

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

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How does taking a defined benefit pension before 2006 impact your lifetime allowance?

Our resident expert on pensions helps with a retirement-related query

If you took a defined benefit pension pre-A-Day, how do you calculate the proportion of your lifetime allowance it takes up?

Richard



Tom Selby
AJ Bell
Senior Analyst says:

The lifetime allowance, which caps the amount you can save in a UK pension over your lifetime, was first introduced at 'A-Day' in April 2006 as part of reforms designed to simplify the retirement tax rules in the UK.

The lifetime allowance was originally set at £1.5m before being progressively reduced by successive Governments, reaching a low of £1m in 2016/17. Since 2018/19 the lifetime allowance has increased in line with consumer prices index (CPI) inflation, meaning for 2020/21 it stands at £1,073,100.

For those who had already started receiving a defined benefit (DB) pension before April 2006, the Government needed to come up with a formula to determine by how much a person's lifetime allowance should be reduced. This reduction in lifetime allowance would

happen at their next 'benefit crystallisation event' (BCE).

A benefit crystallisation event is a point in time at which HMRC tests how much lifetime allowance someone has used.

These include taking your 25% tax-free cash, moving your fund into drawdown, buying an annuity or reaching age 75.

The formula HMRC opted for was simply to multiply the annual income the person receives at the point at which the first post-A-Day benefit crystallisation event occurs by 25. This would then reduce the available lifetime allowance by that amount.

Take someone who started receiving a defined benefit pension in 2005. The pension rises each year in line with retail prices index (RPI) inflation.

On 1 May 2020 they crystallised a £100,000 SIPP, taking £25,000 tax-free cash and

keeping the remaining £75,000 invested via drawdown. Because this was their first benefit crystallisation event since A-Day their lifetime allowance will also be reduced by the value of their existing DB pension.

At this point in time the DB pension is worth £20,000 a year, meaning for the purposes of lowering their available lifetime allowance it is valued at £500,000. It will therefore reduce their available lifetime allowance by 46.59% (£500,000 is 46.59% of £1,073,100).

In addition, crystallising the £100,000 SIPP money will further reduce their available lifetime allowance by 9.31% (£100,000 in 9.31% of £1,073,100).

Anyone who has applied for lifetime allowance protection may be entitled to a higher lifetime allowance than £1,073,100.

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.

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16 June: Ashtead, Braemar Shipping Services, Checkit, Tatton Asset Management, Telecom Plus.

17 June: De La Rue, Enteq Upstream, Severfield, Wincanton. **18 June:** National Grid.

Half year results

15 June: Sthree. **16 June:** Oxford Biodynamics.

18 June: Blue Prism, Caretech, Safestore.

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17 June: Hill & Smith, Origin Enterprises.

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