STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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# SHARES

WE MAKE INVESTING EASIER

# PUBS, HOTELS AND LEISURE STOCKS:

## Should you keep your distance?

**PLUS**

**WIRECARD SCANDAL** HARKS BACK TO DARK DAYS OF THE NEUER MARKT

**STOCKS THAT HAVE FAILED TO RECOVER** FROM CORONAVIRUS

**FIVE FUNDS BEATING THE MARKET** BY A SIGNIFICANT MARGIN

Ronen Berka | New York, 2016

# AO is the surprise retail winner of 2020

The electrical products seller has finally found some fans after struggling on the market

We've all been buying fridges, wine and sparkly tops this year, judging by how the market has rewarded certain retail stocks.

There has been a lot of chatter about how alcohol sales have increased during lockdown, so it's no surprise to see online specialist **Naked Wines (WINE:AIM)** become the second best retail stock in share price terms year-to-date.

**Boohoo's (BOO:AIM)** ongoing success has also been well documented, with its young adult target market still buying new clothes despite not be able to enjoy a night out with friends.

Many readers might be surprised to see **AO World (AO.)** as the best performing retail stock so far this year. After all, this business has perennially disappointed since it joined the stock market in 2014 with progress in the UK clouded by losses in its European arm.

Its stock market success this year does make some sense. Home appliances will have seen a sharp rise in usage during lockdown and there is nothing worse than not being able to wash your clothes because the washing machine's broken, or your fridge can't cope with all the extra food being stored in it.

For all the criticism from investors who lost patience with the business, AO does have a good reputation for service which is very important from the customer's perspective. People will return to reliable sellers such as AO when seeking a new appliance.

A 63% share price gain this year must be viewed in the context of AO's shares having risen from a low base. Until late April 2020, the stock had been in falling trend since 2018 and a recovery last November was short-lived.

AO regained interest from investors on 12 May by saying it had grown market share with increased demand and sales since lockdown.

Many companies are incurring additional costs to keep staff safe so any joy over soaring revenues at AO's forthcoming results on 14 July will have to be balanced by potential margin pressure.

### BEST PERFORMING RETAIL STOCKS THIS YEAR

| Stock | Share price gain |
|---|---|
| AO World | +63% |
| Naked Wines | +59% |
| Boohoo | +39% |

Source: SharePad. Data 1 Jan to 19 Jun 2020

A good comparative stock is **Dixons Carphone (DC.)** which has also experienced a sales boost from lockdown conditions. This business has really improved its customer service standards and has a leading market share for electrical goods.

While AO is a direct competitor, it is more associated with fridges, washing machines and dishwashers whereas Dixons is the go-to place for laptops and TVs.

Interestingly, Dixons' shares are trading 35% lower than at the start of 2020, albeit they've been picking up in recent months. The company is likely to incur yet more losses on the mobile side of its business, but management are eager to top up product sales revenue with more income from repairs and customer credit as part of a new growth plan.

Both companies have a proposition needed in today's world and there is a place for them to exist alongside Amazon. Dixons should focus on its shops being quasi sales and repair centres and AO should focus on rapid delivery and collection of unwanted items to feed its recycling operations.

There is little difference on product price between all three firms for electrical products, yet AO and Dixons can stand above Amazon by having extra services on top.

By **Daniel Coatsworth** Editor

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**VIEWING SHARES AS A PDF?**
CLICK ON PAGE NUMBERS TO JUMP TO THE START OF THE RELEVANT SECTION

# Saudi stake-building is no answer to BT's dismal stock performance

Investors need clearer guidance on the real benefit of huge fibre investment

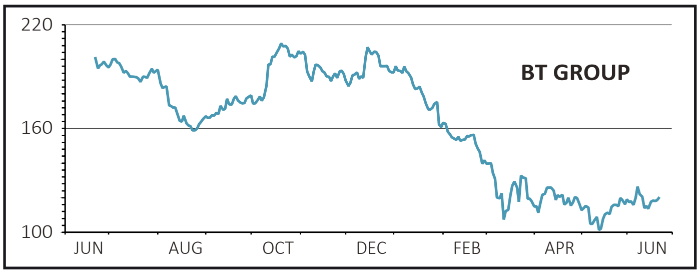
The Saudi-backed Public Investment Fund (PIF) is thought to be quietly building a stake in UK telecoms giant **BT (BT.A)**, but hopes that the sovereign wealth fund is laying the foundations for an all-out takeover have been shot down.

Rumours have emerged that PIF has been buying slugs of BT stock, although the stake remains below the 3% of the company mark which would mean having to announce details to the market.

The sovereign wealth fund is also believed to have offered BT substantial new funding lines to help pay for its huge fibre to the premises (FTTP) network investment, which was apparently declined.

Broker Jefferies believes that the funding offer does illustrate a growing view that Openreach will be the only national fixed line network 'there will ever be', and that the 'wall of money' from private equity to fund rival networks is drying up.

Yet Numis, another broker, says PIF's move is likely to have little long-term impact on the BT share price. 'News of this investor, or any other, buying a minority stake in the telco giant is unlikely to help its share price for more than an insignificant amount of time,' it said.




## FIBRE FUNDING MUST PROVE ITS WORTH

Numis analysts believe BT needs to back up terms like 'value-enhancing' and 'value-creating' it uses to describe the potential benefits of its big long-term spend in FTTP and to modernise itself with explicit guidance for its current five-year plan.

'Investors appear to see extra fibre investment currently as little more than extra cost,' said Numis' telecoms analyst John Karidis.

BT's share price has fallen nearly 38% since the start of 2020, but the stock's dismal performance has been going on for years, having lost more than 75% of its value since November 2015.

'The stock is down 54% since chairman Jan du Plessis took office in November 2017, 50% lower since he said the share price will look after itself if BT executes the right strategy (May 2018),' said Karidis.

He remains hopeful that a clearer earnings steer will come as Openreach and major customers reach long-term agreements on fibre network pricing and volume.

**FTTP FORECAST COVERAGE (MILLIONS OF PREMISES)**

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|---|---|---|
| BT Openreach | 0.4 | 0.6 | 1.2 | 2.5 | 5.5 | 8.5 | 11.5 |
| Virgin Media | N/A | 0.5 | 0.8 | 1.2 | 1.4 | 2.0 | 2.3 |
| City Fibre & TalkTalk | N/A | N/A | 0.1 | 0.3 | 0.7 | 1.1 | 1.7 |
| Hypnotic | 0.1 | 0.4 | 0.4 | 0.5 | 0.9 | 1.2 | 1.5 |
| Gigaclear | N/A | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |

Source: Jefferies

# Wirecard scandal harks back to dark days of the Neuer Markt

The German payments firm has become the biggest corporate scandal of 2020

The shocking news from German mobile payments firm Wirecard, one of the supposed gems of the country's technology sector, that the €1.9 billion 'missing' from its accounts may never have been there in the first place, will ring bells with investors who remember the tech bubble 20 years ago and the numerous frauds perpetrated by 'new economy' German firms.

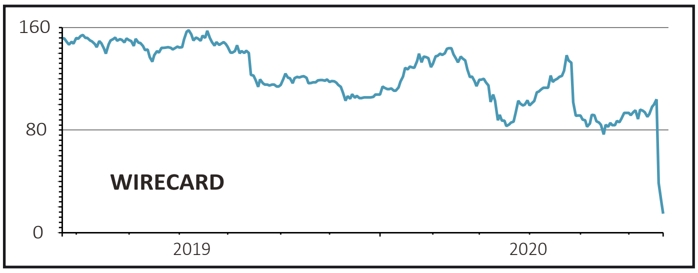
Shares in Wirecard traded as low as €13 on 22 June against €104 last week, in the process inflicting big losses on investment trust **European Opportunities (JEO)** which had been a big supporter of the stock.

Doubts were raised over Wirecard's accounting as far back as 2016 when Zatarra Research accused it of 'wide-scale corruption and corporate fraud'.

The *Financial Times* investigated the fintech firm's accounts a couple of years later and found it was conducting 'a concerted effort to fraudulently inflate sales and profit'.

Wirecard's response was aggressive, attacking Zatarra's web servers and threatening *FT* reporters before co-opting the German financial markets regulator BaFin into suspending short selling of the stock and filing a criminal complaint against the newspaper.

Fast forward to 2020 and the firm admits that the billions of euros of cash which it alleged were in offshore accounts probably never existed. It has torn up its 2019 accounts and must rely on the kindness of its lenders for survival.




Sadly, Wirecard isn't a one-off: Germany has a history of 'new economy' companies coming a cropper during bull markets after being revealed as frauds.

In the late 1990s the German banks faced criticism for not supporting young high-tech firms, so the Frankfurt stock exchange took the initiative and launched the Neuer Markt (New Market) to give firms access to investors who were hungry to take part in the tech bubble.

The number of new listings exploded from 10 in 1997 to 117 in 1999 and at its peak in 2000 there were 338 companies listed, mostly in the internet, software and IT hardware sectors.

However, a string of bankruptcies and scandals cost investors tens of billions of euros in losses and resulted in the Neuer Markt closing in 2003.

One of the biggest scandals was mobile phone operator MobilCom, which included Deutsche Telekom and France Telecom among its shareholders, and which ended up being technically insolvent.

Another was satellite navigation firm Comroad which invented 99% of its sales through a non-existent Asian subsidiary and went bust in 2002.

Possibly the most spectacular scandal associated with Neuer Markt was media firm EM.TV, which at one point owned the Jim Henson company and which collapsed with enormous losses after it was found to be manipulating its earnings.

# Has the death of physical retail been over-exaggerated?

Research shows people are missing the in-store experience

Has the death of physical retail stores been over-exaggerated? Investment bank Morgan Stanley believes they could make a comeback after lockdown ends, based on the findings of its survey of 1,000 people conducted in May which suggests that many consumers are missing in-store shopping for clothing.

High street and shopping centre footfall last week surged 51% compared to the week before, as more shops were permitted to reopen, according to retail consultant Springboard. However, visitor numbers are still well down on pre-lockdown conditions which suggests the near-term could be tough for fashion sellers with physical shops and for shopping centre landlords.

The Morgan Stanley survey suggests almost 60% of clothing spend in the UK is traditionally driven by activities likely to be impacted by ongoing social distancing measures such as going on holiday or going to the office.

It says 45% of those visiting clothing stores would normally get there on public transport, yet 46% now see little point in visiting clothing stores while changing rooms remain shut.

Most worryingly of all for retailers, 57% claim that they intend to avoid going to clothing stores in the coming months for fear of catching coronavirus.

Morgan Stanley analysts said the findings 'reinforce our views that store-based clothing retailers are going to have a very tough time until there is a vaccine for COVID 19,' which they believe won't be widely available until summer 2021.

However, the findings also show net changes compared to a survey in 2019 in how people view in-store shopping compared to online, with more people than last year positive about shopping in-store, particularly when viewing its role as a leisure activity. That gives a glimmer of hope for retailers with physical stores, although the stock market doesn't yet share this view.

Most of the sector has seen shares plunge dramatically year-to-date. Only online retailers **Boohoo (BOO:AIM)** and **ASOS (ASC:AIM)** have seen their share prices rise, reinforcing the view that the shift to online is accelerating.

However, analysts at Morgan Stanley pick out Primark-owner **Associated British Foods (ABF)** as a stock which could bounce back post-coronavirus.

While they say, due to social distancing measures, the next 12 months won't be good for town centre-based clothing retailers who rely on generating high sales densities, given there's likely to be a more challenging economic backdrop when things get back to normal, it will be value retailers like Primark who will look well-positioned again.

**UK CLOTHING RETAILERS: SHARE PRICE PERFORMANCE YEAR-TO-DATE**

| Company | Share price |
|---|---|
| Boohoo | 37.9% |
| Asos | 3.5% |
| JD Sports Fashion | -22.5% |
| Associated British Foods | -23.1% |
| Next | -24.2% |
| Frasers | -30.0% |
| Shoe Zone | -48.0% |
| Marks & Spencer | -49.0% |
| Joules | -52.3% |
| Sosandar | -59.7% |
| Quiz | -64.6% |
| Superdry | -71.2% |
| N Brown | -74.3% |
| Ted Baker | -78.5% |
| French Connection | -80.4% |

Source: Sharepad, 23 June

# Federal Reserve sparks record high yield bond issuance

Low interest rates are producing a speculative bubble in high-risk credit

This month is on track to be the busiest June on record for the issuance of dollar-denominated high yield or 'junk' bonds, with almost $24 billion of bonds priced by the middle of the month.

This follows a record level of issuance in May, as corporate borrowers continue to flood the market after the US Federal Reserve admitted that any increase in interest rates was 'years away' and that it would include high yield bonds in its credit buying programme to help ease liquidity fears in markets.

Up to mid-June, issuance for the year to date was up more than 50% on 2019 at more than $175 billion despite the poor economic outlook for the global economy for the second half of this year.

Meanwhile, with little to no yield on government bonds or stocks, big investors are only too happy to soak up as much paper as companies can issue, pushing prices up and yields to record lows even though high yield or 'junk' debt is the lowest investment grade and carries the highest risk of default.

It isn't just US and foreign institutions attracted to this high-grade issuance. According to Lipper, domestic retail funds investing in US high-yield bonds recorded more than $5 billion of inflows in the first week of June, the 11th successive week of inflows.

## Gear4music is back in a profitable groove

**The online musical instruments seller has seen 'exceptionally strong trading' during lockdown**

SHARES IN ONLINE musical instruments retailer **Gear4music (G4M:AIM)** rallied 21.1% to 387.5p after the York-headquartered company reported (23 June) a 'strong return to profitability' for the year to March 2020.

This expunged doubts that Gear4music couldn't achieve the operational improvements promised in 2019 and also provided a rare bit of upbeat news for the hard-pressed retail sector.

Boosted by increased interest in music during lockdown,

Gear4music's revenue grew 9% to £120 million last year and the online specialist swung from a loss to a better than expected profit thanks to strong gross margin gains and cost efficiencies.

N+1 Singer's retail analyst Matthew McEachran also highlighted a welcome pivot from cash burn to cash generation and upgraded his March 2021 earnings estimates following the well-received numbers.

'With an increasing number of people throughout the Covid-19 lockdown recognising the benefits that playing, creating and recording music can bring, we have seen a significant increase in demand during this exceptional period,' enthused chief executive Andrew Wass.

He added that the company has also witnessed an 'exceptional and sustained increase in demand' for its products over the first quarter of its new financial year.

# Buy Touchstone now as it gears up for a big increase in production

There are several upcoming catalysts for the Trinidad oil and gas play following a significant discovery

A big natural gas discovery onshore Trinidad has transformed **Touchstone Exploration's (TXP:AIM)** prospects and investors should buy ahead of multiple incremental catalysts leading up to a step change in group production.

This investment is not without risk. Sentiment towards the wider sector is patchy and the shares are already up materially since its Cascadura find was announced.

However, we think the scale of the opportunity balances out these risks. Touchstone's existing production of around 1,500 barrels of oil equivalent per day could increase to more than 10,000 boepd as Cascadura, mainly gas with some associated liquids, is brought on stream.

The apparent scale of Cascadura, located on the Touchstone's Ortoire block, caused FinnCap to increase its forecast of the group's peak production potential from 13,000 boepd to 17,000 boepd.

Rising output should begin to feed through in 2021 and could eventually enable the company to reward shareholders with a dividend.

Gas is in demand in Trinidad, whose large industrial sector

**TOUCHSTONE EXPLORATION BUY**
**(TXP:AIM) 52p**
**Market cap: £98.2 million**

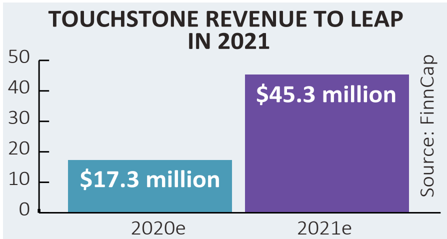
belies the cliché of a Caribbean island.

An upcoming share price catalyst for Touchstone is an agreement on gas sales with the state-owned operators National Gas Company of Trinidad and Tobago and Heritage Petroleum which should be announced before the end of the summer.

The group's current production is crude oil and selling a lot more gas at an agreed price would reduce its exposure to volatile oil markets.

Other near-term catalysts include a third-party reserves report on Cascadura and the commencement of drilling on a second prospect on Ortoire – Chinook. Both bits of news are expected in July.

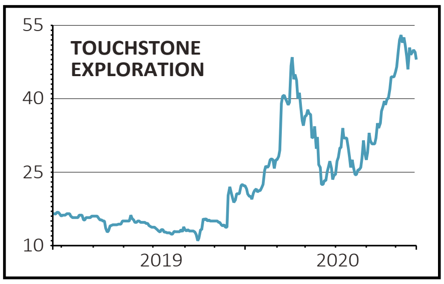
Longer term the company looks set to drill significantly more wells on Ortoire amid attempts to fully delineate the block's potential. Up to 20 potential targets have been identified. This includes further drilling on Cascadura itself and a well on highest risk and highest




reward prospect Royston in the first half of 2021.

Chief executive Paul Baay tells *Shares* there are no plans for an equity raise to finance this activity, with the company planning to pay for future drilling from existing funds and anticipated cash flow. On 16 June the company agreed a US$20 million loan with Trinidad's Republic Bank.

In the words of broker Shore Capital 'this is a very positive development which makes considerable sense for the company, replacing its existing C$20 million credit facility on favourable terms and also providing important financial flexibility, enabling Touchstone to confidently press on with its Ortoire exploration activities'.



# Lam Research is a best in class stock you need to own

The US technology equipment supplier has a great spot in the digital revolution that will require better, faster, cheaper microchips

As the world increasingly goes digital, anything that can help drive down the cost of microchips and boost their power should be well-placed. This is a niche market in which Nasdaq-listed **Lam Research (LRCX:NDQ)** oozes pedigree.

The Silicon Valley-based business designs specialist equipment that helps semiconductor manufacturers improve yields, lower costs, shrink processing time and reduce defects on microchips. Customers include Intel, Toshiba, Samsung and Micron Technology.

Traditionally big in memory chips, this is an area booming thanks to the rapid rise of cloud computing, big data, mobile devices and other connected world applications.

Since data storage is the starting point of the digital economy, there is a huge demand for memory chips, particularly the more efficient variety. But technological advancements in areas like in-car electronics, 3D device architecture and advanced packaging technologies are also playing to Lam's strengths.

Since 2015, revenues have gone from $4.6 billion to nearly $10 billion, while net income

**LAM RESEARCH**
**BUY**
(LRCX:NDQ) $312.3

Market cap: **$45.3 billion**

will have jumped nearly 250% to $2.25 billion, if 2020 forecasts are right. Net income is forecast to break the $3 billion mark by 2022.

There are a few risks that investors should note. The semiconductor industry, including equipment suppliers, has always been very cyclical, and with substantial fixed costs, down-swings can hurt profits. That said, we note recent research by McKinsey that points to buoyant industry prospects as the world emerges from lockdown and moves on from the worst of the pandemic.

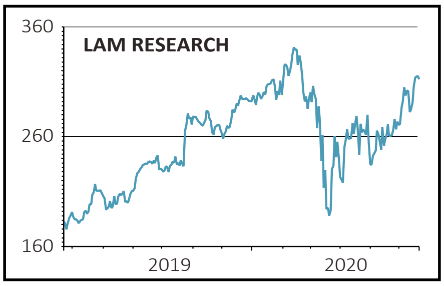
Intense competition and high customer density are also worth noting. Significant revenue comes from a concentrated list of fabricators, such as those listed above. While this may remain the case going forward, we would expect expansion into new technological product lines to help offset some of this risk, as should its reputation as a tried and trusted technology partner.

It is forecast to end the financial year on 30 June with a $788 million net cash position.

Lam Research should be able to bolster shareholder returns through dividends where it is forecast to pay $4.77 per share in 2021, equal to a 1.5% yield which isn't bad for a growth business.

The stock is currently trading on a rolling 12-month forward price-to-earnings multiple of 17.9, based on Refinitiv data, versus a 54-times average for semiconductor equipment peers, and at a 26% discount to the wider technology sector's 24.3-times average.

Narrowing that discount and meeting growth estimates could put a $400 to $450 share price within reach.



## PREMIER FOODS

(PFD) 63.55p

### Gain to date: 53.3%

**Original entry point:**

**Buy at 41.45p,** 23 April 2020

OUR BULLISH CALL on Mr Kipling cakes-to-Bisto gravy maker **Premier Foods (PFD)** is already 53.3% in the money, yet there should be more upside to come given tasty trading momentum.

Our positive stance was based on a recent transformational pensions deal, which has de-risked the business, as well as strong trading driven by marketing and innovation spend with a recent boost from people eating more sweet treats during lockdown.

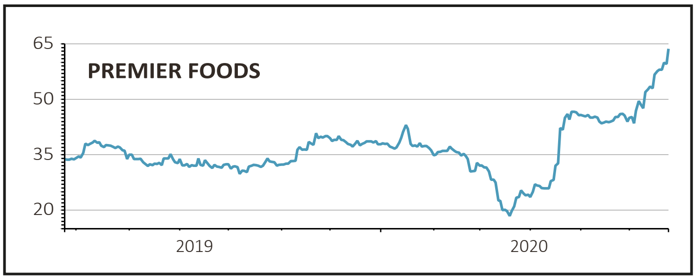
Results for the year to 28 March revealed trading profit at the top end of market expectations as well as a £62m net debt reduction, lowering Premier Foods' leverage ratio to 2.7-times, beating its previous 3-times target.

The company has seen particularly high levels of demand for items relating to meal preparation, including cooking sauces, gravy and baking ingredients.

Following sales growth of 7.3% in the fourth quarter of its financial year, the UK business has now delivered 11 consecutive quarters of revenue growth.

Analysts upgraded their forecasts on news that sales in the first quarter of the new financial year are expected to be roughly 20% ahead year-on-year amid 'continued strong demand' for Premier Foods' ranges.

Despite incurring some extra supply chain costs, the food producer expects to beat this year's revenue and trading profit estimates.




**SHARES SAYS:**

**The business is looking in much better shape and the pension pressures have eased. Keep buying.**

## POLAR CAPITAL

(POLR:AIM) 502p

### Gain to date: 10.3%

**Original entry point:**

**Buy at 455p,** 18 June 2020

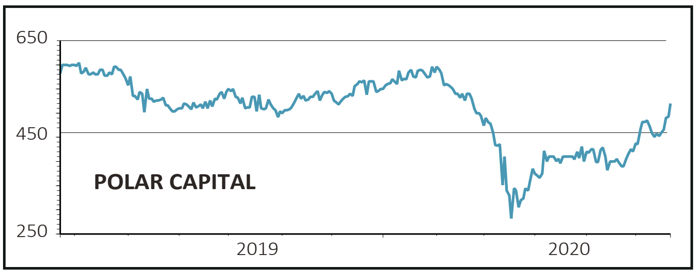
FULL-YEAR RESULTS FROM the asset manager highlighted good strategic progress while post year-end the business has experienced positive net inflows.

For the year to 31 March, net management fees increased 5% to £119.5 million, in line with growth in the group's average assets under management (AUM) to £14.1 billion.

However, core operating profit excluding performance fee profit fell slightly to £41.6 million (2019: £42.2 million). This was caused by an increase in staff costs in relation to new team hires and additional distribution capabilities in the US and Nordic markets. In addition, the firm recruited its first chief investment officer and established a central dealing desk.

Over 70% of the company's funds are ahead of their benchmark for the calendar year to 29 May. Institutional investors tend to focus on longer-term performance and several of the group's products have achieved a top decile ranking since inception, including the £5.3 billion **Polar Global Technology Fund (B42NVC3)**. Technology-related investments now represent 43% of the group's AUM.

The company maintains a conservatively managed balance sheet with £108 million of cash at 31 March. This financial strength allowed the company to propose paying a second interim dividend of 25p per share, taking the full-year dividend to 33p per share, equating to an attractive 6.6% yield.




**SHARES SAYS:**

**Polar Capital remains a high-quality business. Keep buying the shares.**

## CRANSWICK
(CWK) £37.68

### Gain to date: 3.8%

**Original entry point:**
**Buy at £36.30** on 2 April 2020

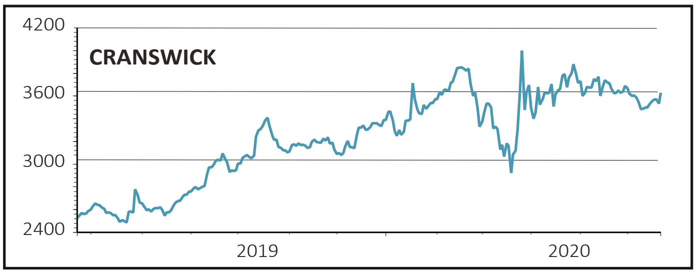
WE REMAIN POSITIVE on quality food producer **Cranswick (CWK)** following better than expected full-year results on 23 June.

It is benefiting from two major tailwinds; lockdown is driving bumper demand for food consumed at home while African swine fever has destroyed pig herds in China and has presented a major export opportunity for the company.

For the year to 28 March, total sales rose 16% to £1.7 billion, leading to better than expected pre-tax profits of £102.3 million, up 11.2% and aided by the robust UK demand we'd anticipated. Total export revenue rose 92%, with Far East exports up 122%, as African swine fever outbreak boosted volumes and prices.

With a strong balance sheet and healthy liquidity, Cranswick also increased the final dividend by 9.8% to 43.7p for a total dividend of 60.4p, reflecting 30 years of unbroken dividend growth.

'Whilst management talk of a "positive" start to the new year, with we believe strong growth coming from UK retail channels, enough uncertainty coming from Covid-19, China pork prices and Brexit remain for us to leave our prudently pitched full year 2021 forecasts unchanged for now,' cautions Shore Capital.




**SHARES SAYS:**
**Cranswick is benefiting from two significant tailwinds and given its strong balance sheet and enviable long-run dividend growth record, we remain buyers.**

## MICROSOFT
(MSFT:NDQ) $200

### Gain to date: 17.5%

**Original entry point:**
**Buy at $165,** 9 April 2020

BIG TECH STOCKS have been among the winners for investors this year, particularly in the US where they've helped push stock markets back up to pre-coronavirus levels.

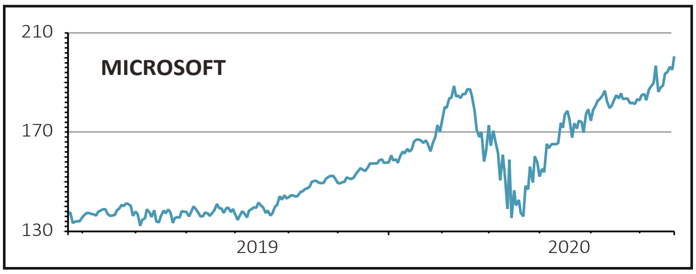
One of those winners has been Microsoft, which has gained 17.5% since we said to buy just two months ago and is now trading at a new all-time high of $200 a share.

Investors can't seem to get enough of the stock with its momentum fuelled by its ability to continue trading well throughout the current pandemic.

The company shrugged off any impact from coronavirus in its third quarter results to 31 March, published in late April, with sales up 15% as chief executive Satya Nadella said the company had seen two years' worth of digital transformation in two months.

Particularly noteworthy was the jump in revenues in its commercial cloud operations, its fastest growing division and one of the areas seen as having the most promise given its importance to digital transformation, which soared 39% year-on-year to $13.3 billion.

The company also returned $9.9 billion to shareholders in the form of share repurchases and dividends in the third quarter, an increase of 33% compared to the third quarter of its 2019 financial year.




**SHARES SAYS:**
**Microsoft looks well-placed to continue thriving in the current environment. Keep buying.**


# The Royal Mint Physical Gold ETC
# RMAU

For Professional Investors Only

## The UK's Oldest Company – The Royal Mint – Issues first Financial Product

### Owning Gold

Since 2001, the market for gold has increased by an average of 14% a year driven by new ways to invest and growing demand for gold from newly affluent middle classes in emerging markets like China and India. [1]

As a relatively scarce resource, it has long been viewed as a 'safe haven' asset and a good way for investors to protect themselves against inflation or currency movements.

These characteristics can help explain why demand for gold goes into overdrive during times of crisis, whether troubles occur in the equity markets such as CoronaVirus, or in the case of bond market crises like the credit crunch. Investors have many choices when it comes to buying gold, but each come with their own characteristics and risks:

- **Buying Physical Gold Bars or Coins:** Small bars and coins enable investors to own physical gold metal.
- **Bullion Bars:** At 400 oz, these bars are used by many large institutions as a way to own gold. London 'Good Delivery' bars are the global standard but are often too large for individual investors.
- **Gold Mining Stocks:** Investors can buy shares in gold mining companies. However, the company's share price may not track the price of gold and the investor will not own any physical metal.
- **Physical Gold ETCs:** Backed by physical gold, these investment products allow investors to track the price of gold, giving them access to the properties and security of owning physical gold without the need to arrange for storage and insurance separately.

### The Royal Mint

Founded in 886 AD by King Alfred the Great, The Royal Mint has an unbroken track record of trust and authenticity dating back over 1,100 years. As the UK's home of gold, The Royal Mint is the leading provider of bullion bars and coins and the Royal Mint's 35-acre site is home to a purpose-built precious metals storage facility, TheVault™ - one of the most secure sites in the world.

In 2020, the Royal Mint made history again with the launch of its first listed financial product – The Royal Mint Physical Gold ETC (RMAU). Backed 100% by responsibly-sourced gold, The Royal Mint Physical Gold ETC enables investors to own gold securely, without the cost and risks of storing it themselves.

### The Royal Mint Physical Gold ETC

A Gold exchange traded commodity (ETC) is a financial instrument that tracks the price of gold and trades on a stock exchange in a way similar to a share. It is an efficient way for investors to buy gold securely as they do not have to store the physical gold themselves.

Most Gold ETCs usually hold their gold in the vaults of banks in major financial centres such as London. The Royal Mint Physical Gold ETC - RMAU is unique in Europe in that the gold is held at The Royal Mint's vault near Cardiff, Wales. This provides an attractive option for investors looking to diversify their custody arrangements away from banks. As with other investments, when you trade gold ETCs, your capital is at risk. RMAU can be traded through any stockbroker.

### Responsible Gold Investing

In 2012, the London Bullion Market Association established guidelines for responsible gold sourcing covering; environmental impact, responsible supply chain, workforce safety, human and labour rights, community impact, environmental stewardship, land use and water & energy use. As each bullion bar meeting these standards can be identified by a unique serial number, some pioneering companies like The Royal Mint can now offer products that provide responsibly sourced gold on a best endeavours basis, providing a solution for responsible investors. The Royal Mint Physical Gold is 100% backed by these bars.

### Learn About Investing in Gold

To learn more about investing in gold through The Royal Mint, please visit **www.hanetf.com** or contact HANetf via **info@hanetf.com**

[1] https://www.gold.org/goldhub/research/relevance-of-gold-as-a-strategic-asset-2020-individual

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# PUBS, HOTELS AND LEISURE STOCKS:

## Should you keep your distance?

Last week saw the much-awaited reopening of 'non-essential' retailers, after 12 weeks of lockdown restrictions, with images of crowds milling around at retail parks and lengthy queues outside high-street stores.

Research group Springboard says that while consumers have started to return to shops, footfall in the first week of non-essential retail reopening in England was only half the level versus a year ago.

The focus now turns to the hospitality/leisure sector, which is reopening from 4 July. As with non-essential retail, there are considerable questions over how businesses will cope with the increased cost and inconvenience of enhanced hygiene and social distancing measures.

In this article we look at three sectors – pubs and restaurants, hotels, and 'other' hospitality and leisure stocks – and pick the firms which we think are the likely winners. We also identify one stock which we think investors would be best to avoid.

### RECORD CONTRACTION

Not to put too fine a point on it, the Government needs the leisure sector to reopen to boost consumer spending. The UK economy shrank by over 10% in the three months to April, and by a staggering 20% in April alone – the first full month of lockdown – according to the Office for National Statistics (ONS).

By **Ian Conway and Martin Gamble**


## BREAKDOWN OF GDP BY SUB-SECTORS

| Sector | Decline (%) |
|---|---|
| Accommodation and food services | -40.9 |
| Other services | -20.5 |
| Education | -18.8 |
| Transport and storage | -18.3 |
| Construction | -18.2 |
| Administrative and support activities | -15.7 |
| Wholesale, retail and motor trades | -14.5 |
| Manufacturing | -10.5 |
| Whole economy | -10.4 |

Source: Office for National Statistics, Shares. Rolling three-month growth/decline rates February to April 2020

April's fall in gross domestic product (GDP) was the biggest the UK has ever seen, more than three times larger than March and almost 10 times larger than the steepest pre-Covid-19 fall. In April the economy was around 25% smaller than in February, according to the ONS.

'Virtually all areas of the economy were hit, with pubs, education, health and car sales all giving the biggest contributions to this historic fall,' it says.

Figures from trade body UK Hospitality put April's fall in monthly turnover for the sector at 89% or £4.7 billion, which it says is almost a quarter of the loss in GDP. Over March and April combined, it believes the hospitality sector accounted for more like a third of the loss in UK GDP.

The sector employs 3.5 million people and generates a large amount of income for the Government, but industry insiders expect the number of pubs, bars and restaurants to shrink by at least 20% and potentially much more unless businesses are permitted to reopen soon.

The Government has another incentive to reopen the sector. As well as rebooting spending, the sooner businesses reopen the sooner it can start tapering the furlough scheme and other support packages which are estimated to already have cost over £20 billion.

According to data from HMRC, by the end of May accommodation and food service firms had furloughed 1.4 million jobs at a cost of £2.6 billion, not far behind retail and wholesale firms which had furloughed 1.6 million staff at a cost of £3.3 billion.

## TOO MUCH CHOICE

Before the pandemic, consumer spending on 'experiences' was firmly in an upward trend while spending on 'stuff' was on a downward path.

As well as spending on cinemas, concerts and holidays, we were eating and drinking out with increasing frequency. This was partly driven by a surge in openings of casual dining and drinking venues such as gourmet burger establishments, gin emporia and other offerings.

This wave of investment inevitably led to poor business decision-making and over-capacity, especially in the restaurant sector. With too many chains chasing too few customers, the turkeys came home to roost for brands such as Byron, Café Rouge, Carluccio's, Jamie's Italian and Prezzo.

Now, thanks to lockdown, consumer spending on non-essentials has collapsed. According to the latest Barclaycard UK Consumer Spend survey, non-essential purchases fell 48% by value in April and 37% in May. The worst affected sector was eating and drinking out, which fell by 79% in April and 70% in May.

In contrast, spending on food and drink at greengrocers and off licences rose 42% last month, even more than the 25% rise in supermarket spending and second only to spending on digital content and subscriptions.

## BREAKDOWN OF SPENDING BY SUB-SECTORS IN MAY 2020

| Sector | Growth/decline % |
|---|---|
| Digital content & subscriptions | 48.9 |
| Groceries | 26.3 |
| Essential spending | 0.9 |
| Total spending | -26.7 |
| Non-essential spending | -36.9 |
| Clothing | -42.4 |
| Fuel spending | -49.7 |
| Eating & drinking | -70.3 |
| Entertainment | -85.5 |
| Hotels & resorts | -89.8 |

Source: Barclaycard UK Consumer Spend survey, Shares

## CHANGING TASTES

The big unknown is whether customers will want to visit pubs and restaurants, stay in hotels, or go to the cinema or bowling when the UK's coronavirus 'R' or reproduction rate has tipped back over one in some regions and the death toll – the second-highest in the world after the US – continues to rise.

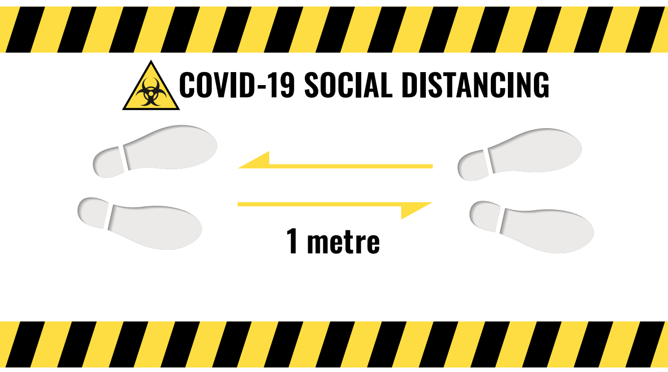
In a recent survey of shoppers by retail consultant Springboard, more than 30% of people said they were 'nervous' about shopping again compared to just 14% who were 'excited'.

In the US, where the hospitality sector has been open for some time, 30% of people surveyed said they had been out to eat once in the last fortnight compared with 80% who would normally visit a bar or restaurant for a meal at least once every two weeks pre-Covid. The main reason for not going out was 'not feeling safe'.

For many of us, the idea of mixing with people outside of our own close circle in an enclosed space like a pub, restaurant or cinema for an extended period may be a step too far given the pandemic is still raging.

In the same way that we have become used to shopping from home, we have got used to cooking at home and saving money, so while we may go to a pub or a restaurant for a 'treat', or go to the cinema or bowling, we probably won't go as often as we did and we make the conscious decision not spend as much as would have previously.

In the short-term, getting hospitality/leisure staff back from furlough is also going to be a big effort as many individuals may not feel comfortable returning to work unless they are happy it is going to be a safe environment.




## ONE METRE OR TWO?

For many in the hospitality business, survival comes down to the two-metre social distancing rule.

The UK's Special Advisory Group for Emergencies recommends that people keep a minimum distance of two metres away from each other to halt the spread of coronavirus.

However, the World Health Organisation recommends a distance of 'at least one metre', advice which many countries including Denmark, France, Germany and the Netherlands have taken as their official policy.

As far as the hospitality sector is concerned, the general wisdom repeated by people such as Luke Johnson, founder of Pizza Express, and others, is that if customers have to distance by two metres more than two thirds of bars and restaurants will have to close, whereas at one metre more than two thirds stand a chance of surviving.

The UK Government says the 2 metre rule will be relaxed to '1 metre plus' from 4 July.

## WINING AND DINING

While high-end restaurants and bars may still attract those for whom money is no object, mid-priced casual-dining venues and food-led pubs will have to be more competitive on price if they are going to attract customers.

With 9 million people furloughed in total, and the number of job centre claimants reaching 2.8 million since the start of lockdown – an increase of 126%, the most in 100 years – value for money will be key when it comes to going out.

The problem then becomes one of scale. If food-led pubs, bars and restaurants have to lower their prices, how do they get enough customers in to cover their costs, which are no longer being met by the Government once they reopen and which will have risen significantly due to enhanced hygiene regimes?

## HOTELS AND MOTELS

The hotel industry may be on a better footing than pubs, bars and restaurants as it is much easier to separate guests from each other and from staff.

For example, adding a dining table and chairs to each room means that guests can order room service, with hotel staff leaving meals and drinks outside the door much as an Uber or Deliveroo driver does now.

Also, there isn't the need to repeatedly clean down surfaces as there is in pubs or restaurants, and guests can check out by simply leaving their keys in a designated place and receiving their bill via email.

The sector also has the benefit of a unique tailwind in that, with the Government enforcing a two week quarantine on anyone re-entering the country after a holiday abroad, more people are likely to choose to travel within the UK and take a 'staycation'.

## SCENARIO PLANNING

### HOSPITALITY/LEISURE FIRMS: RAISING MONEY THIS YEAR

| Name | Equity Raised (£m) | Debt Raised (£m) |
|---|---|---|
| Cineworld | n/a | 289 |
| City Pub | 22 | n/a |
| Fuller Smith & Turner | n/a | 100 |
| Hollywood Bowl | 10.9 | n/a |
| InterContinental Hotels | n/a | 600 |
| Loungers | 8.3 | n/a |
| Marston's | n/a | 70 |
| Restaurant Group | 57 | n/a |
| Revolution Bars | 15 | 16.5 |
| The Gym Group | 41.3 | n/a |
| Wetherspoon (JD) | 141 | n/a |
| Whitbread | 1,149 | n/a |
| Young's & Co | n/a | 20 |
| Total | 1444.5 | 949.5 |

Source: Company announcements, Shares

Many hospitality firms have taken the view that a worst-case scenario would see their businesses operating below maximum capacity for at least a year. They have taken action to reduce monthly cash burn and increase available liquidity to meet that challenge.

The British Beer & Pub Association says pub and brewery businesses are burning through £100 million every month in cash while they remain closed.

While many hope to reopen in July, even optimists such as **JD Wetherspoon's (JDW)** chairman Tim Martin admit the move back to normality will likely be gradual.

Survival is paramount, but the stronger firms also have one eye on making sure they exit lockdown with enough firepower to take advantage of what is likely to be a hollowed-out hospitality sector.

In total, the companies in the table have issued around £1.4 billion worth of new shares while debt facilities have increased by roughly £950 million.

Companies with significant property assets such as **Young's (YNGA:AIM)** and **Fuller, Smith & Turner (FSTA)** have been able to extend their existing banking facilities which are secured on their assets.

Pub and brewing group **Marston's (MARS)** found a more creative way of raising cash, merging its brewing assets into a joint venture with Carlsberg's UK division in exchange for £273 million in cash and a 40% stake in the new company, Carlsberg Marston's Brewing.

Surprisingly, given its highly geared balance sheet, cinema group **Cineworld (CINE)** didn't try to raise fresh equity. Instead it raised $360 million of additional debt while its lenders waived leverage covenant testing for June 2020 and relaxed the terms of the December test to an eye-popping 9.5 times net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) from 5.5 times.

Other firms have tapped shareholders for cash, with some needing to offer big discounts to attract funds while others were able to sell new shares at a premium.

**Revolution Bars (RBG)** had to offer shares at a 34% discount to raise around £15 million, while all-day bar restaurant group **Loungers (LGRS:AIM)** asked shareholders for £8.3 million and was able to raise the cash at a 16% premium.

## WINNERS & LOSERS

*Shares* has selected four hospitality/leisure stocks which we think are well placed to survive, if not thrive, once lockdown measures are relaxed.

Our selections are based on the companies' financial strength, their ability to manage social distancing along with the increased costs of enhanced hygiene requirements, and market position.

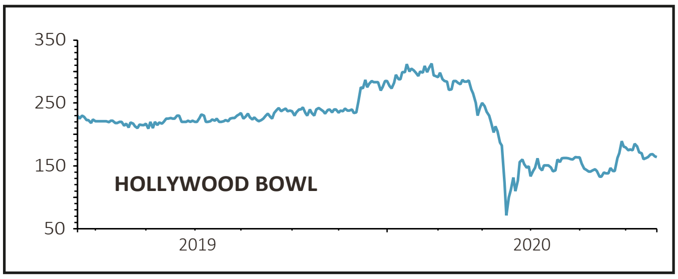
We have also identified one stock which we think investors should avoid for the time being given its high level of financial and operational gearing and the challenges facing its business.

# FOUR STOCKS TO BUY

BUY

BUY

## HOLLYWOOD BOWL (BOWL)




**PRICE: 165P – MARKET CAP: £265 MILLION**

We believe for families seeking a value for money experience in a relatively safe environment, tenpin bowling operator **Hollywood Bowl (BOWL)** will continue to be a popular destination.

The company's large sites, typically over 28,000 square feet, mean it is relatively easy for it to operate profitably while respecting social distancing measures.

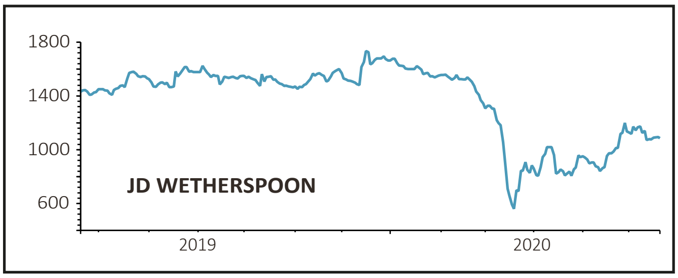
Sites have been reconfigured with alternate lane usage and more space between bar and dining tables as well as amusement machines to help customers feel that they are in a safe environment.

The food and drink menus have been reduced to simplify the delivery of the food service and protect customers and staff.

Finally, the company believes it has enough liquidity to operate with only 20% of normal revenues for the next year.

Disappointingly the Government said bowling alleys wouldn't reopen on 4 July, meaning Hollywood Bowl will lag pubs and hotels with a revival in earnings. However, we do believe it won't be long before it does get the green light to open its doors again.

## JD WETHERSPOON (JDW) BUY




**PRICE: £10.88 – MARKET CAP: £1.3 BILLION**

We think **JD Wetherspoon (JDW)** will be another winner post-pandemic as it has several advantages over other pub companies.

First, its well-understood value for money proposition should be attractive to cash-strapped drinkers and diners looking to treat themselves.

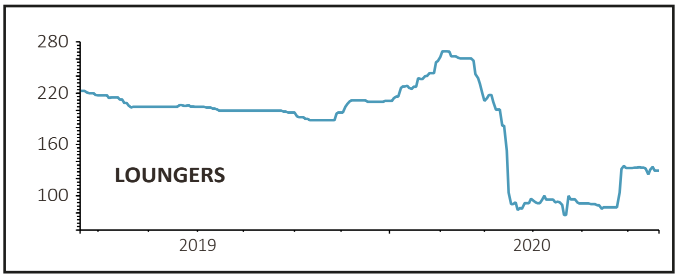
Also, it operates from large venues meaning it can serve more customers while operating within social distancing rules.

Many of its venues have access to a beer garden which will not only allow it to operate at higher capacity but also increase the perception of safety as the likelihood of virus transmission is lower in outdoor spaces.

Its use of technology could also be a positive factor with customers using an app on their phone to order food and drink from their tables and away from the bar.

Finally, even if business remains slower than usual on reopening, the company believes it can remain cash flow neutral even with a 50% fall in like-for-like revenues.

## LOUNGERS (LGRS: AIM) BUY




**PRICE: 130P – MARKET CAP: £133 MILLION**

Hybrid café/bar operator **Loungers (LGRS:AIM)** has a unique business model which gives it several advantages.

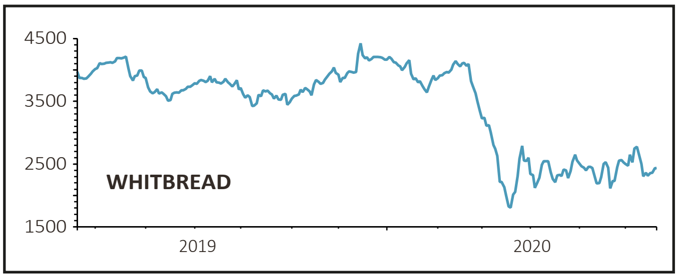
Unlike bars and restaurants where customers tend to conjugate at set times of the day, Loungers' traffic is spread more evenly throughout the day.

With more people able to work from home, the brand's strong 'community' identity is a favourable factor when customers are looking for somewhere to visit.

Loungers has been very active across social media, engaging with its loyal customer base. In a company survey only 2% of 6,000 respondents said they wouldn't feel comfortable resuming their normal visits, an encouraging sign for demand after reopening.

Layouts have been revised and surplus furniture stored to accommodate social distancing. Should the two-metre rule remain in place, management has identified a handful of sites which would have to remain closed.

## WHITBREAD (WTB)




**PRICE: £24.38 – MARKET CAP: £4.8 BILLION**

As the UK's largest hotel operator, with over 1,200 Premier Inns serving more than 5 million customers a month pre-Covid, **Whitbread (WTB)** is in a prime position to benefit from the easing of lockdown restrictions.

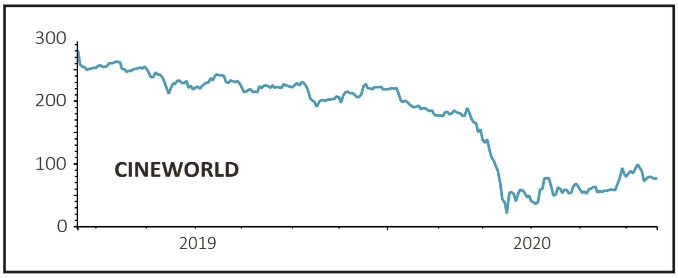
Its trusted value proposition and the quality of the offering – its hotels have the same standards and décor from Land's End to John O'Groats – are strong drivers when people are choosing where to stay.

Strict social distancing and enhanced hygiene standards have been rigorously employed throughout the estate, and the firm has 'done the right thing' during the crisis by keeping 39 of its hotels near hospitals open for use by NHS staff and other frontline key workers.

The firm recently raised £1bn of equity financing putting it in an extremely strong position to continue investing in the business as we come out of the crisis.

# ONE TO AVOID

## CINEWORLD (CINE)




**PRICE: 76.9P – MARKET CAP: £1.1 BILLION**

Cineworld intends to reopen in the UK on 10 July having updated its booking system and schedules in order to limit queues and avoid crowds in the lobbies, while enhanced sanitation measures have been implemented.

However, the configuration of cinemas and theatre halls presents significant problems for adhering to social distancing measures, and we question whether people will feel comfortable sitting indoors close to strangers for hours at a time.

Consumers' shift to streaming content during lockdown may have permanently altered their preferences for watching films, while pressure is also coming from the supply side with Universal Studios having streamed new films directly to homes.

Furthermore, cinema operators like Cineworld face a big problem in that so many potential blockbuster films have had their release delayed until late 2020 or pushed back to summer 2021. That could leave cinemas reliant on old titles to get people through the doors this year.

In normal times, the success of a mainstream cinema chain is heavily dependent on the film slate and there is nothing Cineworld can do to overcome the current dearth of new releases for the coming months.

Cineworld's monthly cash burn during lockdown has been reduced to £1.2 million. Pulling out of the Cineplex acquisition may give it a handful of extra months' liquidity according to one broker, but the firm's heavily geared balance sheet remains a major worry. This is definitely the wrong time to be owning its shares.

AVOID

# VALUATION IS KEY: INVESTMENT TRUST OUTLOOK

**James Goldstone**
**UK Equities Fund Manager**
**Invesco**

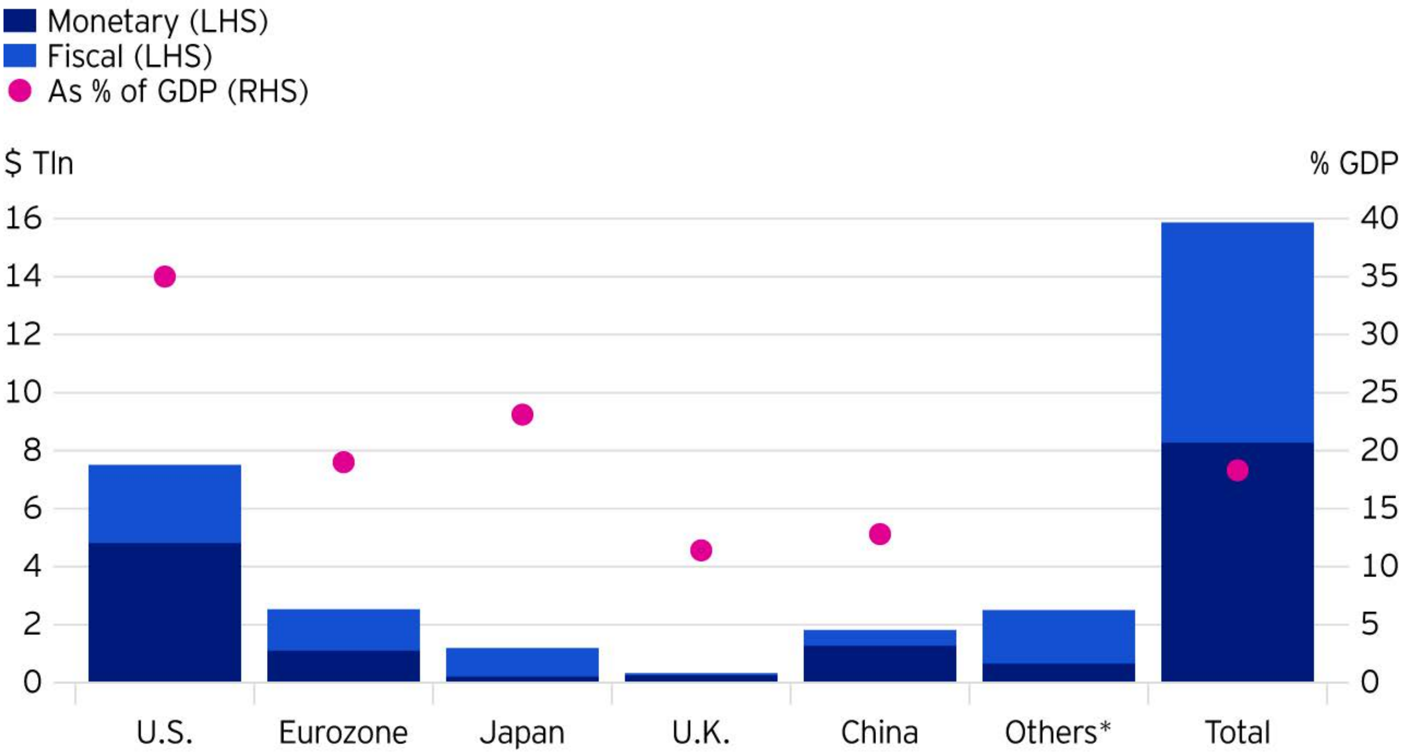
**As the scale of the Covid-19 pandemic unfolds, James Goldstone explains his investment approach, what it means for markets, the companies he owns in his investment trusts, and how they are positioned for what may lie ahead.**

We had witnessed a torrid few years of Brexit negotiations ending with the general election delivering a political majority in 2019 and a date for the transition period written into law. With the prospect of a more stable situation in Westminster and a marked shift in 'soft' economic data (based mostly on sentiment surveys), there had been clear grounds for greater optimism in the UK equity market. However, Covid-19 has delivered the market shock that no one could have foreseen, and this downturn is likely to be the worst in 100 years.

The scale and the speed of economic decline is already unprecedented. The UK economy shrank by a record 5.8% in March as the lockdown to contain the spread of the coronavirus pandemic took its toll. Estimates of Q2 GDP range from -15 to -40%, but rather than focus on the depth of the downturn this year, I find myself asking if next year could see the sharp resumption of economic growth that consensus forecasts suggest.

The fiscal and monetary response has been hugely decisive and has represented an intervention by the authorities on a historic scale ($16 trillion, or 40% of global GDP, as at 12 April, and now nearer $20 trillion, see Figure 1). In my view, this could encourage the stabilisation of economic activity in the second half of 2020 and the resumption of economic growth in 2021.

**FIGURE 1. THE AMOUNT OF GLOBAL STIMULUS HAS BEEN BREATH-TAKING AND WE BELIEVE THERE IS LIKELY MORE TO COME**




Source: Cornerstone Macro as at 12 April 2020

This outlook for the economy, however, has delivered chaos for financial markets. In terms of investment styles, prior to the pandemic, Value investing (buying stocks that appear to be trading for less than their intrinsic value) had already been under an enormous amount of pressure. It had underperformed Growth (stocks which are showing signs of above-average growth) on a rolling 10-year basis - the longest period of Value underperforming in a 100-year period. The impact of the virus and the lockdown has made this juxtaposition even more pronounced. It's clearly been a difficult period for portfolios anchored in value, as well as a headwind for the UK equity market as a whole.

**How I've been evolving Keystone Investment Trust plc and Invesco Perpetual Select Trust plc (UK Equity Share Portfolio) in reaction to the unfolding pandemic**

There are five themes within my investment trusts and together, UK Domestic Value and International Value account for 65%, which means the portfolios are anchored in Value. Gold names account for around 15%, with UK Mid-Cap Growth and Special Situations making up the remainder (as at 6 May 2020).

In recent weeks I have been repositioning my investment trusts in order to mitigate risk. As such, I have sought to create a 50/50 balance between 'defensiveness' and exposure to risk – though I acknowledge that they are very subjective definitions.

There is risk in both directions, clearly downside risk if this lockdown persists and if the economic rebound takes longer than anticipated. There is upside risk too in terms of antibody tests and the hope of a vaccine.

I believe it's important that my investment trusts are balanced so as to not be unduly affected by one outcome or the other.

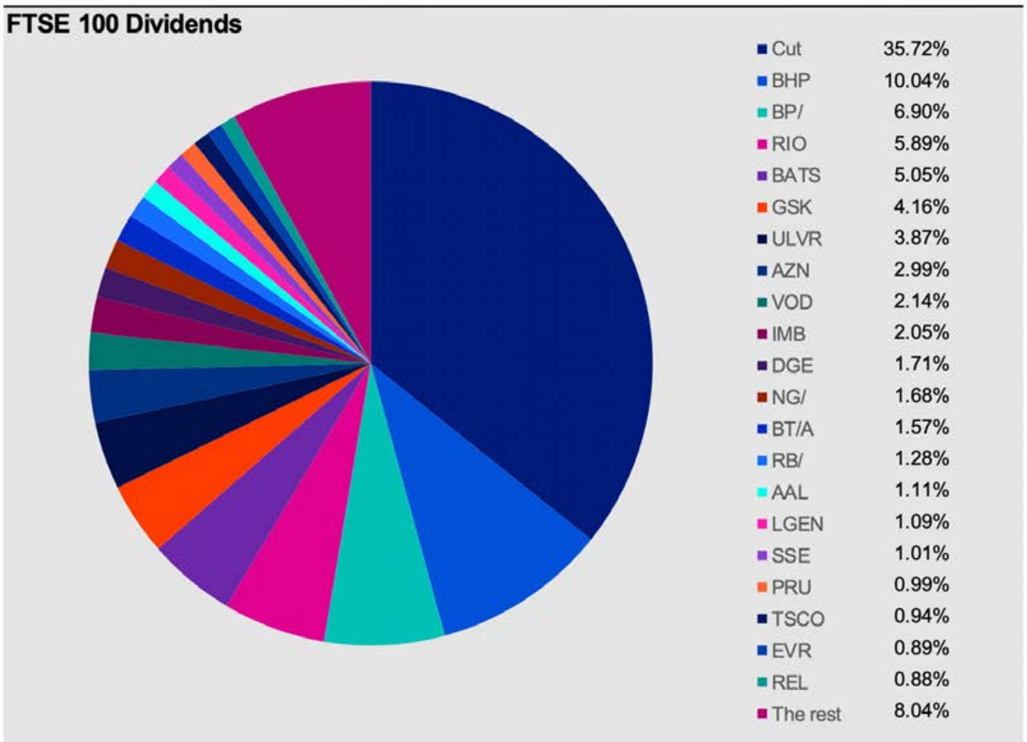
My biggest sector allocation is to Utilities, and in terms of Financials, the investment trusts have holdings in Barclays and RBS, though they are underweight relative to the FTSE All-Share index, and with a modest exposure to insurance companies. My Basic Materials exposure is a large overweight position relative to the FTSE All-Share index and is almost entirely weighted in four North American gold mining companies.

**I have two reasons for holding the exposure to gold miners:**

1. The historical inverse correlation between the gold price and equities. In times of crisis, equities tend to fall, and gold goes up. So, for general diversification purposes this has felt very appropriate to me and it has been borne out in recent weeks. Gold mining companies are geared to the gold price so their shares have performed very strongly.
2. Concern over levels of government indebtedness.

I've also been thinking about the implications for income. There's no income mandate on either investment trust but since I've been running them (Invesco Perpetual Select Trust plc UK Equity Share Portfolio since October 2016), and Keystone Investment Trust plc since April 2017), they've both had a pretty respectable level of dividend yield. As companies look to shore up their balance sheets, we've already started to see them reduce dividend payouts (see Figure 2, which shows the impact on the FTSE 100 taking last year's dividend and expressing those as a yield divided by the share prices on 30 April 2020). Royal Dutch Shell, for example, announced its decision to cut its dividend by two thirds (the first time it's cut its dividend since the second world war).

**FIGURE 2. WHAT WOULD THE FTSE 100 YIELD BE, BASED ON LAST YEAR'S DIVIDENDS, ADJUSTING FOR DIVIDEND CUTS ANNOUNCED IN 2020 TO DATE?**




| | |
|---|---|
| Historical Yield: | 5.52% |
| Implied Current Yield*: | 3.55% |

Source: Bloomberg as at 30 April 2020. *Implied Current Yield is subject to change should further dividend cuts or suspensions be announced

**What lies ahead?**

I believe that the combined fiscal and monetary package means that we are at a major turning point and that it has the potential to fundamentally change the attractiveness of equities versus corporate bonds. Within equities, the biggest fiscal and monetary stimulus package in history also has the scope to change the attractiveness of certain investment styles. If it generates inflation, that inflation is expected to be a rising tide that lifts all boats and it could ultimately be very positive for Value investing versus Growth.

Invesco


**Investment risks**

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

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.

**Keystone Investment Trust and Invesco Perpetual Select Trust (UK Equity Share Portfolio)**

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

The product invests in smaller companies which may result in a higher level of risk than a product that invests in larger companies. Securities of smaller companies may be subject to abrupt price movements and may be less liquid, which may mean they are not easy to buy or sell.

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

As a result of COVID-19, markets have seen a noticeable increase in volatility as well as, in some cases, lower liquidity levels; this may continue and may increase these risks in the future. In addition, some companies are suspending, lowering or postponing their dividend payments, which may affect the income received by the product during this period and in the future.

**Invesco Perpetual Select Trust (UK Equity Share Portfolio)**

The Directors intend that each portfolio will effectively operate as if it were a stand-alone company. However, prospective investors should be aware that in the event that any of the portfolios have insufficient funds or assets to meet all of its liabilities, such a shortfall would become a liability of the other portfolios. In addition, should the investment trust incur material liabilities in the future, a significant fall in the value of the investment trust's assets as a whole may affect the investment trust's ability to pay dividends on a particular class of share portfolio, even though there are distributable profits attributable to the relevant portfolio.

**RUSS MOULD**
AJ Bell Investment Director

Insightful commentary on market issues

# US equities may need to prove their independence from the Fed

Pay close attention to a well-known transport index, US small caps and the yield curve

America's S&P 500 stock market index is down just 5% so far in 2020 and it is up 5% compared to its level of a year ago. Given everything that the world continues to throw at it – COVID-19, a deep economic downturn, social unrest, ongoing trade tensions with China and apparent chaos in the White House – this seems nothing short of remarkable.

There are several possible explanations, including the powerful role played by Facebook, Alphabet, Amazon, Apple, Netflix and Microsoft, in terms of their market caps (nearly a quarter of the S&P 500 on their own) and earnings; tentative signs of recovery in economic indicators such as weekly jobless claims, retail sales and purchasing managers' indices; substantial support for the economy in the form of fiscal stimulus from Congress and equally aggressive monetary policy from the US Federal Reserve.

The latest test of technology's ability to support the US equity market will come when that sextet reports its next set of quarterly earnings in late July. The economic data will continue to roll in and further improvement is needed here, as few if any indicators are within 10% of their all-time peaks, unlike the S&P 500. Meanwhile, there is talk of a further $1 trillion spending plan by the Trump administration.

But it is a subtle shift at the Fed which may be the most important trend right now.

## CUP RUNS DRY

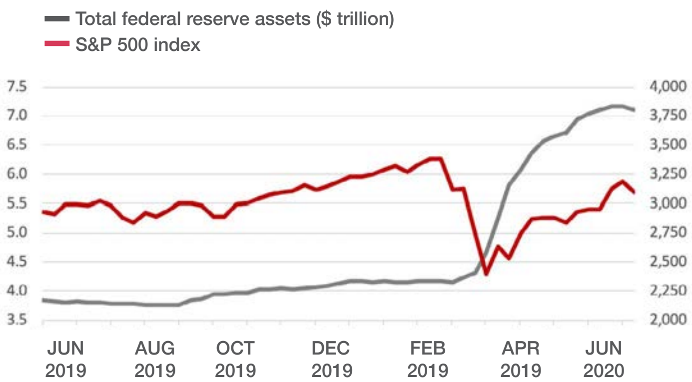
The S&P 500 index bottomed at 2,237 on the very day that Federal Reserve chair Jay Powell further expanded the size and range of quantitative easing

(QE) to include not just Treasury bonds and asset and mortgage-backed securities but corporate bonds, too.

Since March, the Fed's balance sheet has expanded by some $2.5 trillion and share prices have ripped higher.

However the rate at which the Fed's balance sheet has expanded began to slow in May and last week (to 17 June) it shrank for the first time since February. The decline was only small – some $74 billion – but that was a far cry from the huge weekly increases of the spring.

**FED'S TIDAL WAVE OF LIQUIDITY IS STARTING TO DRY UP**




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

RUSS MOULD
AJ Bell Investment Director

## THREE TESTS

This will be a key test for the theory that Fed liquidity is the main reason why US equities are doing so well in the face of so many challenges.

The S&P 500 looks to be pausing for breath so, if that theory is right, it will fall to fiscal stimulus, momentum in macro data and above all corporate earnings and cash flow to take up any slack.

Investors can use three indicators as a guide to how the market is seeing the interaction between those three trends and US equity valuations.

The first is the Dow Jones Transportation index, since Dow Theory notes that the Dow Jones Industrials (and by implication the wider US stock market) cannot get far if the transport stocks are failing to fire. The transports have lagged since 23 March, 1 January and over one year, so bulls will want to see them build up fresh steam.

### DOW JONES TRANSPORT INDEX IS LAGGING THE INDUSTRIALS

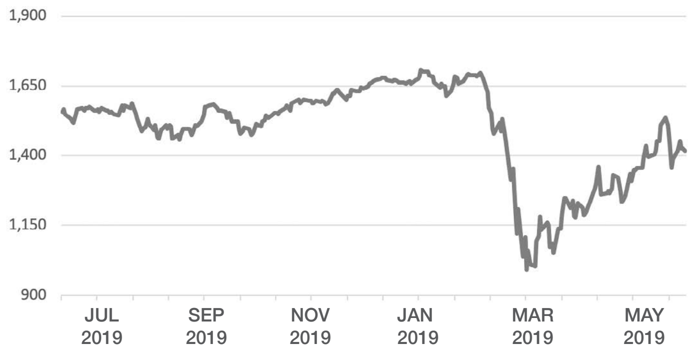

Source: Refinitiv, AJ Bell


> "If the yield curve continues to steepen, that would suggest markets are thinking about inflation in the longer term, thanks to the combination of monetary and fiscal stimulus poured into the economy by the Fed and Congress."

The second is the Russell 2000 small cap index. Small caps tend to be more closely tied to the economic fortunes of their home market and their share prices tend to be a good guide to the level of risk appetite among investors.

The Russell has outperformed the Dow Jones' mega caps over one year and its recent loss of momentum could be down to fears of a second wave of COVID-19 in the US as much as it is to the Fed stepping back.

### SMALL CAPS MAY BE PAUSING FOR BREATH AFTER A STRONG RUN




Source: Refinitiv, AJ Bell

Finally, we come to the yield curve, the difference in yield between the two-year and 10-year US Government Treasury bonds.

A steepening curve usually foretells of accelerating economic activity, and even inflation, while a flattening one is often seen as a warning of a slowdown. The yield curve has steepened, and the recent flattening may be due to fears of a second wave as much as the Fed's move to stop

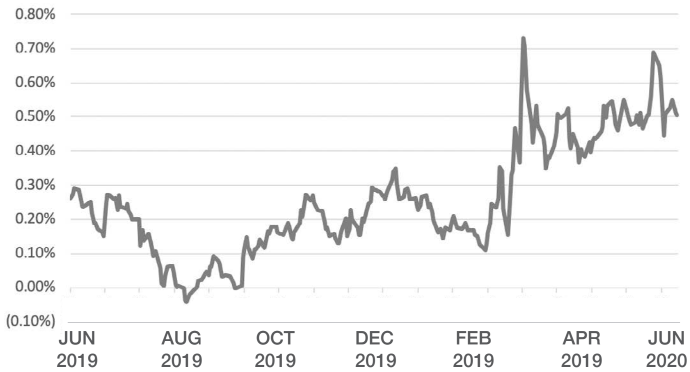
adding to QE.

If the yield curve continues to steepen, that would suggest markets are thinking about inflation in the longer term, thanks to the combination of monetary and fiscal stimulus poured into the economy by the Fed and Congress.

That could be the most telling trend of all. If history is any guide (and there are admittedly no guarantees), periods of inflation mean investors need hard assets (commodities and property) and 'value' areas like cyclicals, financials and emerging markets. By contrast, they would need to shun bonds and 'growth' stocks.

In other words, do the direct opposite of what has worked for the last decade.

**US YIELD CURVE HAS STEEPENED SINCE AUTUMN**




Source: Refinitiv, AJ Bell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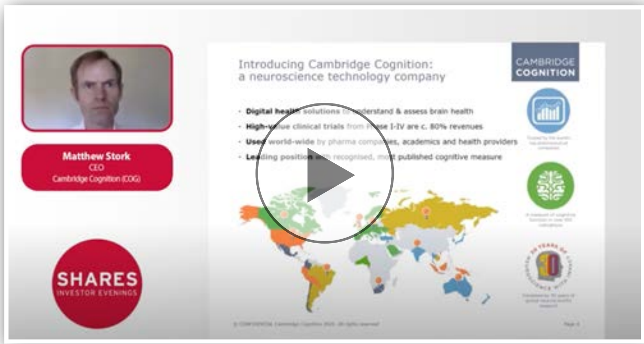
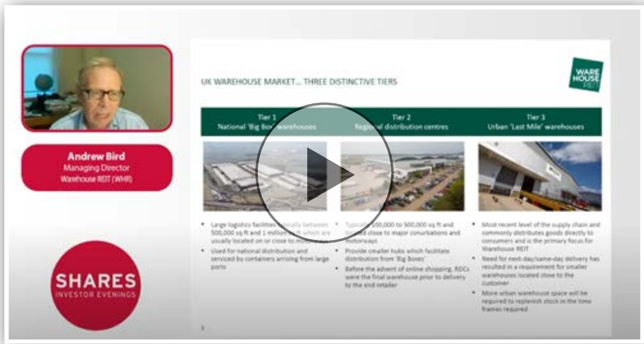


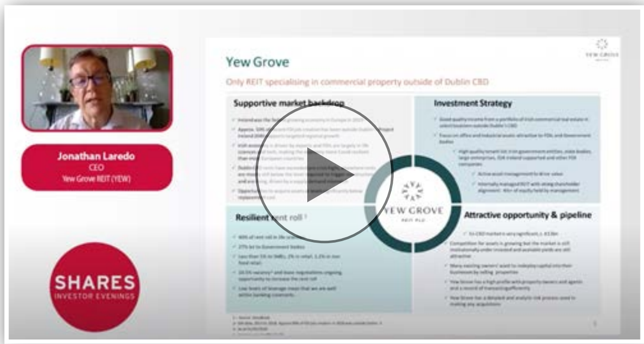

## Matthew Stork, CEO
## Cambridge Cognition (COG)

Cambridge Cognition is a neuroscience digital health company specialising in the precise measurement of clinical outcomes in neurological disorders.




## Andrew Bird, Managing Director & Peter Greenslade, Finance Director
## Warehouse REIT (WHR)

Warehouse REIT's investment objective is to provide shareholders with an attractive level of income together with the potential for income and capital growth by investing in a diversified portfolio of UK commercial property warehouse assets.




## Jonathan Laredo, CEO
## Yew Grove REIT (YEW)

Yew Grove REIT will pay a covered dividend and generate an attractive risk-adjusted total return for shareholders. Building a portfolio of Irish commercial office and industrial property assets while achieving moderate capital growth.

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# STOCKS THAT HAVE FAILED TO RECOVER FROM CORONAVIRUS

## INVESTORS TEMPTED TO CHASE PERCEIVED BARGAINS MUST UNDERSTAND THE RISKS

By **Steven Frazer** News Editor

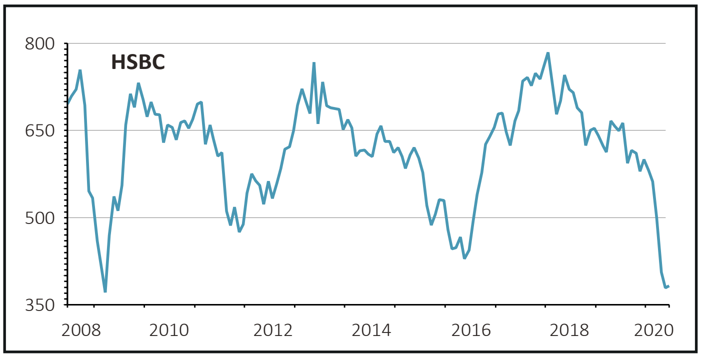
Stock markets around the world have staged a big recovery from their March lows, yet there are many individual companies that have stubbornly failed to find their feet.

Supermarket chain **Sainsbury's (SBRY)** and aircraft engines maker **Rolls-Royce (RR.)** are among a small clutch of FTSE 100 companies to have extended share price losses since 23 March, when the UK's benchmark index hit its pandemic low of 4,993.89.

These laggards are led by **HSBC (HSBA)**, the UK's largest listed bank and one of the worlds' biggest. Its stock has slumped more than 20% since March and now trades at depressed levels not seen since the global financial crisis more than a decade ago.

Combined, these three FTSE 100 companies have lost almost £21 billion in market value, albeit, most of this down to HSBC.

In all, 10% of FTSE 100 companies have returned less than 10% during the market's recovery phase, while another 23 FTSE 250 companies have failed to meet this seemingly undemanding target.



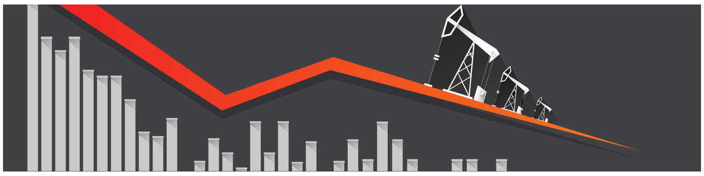

Running the data across the wider FTSE All-Share, we find that more than 9% of stocks have returned less than 10% since 23 March, and 21 companies have seen their share prices decline, including insurer **Hiscox (HSX)**, loans company **Amigo (AMGO)**, waste manage firm **Biffa (BIFF)** and fashion chain **Ted Baker (TED)**.

This is startling when we look at the recovery of the FTSE 100, and other global share indices. Since 23 March the UK benchmark has rallied roughly 25%.

That looks impressive on the face of it, but it is also the case that the UK has underperformed the majority of its global peer group.

This includes the US S&P 500 and tech heavy Nasdaq, Germany's DAX, Japan's Nikkei 225 and even the CAC 40 of France. The Europe-wide Euro Stoxx 50 is up 37% while the MSCI Global index, a measure of stocks market around the globe, has rallied more than 38%.

The culprit for UK's dawdling pace of recovery probably lies, in varying degrees, to the widely held belief that Britain has not handled the pandemic terribly well, the squeeze on dividends, the collapsing oil price hitting **BP (BP.)** and **Royal Dutch Shell (RDSB)** – two of the UK's biggest companies – particularly hard, and a litany of other factors both related and unrelated to lockdown.



At the company level, there are some very obvious reasons for poor share price performance. For example, given that Rolls-Royce makes most of its profit from maintenance and servicing of engines, having entire fleets of planes grounded for weeks on end was always going to exact a heavy toll.

At HSBC, quarterly profits have halved while provisions for credit losses could hit £11 billion this year, the bank has warned. But perhaps more importantly, increasing numbers of investors are deciding there is little reason to own bank shares without income, with dividends on hold for the foreseeable future thanks to an edict from the regulator.

With others, the rationale for poor returns since March, are not so clear. This might tempt some investors to go bargain hunting for stocks at near-term discounted prices. That strategy is well-worn and can unearth opportunities gems as long as investors do proper research. But beware, those that do not run extensive financial and operating litmus tests on potential bargains risk losing their shirts.

We have seen a bizarre, and extreme, example of fuzzy investment thinking in the US recently, where financially-distressed car rental company Hertz saw its share price jump five-fold in a week. That is despite the claims from bondholders on its beleaguered assets making the equity all but worthless.

## UK PLAYING STOCK MARKET CATCH UP

| | Since 23 March |
|---|---|
| FTSE 100 | 26.2% |
| S&P 500 | 40.5% |
| Nasdaq | 46.5% |
| Germany DAX | 41.6% |
| France CAC | 28.0% |
| Euro Stoxx 50 | 31.9% |
| Japan Nikkei 225 | 33.1% |
| Hong Kong Hang Seng | 13.6% |
| MSCI World | 39.1% |

Source: BBC, CNBC, Morningstar

| FTSE 100 | Since 23 March | Year to date |
|---|---|---|
| HSBC | -20.2% | -33.9% |
| Sainsbury | -0.5% | -13.7% |
| Rolls-Royce | -0.4% | -51.0% |
| BT | 0.4% | -38.5% |
| Standard Chartered | 1.0% | -40.3% |
| Lloyds Banking | 5.2% | -48.5% |
| Land Securities | 6.6% | -37.9% |
| Tesco | 7.0% | -11.0% |
| Royal Bank of Scotland | 7.8% | -49.3% |
| Morrisons | 8.2% | -5.1% |

| FTSE 250 | Since 23 March | Year to date |
|---|---|---|
| Hiscox | -14.4% | -41.4% |
| Biffa | -11.6% | -23.2% |
| Shaftesbury | -5.2% | -39.8% |
| Pets at Home | -4.4% | -16.4% |
| Derwent London | -1.1% | -25.9% |
| Greencore | 1.0% | -48.8% |
| Mediclinic | 1.4% | -33.2% |
| Equiniti | 1.4% | -23.4% |
| Marshalls | 1.6% | -26.7% |
| Stagecoach | 2.3% | -57.5% |

| FTSE Small Cap | Since 23 March | Year to date |
|---|---|---|
| International Personal Finance | -52.7% | -61.6% |
| DWF | -42.0% | -52.1% |
| Ted Baker | -40.5% | -76.7% |
| Amigo | -23.8% | -84.7% |
| Ricardo | -14.7% | -44.7% |
| Dignity | -13.6% | -53.3% |
| Reach | -13.3% | -39.5% |
| STV | -12.2% | -43.2% |
| Town Centre Securities | -9.9% | -54.5% |
| Empiric Student Property | -8.9% | -42.3% |

| | | |
|---|---|---|
| FTSE 100 | 26.2% | -17.1% |
| FTSE 250 | 35.0% | -20.2% |
| FTSE Small Cap | 38.2% | -14.2% |

Source: Sharepad

# How emerging markets are becoming more middle class

Despite a hit from coronavirus, people in the developing world are still expected to get richer

A big trend in emerging markets over the last decade is the growth of the middle class. According to 2019 estimates from World Data Lab around 600 million Indians are poised to join the ranks of the middle class, with the spending power of this cohort expected to triple to $10.5 trillion.

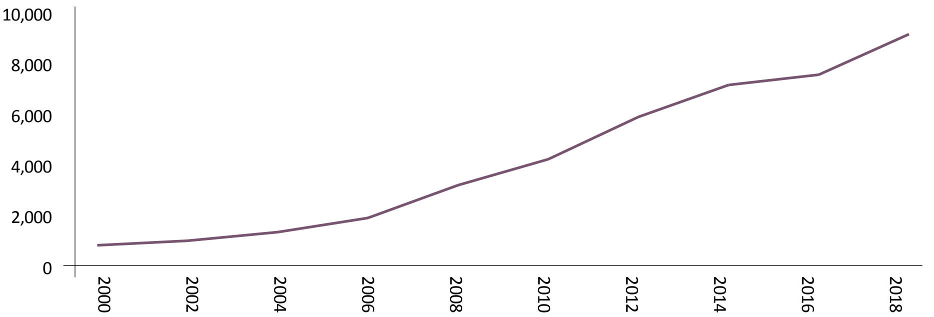
Consultancy McKinsey forecast in 2019 that the Chinese middle class could hit 550 million in three years. The inter-governmental OECD noted in a report last year that the percentage of the population earning $10 to $50 per day (2005 purchasing power parity), considered a benchmark for the middle class, rose from 21% in 2000 to 35% in 2015 in Latin America and the Caribbean.

The coronavirus crisis is likely to have an impact on the emergence of more affluent populations in developing countries. World Data Lab says the global consumer class (including the middle class and the wealthy) will be 140 million people smaller in 2020 compared with pre-Covid forecasts.

'The impact of Covid-19 essentially sets the growth trajectory of the global consumer class back an entire year,' says Homi Kharas, senior economic advisor at World Data Lab. 'Our estimates are in line with the broader IMF expectations that spending will contract sharply in 2020 but will rebound in 2021.'

Despite this setback the direction of travel is likely to remain the same. More businesses are likely to seek to tap into these markets while the countries themselves may become less reliant on exporting cheap goods to the developed world and see their economies increasingly powered by domestic consumption instead.

**GDP PER CAPITA (US$) - CHINA**




Source: The World Bank

# Emerging markets: Views from the experts

Three things the Franklin Templeton Emerging Markets Equity team are thinking about today

**1.** The COVID-19 outbreak has heightened global concerns of excessive dependency on **China's manufacturing sector** and led governments in many countries to incentivise companies to shift their manufacturing base back home. While we have already seen higher tariffs lead some companies serving the US market to move to other supply centres, we believe that a broad shift out of China is unlikely in the short term due to factors such as its high labour productivity, favourable infrastructure and sophisticated supply chains.

**2.** The bone of contention with the US Holding Foreign Companies Accountable Act, which could result in the delisting of Chinese companies from US stock exchanges, is the lack of perceived transparency over audited financial statements. Since Chinese firms are audited locally (in most cases by the 'Big Four' multinational accounting firms or their affiliates), China's policy has been to deny overseas regulators access to the audits, citing national security concerns. This has been a long-running issue between the United States and China, and negotiations have been ongoing for years. We have seen some Chinese companies list on the Hong Kong and Chinese exchanges, and we could see some of the other **US-listed Chinese companies** also list in the Hong Kong or Chinese exchanges in the future.


**3.** The gradual re-opening of economies and increased mobility as governments start to ease social distancing measures has raised expectations of a recovery in **consumerism**. While the economic impact of the virus is expected to weigh on many emerging market economies in the short term, we believe that the consumer trends we have been witnessing for some time are likely to remain relevant. For example, goods and services related to health and wellness were a fast-growing trend prior to the crisis, and we believe this theme will remain broadly intact post-crisis – perhaps even more so. Additionally, there is strong demand for goods and services such as cars, high-speed broadband, life insurance and home ownership which represent potential investment opportunities.

**TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)**

**Porfolio Managers**

**Chetan Sehgal**
Singapore

**Andrew Ness**
Edinburgh

TEMIT is the UK's largest and oldest emerging markets investment trust seeking long-term capital appreciation.


# SHATTERING PRECONCEPTIONS: 5 THINGS YOU DIDN'T KNOW ABOUT MEDICAL CANNABIS

**1. MEDICAL CANNABIS IS A NORTH AMERICAN STORY**

Not true. Medical cannabis actually very much a UK story. Indeed, British company GW Pharma has in recent years set the benchmark for the industry. Their trail-blazing drug, Epidiolex, which is today approved by both the FDA and the European Medicines Agency to treat two rare forms of childhood epilepsy (Dravet syndrome and Lennox-Gastaut syndrome), has served to validate the medical use case of cannabinoids (specifically, Cannabidiol or CBD). It has also led to a phenomenal rally in the company's share price, as it has grown revenues from USD 16 million in 2018 to over USD 300 million in 2019. This positive industry momentum has instigated a wave of innovation across the pharmaceutical value-chain. The table below illustrates.

**2. WE MUST BE YEARS AWAY FROM CANNABIS-DERIVED PHARMACEUTICALS BEING MADE AVAILABLE.**

Not at all. While the list below highlights drugs that are currently in development, there are live drugs on the market already. There is of course Epidiolex, as mentioned, but there are also others like Marinol and Syndros for anorexia, and Cesamet for neuropathic/chronic pain, all of which leverage either a plant-derived or synthetic form of cannabinoid or cannabinoids.

**3. CANNABIS IS A FAD. NOT A STRUCTURAL THEME UNDERPINNED BY STRUCTURAL TAILWINDS.**

Absolutely not. According to research from Reports and Data, the global medical cannabis market is expected to be worth USD 148.35 billion by 2026. We believe

| Company | Product | Technology | Indication | Location |
|---|---|---|---|---|
| **Arena Pharmaceuticals** | APD371 | Highly selective CB2 full agonist | Crohn's disease and inflammatory bowel diseases (IBD) | San Diego, CA |
| **Cara Therapeutics** | CR701 | CB1/CB2 agonist | Neuropathic pain | Shelton, CT |
| **Vitality Biopharma** | VB100 / VB210 | Cannaboid glycoside prodrugs | Symptons of IBD, MS, fibromy-algia and neuropathic pain | Los Angeles, CA |
| **Zynerba Pharmaceuticals** | ZYN001 / ZYN002 | THC pro-drug/CBD gel | Refractory epilepsy, Fragile X syndrome/neuropathic pain | Devon, PA |
| **Abide Therapeutics** | ABX-1431 | MGL inhibitor | Dyspepsia | San Diego, CA |
| **University of California, Irvine** | URB937 | Peripheral FAAH inhibitor | Inflammatory and acute pain | Irvine, CA |
| **Syqe/TEVA** | Vaporizer | Herbal cannabis | Chronic neuropathic pain | Tel Aviv, IS |

this figure to be conservative. Not just because we've barely scratched the surface in terms of the therapeutic potential of cannabinoids like Cannabidiol (CBD) and Tetrahydrocannabinol (THC), but also because there is so much to still understand. Recently, we've learned about lesser-known cannabinoids like Cannabigerol (CBG), Cannabinol (CBN) and Cannabichromene (CBC). To put further perspective around this, the cannabis plant contains over 100 different cannabinoids.

**4. CAN CANNABIS BE A FORCE FOR GOOD?**
Oh yes, it most certainly can. Medical cannabis offers the only viable, scalable solution to the global opioid crisis. The most common use for opioids is chronic pain, and this is also the most common use for medical cannabis. According to the U.S. Centre of Disease Control and Prevention, the total economic cost for opioid abuse is estimated at USD 78.5 billion per year. They also estimate that 130 people die from opioid abuse daily, 40% of which are as a result of prescription opioid-based drugs. Cannabis has the potential to bring positive change to these statistics.

Other ways in which cannabis can be a force for good include the industry's ability to create jobs (and that too with diversity and inclusion in mind), generate tax revenue for states (Colorado alone generated approximately USD 1 billion in cannabis-related tax revenue last year), as

well as reduce incarceration rates and prison populations.

**5. THERE IS NO WAY TO GET PURE-PLAY EXPOSURE TO THIS MARKET**
Yes, there is. Investors today have the opportunity to participate in the growth of the medical cannabis sector specifically. We specialise in building curated custom-built portfolios of companies that best embody the theme. These are companies that are poised to ride the tailwinds of that theme. Even more important perhaps is that investors have a way to align their values. Investing in medical cannabis companies offers investors a way to support the very companies that are working hard to bring new-form, cannabis-derived medication to patients who – in many cases – do not have any viable alternatives and who are currently suffering from conditions for which existing medicines simply are not effective. For this reason, we believe that investing in medical cannabis has the potential to create meaningful impact.

**The Rize Medical Cannabis and Life Sciences UCITS ETF seeks to invest in a diversified basket of global biotech/ pharmaceutical companies that are developing and providing patients with new-form medicines derived from the cannabis plant.**

# What are shares and how do you make money from them?

We go back to the basics of what share ownership really means

Many first-time investors will start by building a basic portfolio from funds. The next step is to look at shares in individual companies.

Investing in shares (also known as stocks and equities) can be both an exciting and rewarding activity. However, before you take the plunge it is worth having a good understanding of the fundamentals behind shares and share ownership.

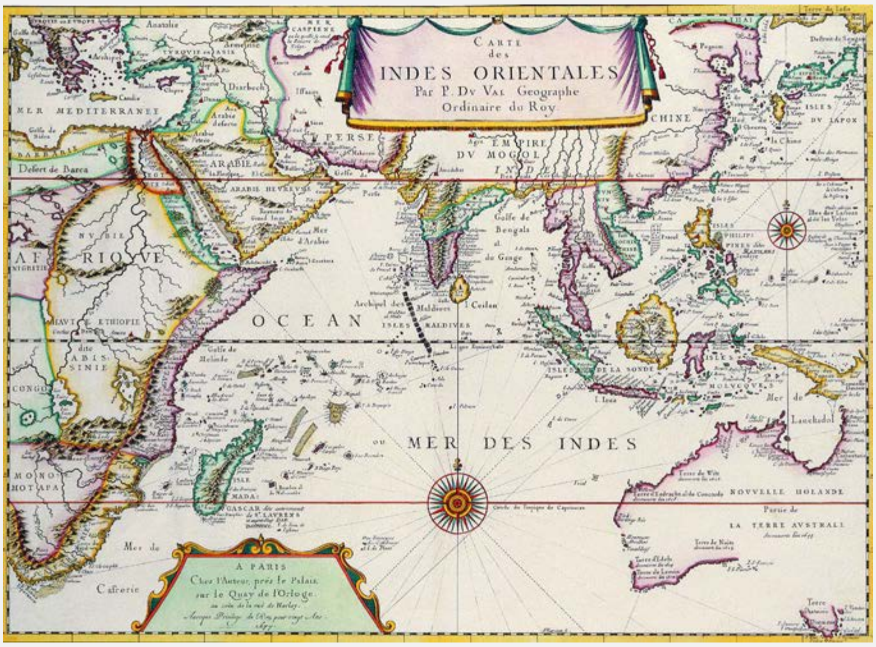
## BECOMING A PART OWNER OF A BUSINESS

It is important to define just what a share is. This might seem almost simple but when most investing is done entirely online it is easy to just think of a share as a number on a screen which goes up or down depending on movements in the market.

A share is exactly what it says, 'a share' of a business. Being a long-term investor is not akin to gambling on short-term fluctuations in a share price. When you buy shares in a company you are becoming a part-owner of that business.

As a shareholder you can make your voice heard on many decisions it takes, such as voting on acquisitions, big fundraisings and director pay.

Each share represents a percentage of the company and




## HOW DOES SHARE OWNERSHIP WORK?

A neat way of illustrating how share ownership works is to go back to its origins in London.

Trading of stocks and shares in the capital began in the 1680s with the need for money to finance two big voyages. These were the Muscovy Company's attempt to reach China via the White Sea to the north of Russia and the East India Company's push to explore India and the Far East.

Both journeys were set to be very expensive and neither could be funded privately. As a solution, independent merchants were asked to put up capital in return for a 'share' of any eventual windfall from these ventures.

Essentially a similar story is being played out in the 21st century with investors putting their money into businesses like **BT (BT.A), Tesco (TSCO)** and **HSBC (HSBA)** in order to gain access to their chosen company's future profit and cash flow.

## AN EXAMPLE OF HOW YOU MIGHT MAKE MONEY FROM SHARES

30-year old Mia works in product development for a large consumer goods company which unfortunately doesn't offer its shares for trading on a stock market. Instead it is privately owned.

She is eager to use her knowledge of the industry to invest, and so she decides to buy shares in a rival business to her employer, being health and hygiene brands specialist **Reckitt Benckiser (RB.)**.

She has £1,000 at her disposal which she invests on 1 April 2020. This buys her 16 shares at a price of £61.20, with approximately £20 left over

which covers the cost of buying the shares (£10) and the rest put aside to go towards future investment account fees.

As she becomes a shareholder before the ex-dividend date, which is the cut-off to be eligible for the next dividend, she is in line for the full year payment of 101.6p per share. For 16 shares this adds up to a dividend payment of £16.26.

By the time the dividend is paid on 28 May Reckitt shares have increased in value to £71.36. Mia's 16 shares are now worth £1,141.76 compared with £979.20 she originally paid. Her *total return* including the dividend payment of £16.26 is 18.2% (£1,158.02 minus £979.20, divided by £979.20, multiplied by 100).

you are effectively entitled to a share of the cash it generates in proportion to the number of shares you hold.

The company won't simply pay out your share of that cash on a regular basis. Instead, you stand to make money if the value of your shares increases and potentially from receiving cash in the form of dividends, which we will now explain in more detail.

### TWO TYPES OF RETURN

There are two ways of generating a return from an investment in shares. The first is the capital gain generated if the value of the shares increase, though this is only a 'paper profit' until it is crystallised by the shares being sold.

Shares typically go up (or down) based on supply and demand. If more people want to buy a share than sell it then the

**Half of UK stocks pay a dividend**

price will rise, if the reverse is true it will fall.

The other way of making money from shares is through dividends. These are typically paid twice a year but sometimes quarterly and they are funded by any cash generated by operations that a company has left over after shelling out for materials and services, paying its staff and investing in its business.

The combined contribution from capital gains and income is called the total return.

Not all companies pay dividends, but many do. According to data from SharePad, as at June 2020 around 52% of London-listed shares had paid a dividend in their previous financial year.

It is important to note that dividends are not guaranteed payments. They are paid at the discretion of the company and can be cut, suspended or cancelled altogether if management believe cash previously earmarked for dividends is better served by staying within the business or paying down debt.

In the next part of the series we will look at the wider stock market, how it works and how individual shares relate to it.

By **Tom Sieber**
Deputy Editor

# Five funds beating the market by a significant margin

We reveal outperformers in the UK small caps, Europe ex-UK, Asia ex-Japan, absolute return and strategic bond sectors

While many investment funds have recorded heavy losses this year, there have been a few outlier funds which have not only recorded a positive return when looking at the three months to 31 May, but in some cases have also outperformed their benchmarks by a decent amount.

We spoke to various managers of funds in the UK smaller companies, Europe ex-UK, Asia ex-Japan, strategic bond and absolute return sectors to see how they managed to come out on top and stay ahead of the market.

| UK SMALLER COMPANIES 1 MAR - 31 MAY | |
|---|---|
| **BEST PERFORMERS** | |
| Baillie Gifford British Smaller Companies | 6.8% |
| FP Octopus UK Micro Cap Growth | 3.9% |
| **WORST PERFORMERS** | |
| VT Teviot UK Smaller Companies | -17.4% |
| Aberforth UK Small Companies | -25.3% |
| **SECTOR AVERAGE** | -8.0% |

Source: FE Analytics

## UK SMALL CAP FUND SOARS AHEAD

UK small caps have struggled this year, with the UK Smaller Companies sector having fallen by average of 8% in the three months to 31 May, according to data by FE Analytics.

We chose to analyse this period because it encompasses the worst of the market sell-off and a good chunk of the recovery, thus showing if certain sectors have fully bounced back or still have a lot of catching up to do.

Only two funds in the sector have delivered a positive return in the period – **Baillie Gifford British Smaller Companies (0593135)**, which has returned 6.8%, and **Octopus UK Micro Cap Growth (BYQ7HP6)**, which has returned 3.9%.

Richard Power, manager of Octopus UK Micro Cap Growth, tells *Shares* the fund built up a 20% cash position going into the coronavirus crisis, which it was then able to deploy when markets became inefficient.

He estimates this move added between 6% and 7% to performance, while the fund's sector positioning has also provided a boost. 'Our sector skew has put the fund in a strong position. There are certain characteristics we look for, such as high levels of recurring revenue, which has naturally led us to sectors like tech. We've also never had much exposure generally to the consumer, which has helped.'

Some of the stocks he highlights include diagnostics firm **Novacyt (NCYT:AIM)**, which the fund bought in February at 160p and has since sold most of the shares for 420p to 500p each.

Power also highlights another diagnostics stock, **EKF Diagnostics (EKF:AIM)**, which the fund added to when it dipped as low as 18p in March and has since recovered to around the 50p mark.

While other drivers of performance include media company **Future (FTR)**, which the fund managed to buy around the 600p mark with the shares having since recovered to over £12, as well as pharma firm **Clinigen (CLIN:AIM)**, online education provider **Wey Education (WEY:AIM)** and a small holding in online competitions firm **Best of the Best (BOTB:AIM)**, whose recent success has attracted takeover interest.

## A MARKET-BEATING ASIA FUND

In Asia, one of the few funds that has come out well ahead of its benchmark is **JOHCM Asia ex-Japan Small and Mid-Cap (B6R5LS4)**, which has returned 9.2% in the three months to 31 May, compared to -2% for its MSCI Asia ex-Japan benchmark.

The fund's manager, Cho Yu Kooi, put outperformance down to being 'very overweight' Chinese software stocks, as well as owning companies which are benefitting from the 'increasing localisation' of Chinese hardware and software technologies.

Kooi explained to *Shares*: 'The US government has continued to tighten the screws on US technology exports to China. This has spurred Chinese state-owned entities and the private sector to replace existing hardware and software technologies, the majority of which have US origin, with non-US and preferably Chinese ones.

'In addition, China is speeding up the build-out of its 5G networking and data centre infrastructure which has also boosted our technology holdings.'

## THE BOND FUND OUTPERFORMER

One investment sector that has seen a real anomaly in terms of performance from a fund is strategic bonds. In the three months to 31 May, **Allianz Strategic Bond (B06T936)** has returned a whopping 18% compared to 4.2% for the next best, **Carmignac Unconstrained Global Bond (B46K5H3)** – while the average for funds in the sector has been -1.8%.

Going into the coronavirus pandemic, Allianz portfolio manager Mike Riddell tells *Shares* he moved the fund's positioning in February to as defensive as its mandate allowed, particularly in the credit and foreign exchange markets, 'where we saw the largest mispricing and the potential for gains if our very negative macroeconomic outlook materialised.'

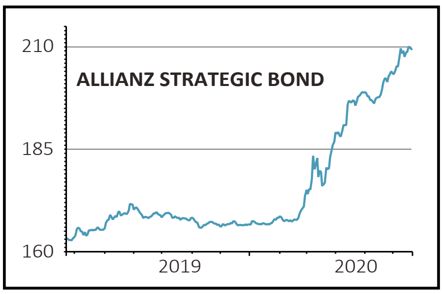
He explains: 'Valuations eventually moved very sharply in March. We first closed out our defensive positions, and then following the announcements of enormous QE programmes, we decided to position the fund aggressively "risk on". We expected a rapid bounce-back in economic activity in the second half of 2020 given the huge stimulus measures, and also that following the slump in oil prices, the world had near free energy.

'The "risk on" positions were specifically via long positions in

### ASIA EX JAPAN 1 MAR - 31 MAY

| | |
|---|---|
| **BEST PERFORMERS** | |
| Baillie Gifford Pacific | 10.3% |
| JOHCM Asia ex Japan Small and Mid-Cap | 9.2% |
| **WORST PERFORMERS** | |
| New Capital Asia Pacific Equity Income | -8.7% |
| Barclays GlobalAccess Asia Pacific (ex-Japan) Hedged | -8.9% |
| **SECTOR AVERAGE** | -2.1% |

Source: FE Analytics




### STRATEGIC BONDS 1 MAR - 31 MAY

| | |
|---|---|
| **BEST PERFORMERS** | |
| Allianz Strategic Bond | 18.0% |
| FP Carmignac Unconstrained Global Bond | 4.2% |
| **WORST PERFORMERS** | |
| Sanlam GBP Hybrid Capital Bond | -6.0% |
| VT Garraway Diversified Income | -17.9% |
| **SECTOR AVERAGE** | -1.8% |

Source: FE Analytics

credit, given this is where we saw the most distress.'

Riddell says he took the portfolio from 'outright' short credit in February, to having about 65% in investment grade corporate bonds and 10% in Eurozone high yield bonds. This helped the fund perform well as markets bounced back in the second quarter.

He adds: 'We also expect central bank purchases to prove supportive for inflation expectations, and amid the market pricing of deflation for 2021, we added long positions in US inflation and more recently euro inflation, where this is partly offset by short UK inflation positions given the UK market appears exceptionally expensive.'

### FINDING SUCCESS WITH EUROPEAN STOCKS

If you had a tracker fund or exchange-traded fund simply mirroring the European equities market during the sell-off, you'd have been hit hard. That's according to Stephen Paice, manager of **Baillie Gifford European (6058258)**, which

**EUROPE EX-UK**
**1 MAR - 31 MAY**

| BEST PERFORMERS | |
|---|---|
| Baillie Gifford European | 20.2% |
| LF Miton European Opportunities | 16.1% |
| **WORST PERFORMERS** | |
| Schroder European Recovery | 10.2% |
| Artemis European Growth | 9.7% |
| **SECTOR AVERAGE** | -0.2% |

Source: FE Analytics

Fashion products seller Zalando features in Baillie Gifford European's portfolio

returned 20.2% in the three months to 31 May, while the MSCI Europe ex-UK index fell 0.2% over the same period.

While Paice is at pains to point out that three months is nothing in the world of investing and investors should really have a five to 10 year minimum horizon, he revealed the Baillie Gifford fund's weighting towards mid-cap tech stocks like German e-commerce platform Zalando and IT firm Bechtle, as well as Swedish online broker Avanza, have served the fund well in recent months.

The three stocks, all of which are in the fund's top five holdings and make up 13.6% of the portfolio, took a hit in the sell-off but have since bounced back to go above pre-coronavirus levels.

Paice says: 'We're exposed to attractive, changing trends in the European economy, which are positioned for the transition to online and are primed to take market share from weaker competitors.

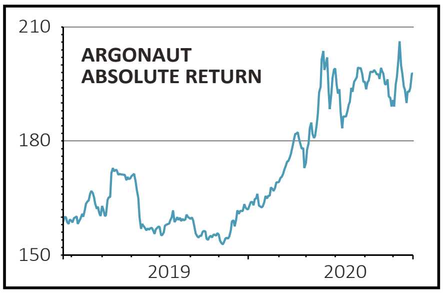
'A lot of these companies in Europe tend to be mid-caps. If you look at the index, at the top end it's full of banks, financial companies, industrials, a lot of companies that are stuck in the past.'

### HITTING THE JACKPOT

As the coronavirus crisis started, many investors turned to absolute return funds, either to diversify their portfolio or to introduce a fund focused on more stable returns, with the aim of getting their investments recession-proof.

Returns in the sector have been anything but absolute in the three months to the end of May, with the average absolute return fund delivering -1.5% and the worst in the sector, **iFunds Absolute Return Orange (B3Z19M3)**, returning -11.3%.

The one fund which has soared above the rest is **Argonaut Absolute Return (B7FT1K7)**, which has returned 9.4% during the three-month period and year-to-date has rocketed 19.8%.




The fund tries to maintain zero correlation to the wider market and employs a long/short strategy in a variety of asset classes.

In the fund's May factsheet, manager Barry Norris said: 'Since the March market bottom, we have continued to take profits from previously successful shorts, selectively add cyclicality to the long book and increase our net exposure.'

By **Yoosof Farah**
Reporter

# Will I trigger the MPAA if I buy an annuity?

AJ Bell pensions expert Tom Selby considers the rules for the money purchase annual allowance

*Will I trigger the MPAA if I buy an annuity? And are there any other ways I can avoid it?*
***Carl***

**Tom Selby**
AJ Bell
Senior Analyst says:

The money purchase annual allowance (MPAA) is triggered when you 'flexibly access' your pension from age 55, reducing the amount you can save in a pension each year from £40,000 to £4,000 (inclusive of tax relief).

The term 'flexibly access' covers two main types of pension withdrawal:

- Making a taxable withdrawal via 'flexi-access' drawdown;
- Taking an ad-hoc lump sum from your pension, where 25% is tax-free and the rest taxed in the same way as income (sometimes referred to as a 'UFPLS' withdrawal).

Note that if you just take your 25% tax-free cash when entering drawdown but leave the taxable portion of the fund untouched, you will not trigger the MPAA. The same is true if you buy a lifetime annuity – a product paying a guaranteed income for life – from an insurance company.

However, not all annuities are the same and some will trigger the MPAA. The main one to note is an 'investment-linked' annuity, where the income you receive is not guaranteed.

While flexibly accessing your pension will see your annual allowance reduced by the MPAA, there are 'small pots' rules which allow you to make taxable withdrawals while retaining your full annual allowance.

A small pot in this case is defined as a pension worth £10,000 or less. In order to class as a small pots withdrawal (and thus avoid triggering the MPAA), you must extinguish the entire fund you are accessing.

You can make unlimited small pots withdrawals from any occupational defined contribution (DC) pension plans worth £10,000 or less. These are simply any pensions you may have which were set up by an employer.

For non-occupational DC plans such as SIPPs, you can make a maximum of three small pots withdrawals.

Finally, if you entered 'capped drawdown' before 6 April 2015 and stay within your income limits you will not trigger the MPAA.

Savers in capped drawdown have their fund invested and take withdrawals from their fund in the same way as regular drawdown. However, the key difference is that withdrawals are capped at 150% of the equivalent Government Actuary's Department (GAD) annuity rate.

Although this might sound complicated, it just means you can withdraw up to 150% of the income a healthy person at your age could receive from a guaranteed annuity. If you breach this limit, then you will have been deemed to have flexibly accessed your pension and so will trigger the MPAA.

## 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.

# How much does it cost to buy overseas shares?

You need to consider foreign exchange fees and tax charges on dividends

As the world has become more international more investors want to buy shares listed on overseas stock markets, particularly in the US.

The likes of Amazon, Google, Apple and Facebook are all listed in the US, as are emerging innovative companies such as Uber, Tesla and Spotify.

However, while it's much easier to buy overseas-listed shares today than it was even 10 years ago, UK investors wanting to access them may find they face much higher charges than buying London-listed stocks. You'll need to navigate currency charges as well as dealing costs.


## WHAT TO CONSIDER

You first need to consider the currency exchange. Your UK investment account will be held in pounds but in order to buy US shares, in this example, you'd need to convert the money into dollars. Then each time you sell those shares you'd need to convert your money back into pounds.

There's a cost each time you do this. This cost will vary on each investment platform, so if you plan to buy lots of overseas shares you should factor this in when you select your ISA, SIPP (self-invested personal pension) or dealing account provider.

Some platforms reduce the fee based on investing more, such as paying 1% on the first £10,000 invested but only 0.75% on the next £10,000.

For example, if you were going to invest £10,000 in American-listed stock Apple and the foreign exchange fee was 1%, you'd pay £100 just to convert that money from pounds to dollars. On top of that you'd pay your usual dealing charge, which also varies by platform. If we assume it's £10 then in total you'd incur £110 worth of charges to buy the shares.

You'll also pay this money to sell. You need to effectively double this charge – although you'd hope the investment would have risen in value which means your foreign exchange fee will also rise as it's a percentage cost in our example.

For ease, if we assume the investment remains flat that means you'd be paying £220 just to buy and sell the stock. On a £10,000 investment that represents 2.2% of the initial investment, meaning your Apple stock needs to rise by 2.2% before you've broken even on the dealing and foreign exchange fees.

## HIGHER CHARGES

Some providers charge more than this amount and will charge 1.5% on the foreign exchange. For the above example that would bump your costs of buying up to £150, plus the dealing cost.

If we still assume £10 dealing charges that would mean a £320 cost of just buying and selling the stock – meaning your investment in the Apple example would need to rise by 3.2% for you to break even on those costs.

And remember, this is before your general investment account costs, such as your platform or 'custody' charge.

In addition, if you get any dividends paid by the stock during the time you own it, this money would need to be immediately converted back into pounds in order for it to be added to your ISA, SIPP or dealing account. Some platforms offer a reduced foreign exchange fee for this, while others charge the full whack. But it's a cost you still need to bear in mind.

## EXCHANGE RATES

When you're buying these overseas stocks, you're also at the mercy of the exchange rate the platform will provide you.

When we all exchange cash to go on our summer holidays, we will often shop around to go to the foreign exchange provider offering the best rate. However, there isn't this option with investment platforms as you can't exchange your money elsewhere and then transfer it into your investment account.

For example, you wouldn't be able to use an alternative online currency exchange service to convert your pounds into dollars and then move those dollars into your investment account. This means that you might get a worse exchange rate than expected and you should look at how your investment account provider calculates this figure.

## DIFFERENT CURRENCIES

Some platforms will allow you to hold certain currencies in your SIPP or dealing account, converted from sterling once you've deposited the cash into your account. This means that if you know you're going to be buying a lot of overseas stocks you could convert more money at one time and benefit from the tiered foreign exchange charges.

You could also capitalise on a dip in currency rates in your favour, and keep the money in your account until you want to use it – meaning that ultimately the stock will cost you less if exchange rates have moved in your favour during that time (although the rates could also move against you).

However, this isn't an option for ISA accounts as HMRC doesn't allow anything other than sterling to be held in them – so it's only useful if you're investing outside an ISA.


## TAX IMPLICATIONS

Another cost that you need to consider if you're investing in overseas shares in either an ISA or a dealing account is the tax implications.

If we continue the US example from above, anyone buying those shares will need to fill out a US tax form, called a W-8BEN form, which entitles you to a reduced tax rate.

However, you'll still pay 15% tax on any dividends paid out (instead of the usual 30%), which is another cost you need to factor in.

If you're buying through a SIPP then you don't need to fill out the form and you will automatically get the dividend tax free. There are similar taxes due in other countries, so make sure you check that out before you invest.

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

# What are the tax implications for ETFs compared to mutual funds?

We help with a query on the differences between types of passive product

*I am considering an ETF to track the US market and intend to hold it outside an ISA. I am a basic rate taxpayer and UK resident.*

*Also, I have been looking at passive vehicles to track index linked bonds. Are there tax implications that would lead me to me favour simple UK-based open-ended funds in preference to ETFs? I believe most of these are domiciled in Ireland, or elsewhere outside of the UK.*

*I realise you cannot give tax advice. So, a statement of the relevant facts will suffice. Thank you in anticipation.*
***Bill***

Reporter **Yoosof Farah** replies

When purchasing a regular fund or an exchange-traded fund (ETF), two levels of tax should be considered.

Firstly, think about what tax rate the fund or ETF is incurring when buying the underlying holdings. And secondly you need to ask, what tax do I pay when buying or selling my fund or ETF?

Take American shares as an example. The US charges a withholding tax on dividend payments to international investors at 30%, however both Ireland and the UK have what is known as a 'double tax treaty' with the US.

This means funds or ETFs based in Ireland or the UK only pay 15% tax on the dividends they receive.

An example would be the **Vanguard S&P 500 ETF (VUSA)**.

ETFs also exist that don't buy the actual shares themselves. Instead they enter into what is known as a swap, where they receive the return of the market without purchasing stocks.

It is a complicated agreement, and carries some extra risk, but it has the advantage of attracting no withholding tax at all.

An example of this sort of product would be: **Lyxor S&P 500 ETF (SP5C)**.

At the fund level, Irish, UK and Luxembourg funds are taxed the same for a UK-based investor, so the same rates of income tax and capital gains tax are applicable.

As for the index-linked bond question, for index-linked gilts any uplift to the principal as a result of inflation-linking is not taxable. Index-linked corporate bonds are slightly different; any profit you make from an increase in inflation when the bond matures is considered by HMRC to be income and not capital gains. Therefore you would be charged income tax on this profit.

This article is not intended as tax advice or a recommendation. It is worth talking to a suitably qualified tax adviser if you have any questions.

## 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.

**KEY**

- Main Market
- AIM
- Investment Trust
- Fund
- Overseas



# KEY ANNOUNCEMENTS OVER THE NEXT WEEK

**Full year results**

**29 June:** Advanced Oncotherapy, Equals, GB Group, Victoria Oil & Gas. **30 June:** Aseana Properties, Catenae Innovation, Civitas Social Housing, D4T4 Solutions, Solid State, SysGroup. **1 July:** Enteq Upstream, HML Holdings. **2 July:** DS Smith.

**Half year results**

**26 June:** Marston's. **30 June:** EasyJet, On The Beach.

**Trading statements**

**26 June:** Tesco. **1 July:** Sainsbury's. **2 July:** Meggitt.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THIS WEEK: 11 PAGES OF BONUS CONTENT

# SHARES SPOTLIGHT

## *Mining, oil and gas*

CALEDONIA MINING

UNION JACK OIL

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

JUNE 2020

ISSN 2632-5748

# Introduction

Welcome to *Spotlight*, a bonus report which is distributed eight times a year alongside your digital copy of *Shares*.

It provides small caps with a platform to tell their stories in their own words and this edition is dedicated to the natural resources space.

The company profiles are written by the businesses themselves rather than by *Shares* journalists.

They pay a fee to get their message across to both existing shareholders and prospective investors.

These profiles are paid-for promotions and are not independent comment. As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

Some of the firms profiled in *Spotlight* will appear at our webinars where you get to hear from management first hand.

Click here for details of upcoming events and how to register for free access.

Previous issues of Spotlight are available on our website.

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# AIM dividend stars in the resources sector

## The rare junior market oil, gas and mining stocks which offer income

Not too many AIM oil, gas and mining firms pay a dividend but a select few do offer income alongside the scope for capital gains.

Historically, most smaller operators in these sectors have had insufficient cash flow to fund a dividend and many prioritised spending on exploration instead.

The volatility in commodity markets associated with the coronavirus crisis has made it even more difficult to consider returning capital to shareholders.

In this article we look in detail at the handful of resources companies which are forecast to pay a dividend and look at what (if anything) underpins their income credentials.

### HIGHEST YIELDERS

The highest yielding name on our list of AIM resources dividend stars is South African platinum miner **Sylvania Platinum (SLP:AIM)**. An 11%-plus yield implies a degree of market scepticism about the company's ability to sustain the payout and the company made no mention of it in its third quarter results (28 Apr).

In its favour is a debt-free balance sheet and the company says it continues to generate sufficient cash to fund capital expansion and process optimisation projects (and potentially dividends too).

**AIM RESOURCES DIVIDEND STARS**

| Name | Forecast yield (%) |
|---|---|
| Sylvania Platinum | 11.8 |
| Wentworth Resources | 7.8 |
| Highland Gold Mining | 5.6 |
| Serica Energy | 2.5 |
| Jadestone Energy | 2.3 |
| Caledonia Mining | 2.1 |
| Pan African Resources | 1.9 |

Source: SharePad, 16 June 2020

Sylvania Platinum has a forecast yield of 11.8%

Oil and gas companies have been hit by significant volatility in crude prices

Investors may find out the status of the dividend for the year to 30 June when Sylvania updates on fourth quarter trading around the end of July.

Next on the list is **Wentworth Resources (WEN:AIM)** which declared a $2 million dividend in April to be paid at the end of June. Wentworth's country of operation, Tanzania, has been largely Covid-free and the company continues to produce natural gas from its Mnazi Bay project with 2020 production guidance unchanged.

This focus on natural gas could help underpin future dividends as the company is not exposed to the recent volatility in the oil market, instead benefitting from agreed local gas prices. The company is debt-free with $15.7m of cash as at the end of May.

## SHINING DIVIDEND EXAMPLES

Three of the seven dividend payers in the table are gold miners. These companies have been beneficiaries of the increase in gold prices year-to-date as investors have reacted to the pandemic by reaching for the precious metal's traditional safe-haven qualities.

Russian firm **Highland Gold Mining (HGM:AIM)**, which includes Roman Abramovich as a major shareholder, recently reiterated its own commitment to dividends as it pushes production higher.

Numis analyst Justin Chan notes Highland's 'ability to simultaneously deliver high margin production, generous shareholder returns and an impressive growth profile'.

However, it is worth noting that the company's net debt increased 18% to $250 million in 2019 and it is also allocating significant capital to new projects.

Fellow gold mining outfit **Caledonia Mining (CMCL:AIM)** increased its dividend for the three months to 31 March by 9.1% quarter-on-quarter. You can read more about the business here.

South Africa-focused **Pan African Resources (PAF:AIM)**, which also mines the precious metal, revealed on the 11 May that it would see a 5% drop in its pre-coronavirus production guidance for the year. However, the company made no comment on its dividend plans. The company should announce its results for the 12 months to 30 June at some point in September.

## SERICA AND JADESTONE CONFIRM MAIDEN PAYOUTS

On 23 April North Sea oil and gas play **Serica Energy (SQZ:AIM)** said it would dole out 3p per share to shareholders on 24 July as it enjoyed a first full year of output from the Bruce, Keith and Rhum assets. Broker Cantor Fitzgerald said the move highlighted 'management's confidence in its financial footing'.

The purchase of these fields from oil majors **BP (BP.)** and Total in 2018 transformed Serica's prospects and enabled it to pay this maiden dividend, however it remains to be seen if it can keep up these payments going forward.

Asia Pacific-focused **Jadestone Energy (JADE:AIM)** underlined its own intention to pay a maiden dividend later in 2020 in a targeted range of $7.5 million to $12.5 million.

The company benefits from hedged production from its Montara field in Australia as well as tight control of costs which means it expects to be breakeven on a free cash flow basis at an oil price of $27 per barrel.

Berenberg analyst James Carmichael says: 'The strengthening balance sheet, even in the current oil price environment, ensures that Jadestone is well placed to initiate a sustainable dividend and pursue opportunistic M&A opportunities that present themselves in the current market.'

# Caledonia ambitions shine through

## www.caledoniamining.com

Shareholders in AIM and NYSE American listed **Caledonia Mining Corporation (CMCL:AIM)** have seen a 200% increase in the share price over the past 12 months to 8 June 2020. This share price performance is a continuation of a long trend of superior performance in the junior gold sector with the company's shares substantially outperforming the JDX-J junior gold mining index benchmark.

Shares in the Zimbabwean focussed gold miner have performed strongly as it nears the completion of its Central Shaft project which has been the key focus of investment at the Blanket Mine in southern Matabeleland for the past 5 and a half years.

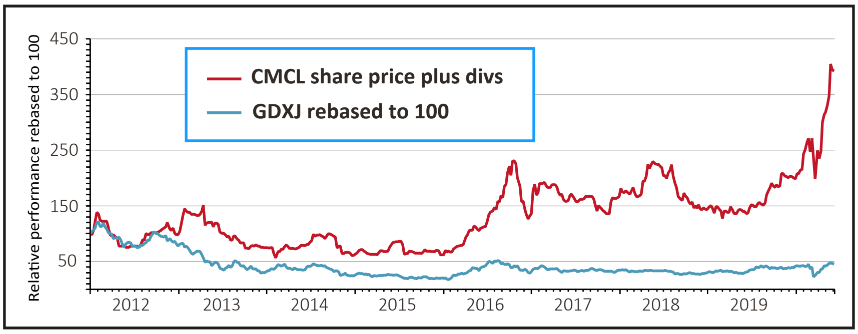
### NEW SHAFT OPENING

Construction of the new shaft commenced in 2015 and has seen steady investment of approximately $20m per year. Shaft sinking completed in July 2019 and the shaft is currently being equipped with commissioning anticipated in Q4 2020.

Caledonia has reason to be optimistic – the new shaft is expected to deliver a 50% increase in rock hoisting capacity (currently the main production constraint at the mine) and access to deeper level ore at the 115 year old mine.

Production capacity at the mine from the new shaft is expected to be 80,000 ounces per annum with production planned at 75,000 ounces in 2021 ramping up to full capacity of 80,000 ounces by 2022, an increase of 45% from the current production level of approximately 55,000 ounces per annum. Moreover, the new shaft is expected to increase the life of mine to 2034 ensuring investors access to substantial free cash flows for many years into the future.

The anticipated free cash flow from the mine could be significant. By way of illustration: the shaft is expected by the company to deliver all-in-sustaining-costs (AISC) operating costs in the range of $700 to $800 per ounce which, at current gold prices of approximately $1,700 per ounce would deliver approximately $900 to $1,000 per ounce of pre-tax operating margin.



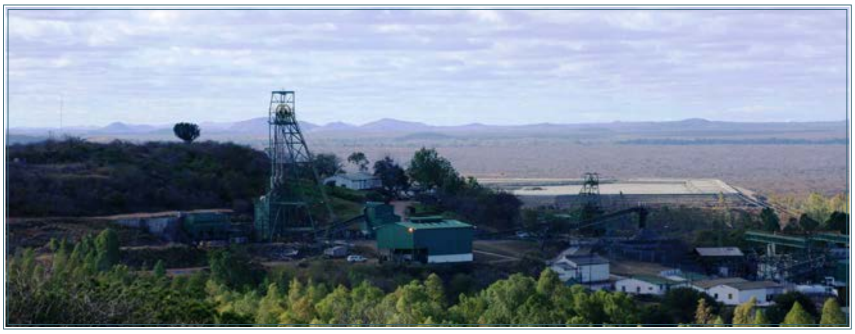
## SIGNIFICANT CASH FLOW POTENTIAL

At guided production of 80,000 ounces per year, this would amount to between $70m and $80m of pre-tax cash flow after sustaining capital investment. With tax rates in Zimbabwe of 25% (not onerous by comparison to other regions), this would translate to between $52m and $60m in consolidated post tax free cash flow.

Caledonia's attributable shareholding in the mine is 64% with the remaining 36% being held by trusts for the mine's employees and the local community and by the Zimbabwean government – three important shareholders which give a high level of community and local support to the operation. Using the above example, this 64% shareholding would deliver attributable free cash flow to Caledonia of approximately $33m to $40m.

With an enterprise value, as at 8 June 2020, of $176m ($190m market capitalisation and a last reported cash balance of $14m), this represents approximately 4.4 times forward free cash flow.

Caledonia pays a dividend and has done so since 2013, a seven-year track record, which is unusual for a junior gold miner. Caledonia increased the dividend by 9% in January 2020 as anticipated cash flows from the completion of the Central Shaft draw nearer and continued dividend payments throughout the recent business disruptions experienced during the Covid-19 pandemic.



## DIVIDEND PLANS

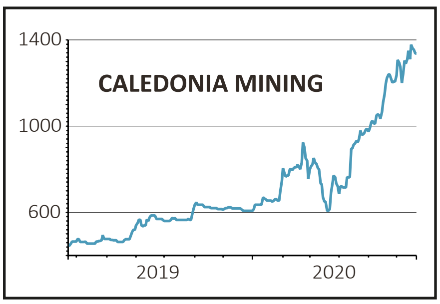
Caledonia's current dividend of 7.5 cents per quarter amounts to a total dividend distribution of approximately $3.5m per year, approximately one tenth of the forecast free cash flow illustrated above. Following the successful commissioning of the Central shaft and associated ramp up in production, Caledonia should be in the enviable position of being able to consider applying its expected greater cash flow to an increase in the dividend and pursuing growth projects in Zimbabwe, one of the last gold frontiers in Africa.

Zimbabwe remains a challenging jurisdiction in which to operate with an economy troubled by high inflation and decades of underinvestment in the mining sector. However, it is also a region that presents significant opportunity to those with both an understanding and an ability to mitigate the risks.

## ZIMBABWE'S MINING HISTORY

Zimbabwe has historically been home to a large mining industry which was, in the 1950s, the third largest gold producer on the African continent behind South Africa and Ghana and is in many ways a time capsule of opportunity where investors with the right knowledge can access projects that have seen no substantial investment since gold was approximately $250 per ounce in 1999.

Caledonia is a stable business with a long term track record of operating cash generation augmented by the prospect of near term growth from the Central Shaft project and the ability to deploy surplus cash flows generated by the project into increased dividend distributions and attractive growth prospects in country.



# Union Jack flies the flag for UK onshore oil and gas

## www.unionjackoil.com

The directors of **Union Jack Oil (UJO: AIM)**, a focused onshore hydrocarbon, production, development and exploration company, see the United Kingdom onshore as being an attractive target for investment in oil and gas investment ventures, considering the relatively low-cost operating environment and a fully transparent licencing regime.

The company has adopted a business model, typically acquiring interests in late stage projects, minimising risk and offering exposure to wells with the scope to dramatically change the dynamics with the drill bit, West Newton, Wressle and Biscathorpe, all being prime examples of our recent success in our three key projects.

Union Jack holds what the board considers to be high-value material project interests with significant upside potential in our axis areas of the East Midlands, Humber Basin and East Yorkshire. These interests are believed to be able to assist in delivering material growth in the medium term and build a sustainable mid-tier UK onshore focused conventional hydrocarbon producer.


### ASSET OVERVIEW

The company has acquired key interests in several licences all being located within an established hydrocarbon producing province.

- **PEDL183** West Newton A-1 and A-2 oil and gas discoveries 16.665% interest
- **PEDL253** Biscathorpe 27.5% interest
- **PEDL180** and **PEDL182** Wressle and Broughton North 40% interest
- **PEDL005(R)** Keddington oilfield 55% interest
- **EXL294** Fiskerton Airfield oilfield 20% interest
- **PEDL241** North Kelsey 20% interest

### PEDL183 WEST NEWTON A1 AND A2 DISCOVERIES

Union Jack hold a 16.665% interest PEDL183 located in East Yorkshire and within the Western sector of the Southern Zechstein Basin, containing the West Newton A-1 and A-2 discoveries.

Initial petro-physical evaluation of the A-2 well identified a gross oil column of 45 metres, underlying a gross gas column of 20 metres. The West Newton A-2 well exhibits encouraging porosities on logs and in core, particularly in the identified oil zone, where in excess of 30 metres of good porosity has been measured.

The joint venture partners

now believe that the West Newton project represents a significant oil and gas discovery rather than a pure gas discovery as originally perceived from information obtained from West Newton A-1 well.

Following the integration and evaluation of the core, petro-physical, seismic and test data, the Operator and joint venture partners intend to commission a revised CPR to re-assess volumetrics and revise NPV10 values based on the information acquired from the West Newton A-2 well.

Activity has re-commenced at West Newton in respect of preparing the B-2 drill site where drilling will be seen as soon as site preparation is completed later in 2020, and the start of the newly designed Extended Well Test where all permits have been granted and equipment has been sourced for early execution.

In June 2020, GaffneyCline, an international petroleum consultancy conducted a study on the Carbon Intensity rating at West Newton where a rating of AA was given in respect of its potential upstream crude oil production.

### PEDL253 BISCATHORPE

PEDL253 is within the proven hydrocarbon fairway of the South Humber Basin and is

on-trend with the Saltfleetby gasfield, Keddington oilfield and the Louth and North Somercotes Prospects.

In February 2019, the Biscathorpe-2 well was drilled and logging operations were conducted. Preliminary analysis indicated that the primary objective, the Basal Westphalian Sandstone, was not encountered as the well was drilled high to prognosis and did not thicken as expected in the pre-drill model.

Union Jack's independent technical team was greatly encouraged by the significant elevated gas readings and shows from logging supported by calculated oil saturations in the Dinantian Carbonate over an interval in excess of 150 metres, which included a suite of gas indications C1 to C5 and nC5, which is indicative of an effective petroleum system in close proximity to the Biscathorpe-2 well.

As a result of these compelling indications of hydrocarbons, the joint venture commissioned independent consultants APT to perform a detailed geo-chemical analysis of drill cutting samples taken from 20 intervals in the Biscathorpe-2 well.

The key result from the report was the likely presence of a 35 metre live oil column with API Gravity of 33 degrees to 34 degrees in the top of the Dinantian interval. Additionally, data evaluated at the base of the analysed section were suggestive of possible extra hydrocarbon pay at the base of the Dinantian interval.

These analysis has upgraded the Biscathorpe-2 well result, indicating proximity to an effective petroleum system, and validates Union Jack's

and its joint venture partners' belief in the additional potential that exists within the PEDL253 licence area.

Following the drilling of the Biscathorpe-2 well and subsequent technical analysis, Union Jack management's view is that this prospect remains one of the UK's largest onshore un-appraised prospects.

The joint venture has conducted detailed seismic re-processing and further technical studies with great success and a number of new drill targets have been located from where a side-track well will be drilled the Biscathorpe-2 well in due course.

## PEDL180/PEDL182 WRESSLE DISCOVERY

Located in Lincolnshire on the Western margin of the Humber Basin, PEDL180 and PEDL182 contain the substantial Wressle conventional oil discovery with proven reserves and significant upside from contingent resources, from which first commercial oil is expected to flow at a constrained rate of 500 barrels of oil per day.

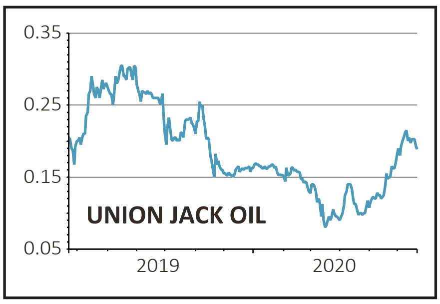
In January 2020, the joint venture partners received the welcome news that the Planning Inspectorate had granted development status to Wressle. Development of the production site has commenced where progress is being made and first oil is expected during H2 2020.

The Wressle-1 well discovered hydrocarbons in 2014. During testing, a total of 710 barrels of oil equivalent per day were recovered from three separate reservoirs, the Ashover Grit, the Wingfield Flags and the Penistone flags. In September 2016, a CPR provided independent estimates of reserves and contingent and prospective oil and gas resources for the Wressle discovery of 2.15 million stock tank barrels classified as discovered (2P+2C).

## NEWS FLOW

Union Jack has a balanced portfolio of production, development and drill-ready interests.

The company`s strategy of focusing on conventional relatively low-risk and low-cost projects, avoiding early stage and frontier ventures is showing signs of reaching fruition and allows investors to become involved at the end of the exploration phase and the beginning of the development cycle.

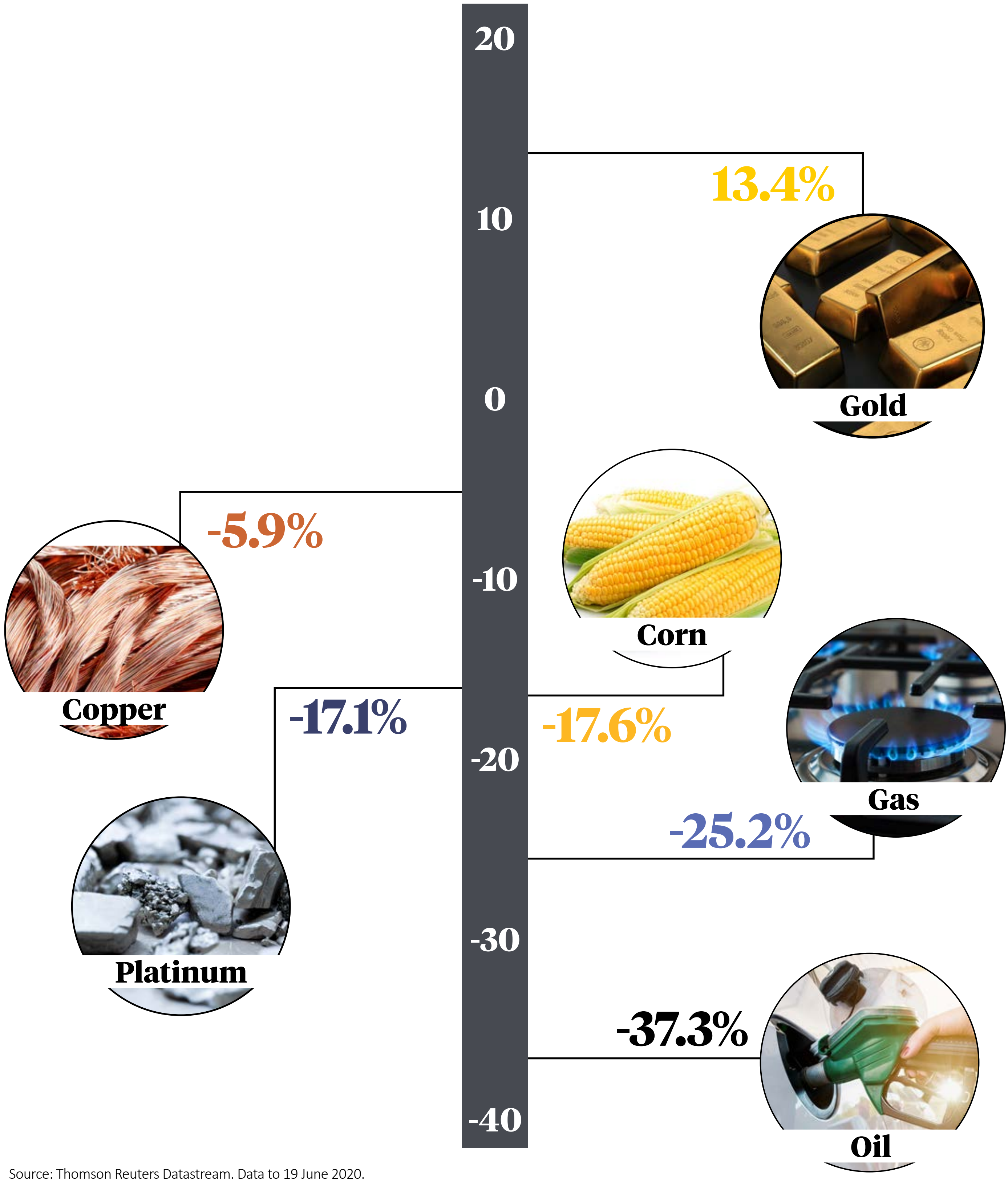


# Databank – Commodity price performance 2017-2020

| | 2017 | 2018 | 2019 | 2020* |
|---|---|---|---|---|
| Copper | 19.5% | -16.1% | 6.3% | -5.9% |
| Corn | 3.6% | 3.9% | 0.1% | -17.6% |
| Crude Oil | 7.7% | -18.7% | 21.9% | -37.3% |
| Gold | 7.6% | -1.4% | 18.7% | 13.4% |
| Natural Gas | -25% | 10.8% | -26.0% | -25.2% |
| Platinum | -1.0% | -14.3% | 18.7% | -17.1% |

Source: Refinitiv. Data to 19 June 2020. *Year-to-date

# **Databank** – Gain / loss so far in 2020




Source: Thomson Reuters Datastream. Data to 19 June 2020.