STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 22 / ISSUE 26 / 02 JULY 2020 / £4.49

SHARES

WE MAKE INVESTING EASIER

DIGITAL PAYMENTS BOOM

How to profit from the decline of cash

PLUS

TAKING STOCK OF MARKETS AND THE **MAJOR CHALLENGES** AHEAD

HOW GAMES WORKSHOP BECAME **A FTSE 350 STAR PERFORMER**

HOLIDAY BOOKINGS 'EXPLODE' BUT THE STOCK MARKET ISN'T CONVINCED

More companies set to reinstate earnings guidance

Tesco and Serco lead the way with clarity on earnings expectations

Many companies have withdrawn earnings guidance in recent months, leaving investors guessing as to how much money these businesses might be expected to earn.

The way share prices have performed in general since March's market low implies expectations are quite optimistic.

We're now getting the first signs of companies reinstating guidance and this trend could accelerate as we go into the next reporting season which kicks off in July.

A lot of businesses are operating at a greater capacity since lockdown and they should have already installed new working practices, hence it is fair to assume they are now better placed to comment on profit potential in 2020.

Quantifying the impact of the pandemic on their near-term and medium-term earnings should remove a lot of uncertainty which has been hanging over share prices.

Having no earnings guidance can lead to a lot of speculation and see investors become far too optimistic about the future or too pessimistic.

Some earnings forecasts will have been withdrawn by analysts in recent months but many of the data platforms that publish these numbers will have continued to show the most recent estimate rather than a zero figure. That too may have caused investors to have had an incorrect view of a stock.

Outsourcing group **Serco (SRP)** says it has been able to reinstate guidance for its full year due to the nature of what it does. '(This) reflects the resilience of our business, which depends for its revenues on governments rather than businesses or consumers, our strong order book, and growing confidence that our people and systems can adapt effectively to the challenges of Covid-19,' said chief executive Rupert Soames.

'Clearly, there is a more than normal degree of risk in our guidance, but we feel it better that we give some indication rather than none,' he added.

Last week **Tesco (TSCO)** said that while any forecast is 'inherently uncertain', based on an assumption of a continued easing of lockdown restrictions in the UK, it expects retail operating profit levels to be like the previous financial year. A lack of profit growth may not be cause for celebration, but at least we now have a clearer idea over its earnings strength.

Some corporate figures think earnings guidance should be banished completely. Barry Diller, chairman of holidays seller Expedia and media congomerate ICA, told *CNBC* that his companies will no longer provide long-term earnings forecasts. He believes employees would be better off doing actual work than pulling together earnings estimates.

He implied the system was open to abuse whereby companies purposely make sure they always beat and not miss expectations, thus triggering a positive reaction from the stock market.

For companies that don't reinstate guidance, investors will have to search for clues in order to complete the earnings puzzle. Look for comment on trading and updates on costs as profit margins are likely to be smaller this year. It's also worth comparing several competing companies to form a broader view of a sector.

This investigative work should be second nature to most investors in stocks anyway as it forms a normal part of the research needed before you make any investment.

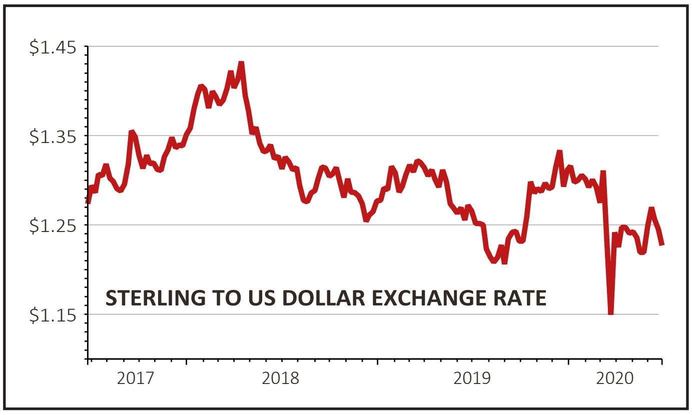
By **Daniel Coatsworth** Editor

Contents

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

UK GDP figures are set to get worse

Key news to watch in the third quarter as the UK economy sees worst contraction in 41 years



The stress on the UK economy and on public finances from the coronavirus continues to be very evident.

This has implications for the markets, inflation and sterling as we move into the third quarter. Also looming large on the horizon is an apparent end of September deadline set by the UK Government for its trade talks with the European Union.

With the latest GDP update revealing downward revisions to first quarter estimates, the fall of 2.2% being the joint worst since 1979, sterling remains under pressure against other major currencies.

If an agreement isn't reached with the EU in the coming months, then the lows of $1.159 seen in late March could be retested.

Growth figures for the second quarter look set to be worse than Q1 given April has already been revealed to have seen a record monthly contraction of 20.4%, likely outweighing any rebound in May and June.

Against this backdrop the UK's debt management office announced plans (29 Jun) to sell a further £50 billion worth of government bonds (gilts) by the end of August taking total issuance for the first five months of the current fiscal year to a record £275 billion.

For context this compares with £136.8 billion for the whole of the 2019/20 fiscal year as the country looks to meet the cost of the current furlough schemes and increase infrastructure spending.

There are suggestions that the Bank of England may buy fewer government bonds in the future as part of its asset purchase scheme than it did in the initial stages of the coronavirus crisis.

Investment bank Morgan Stanley noted that the 18 June Monetary Policy Committee (MPC) meeting hinted that the Bank of England might even start selling government bonds with its governor Andrew Bailey indicating the size of the bank's balance sheet could be an issue.

Morgan Stanley commented: 'After these confusing signals, we hope to get more clarity on MPC thinking in upcoming speeches and at the August MPC meeting.

'We expect a negative rates package in November, given diminishing effectiveness from QE (quantitative easing) and the need for additional action to get inflation back to target.

'And we don't think that the bank will be able to walk away from the gilt market, given the risk of ongoing high issuance driving higher yields.'

UK ECONOMY – KEY DATES TO WATCH

- **6 August** – MPC meeting
- **12 August** – First estimate of UK Q2 GDP
- **30 September** – Apparent deadline set by UK Government on Brexit talks

Holiday bookings 'explode' but the stock market isn't convinced

Holiday companies say bookings have soared, but the rise in demand is coming off a low base

Holiday companies say bookings have 'exploded' as travel restrictions ease, but the stock market seems less than enthusiastic.

From 6 July, blanket restrictions on non-essential overseas travel will be relaxed in the UK, and holidaymakers will be allowed to travel to certain European countries without having to spend 14 days in quarantine upon their return.

Tour operator **TUI (TUI)** saw bookings increase by 50% last week compared to the week before, and Lastminute.com saw an 80% increase in holiday sales compared to the week before, largely attributed to the announcement of Spain lifting the quarantine for Brits.

However, the positive headlines did little to change market sentiment with shares in companies across the travel and hotel sectors relatively flat over the past week.

Perhaps explaining the lack of share price reaction, broker Jefferies said that although easing of restrictions is helpful for companies' short-term cash flow – due to the pause on working capital outflow from refunds and the restart of working capital inflow from new bookings – it doesn't think the easing of restrictions is unexpected, given previous government commentary and media reports.

On The Beach (OTB) chief executive Simon Cooper told *Shares* that his company's bookings have increased by a 'few hundred percentage points' in the past week, but added that this was coming off a very low base with bookings in the week before at 'almost nil'.

He said, 'It's fair to say that throughout the last three months, almost no-one was booking for departure for July and August.'

It comes as the company took a big hit to

Are UK holidaymakers planning a staycation this summer?

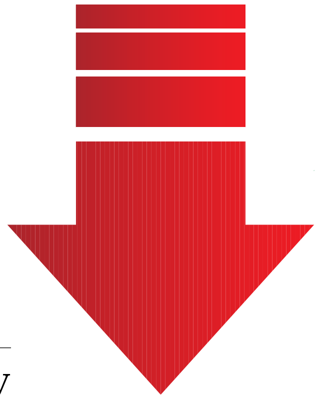
revenue and profit as a result of the pandemic, with revenue in the six months to 31 March down 66% to £21.4m and adjusted pre-tax profit down 85% to £2.3m. On a reported basis the firm swung to a £34.1m pre-tax loss.

Despite recent enthusiasm, the consensus among analysts is that the road to recovery for the travel sector will be long, with low demand for international travel in summer 2020 and 2021, and revenue only returning to summer 2019 levels by 2023.

Jefferies highlighted three trends from web traffic and search data, which showed that UK domestic holiday demand is high, suggesting holidaymakers are planning a staycation rather than going abroad for summer 2020.

It also found accommodation searches from the UK have picked up, but still lag the recovery seen in European counterparts, and that package operator searches are lagging 'do-it-yourself' bookings.

Shell follows BP by marking down the value of its assets



The second quarter results from UK oil majors are likely to be ugly

The £22 billion worth of asset write-downs announced on 30 June by **Royal Dutch Shell (RDSB)** reflected its lower commodity price assumptions in the wake of coronavirus. They provided a gloomy trailer to its second quarter results but there were some bright spots for investors to take away.

The company's operational performance was a little bit better than expected with quarterly production of between 2.3 billion to 2.4 billion barrels of oil equivalent per day (boepd) comparing with previous guidance of 1.75 billion to 2.25 billion boepd.

On 29 June Shell's peer **BP (BP.)**, which has already announced write-downs of $17.5 billion, unveiled the sale of its petrochemicals business to Ineos for $5 billion subject to regulatory clearance.

This potential future cash injection is unlikely to be enough to prevent it having to follow in Shell's footsteps by cutting its dividend.

The extreme nature of the challenge posed by the Covid-19 pandemic is enabling management at both companies to make hard-nosed strategic decisions.

Analysts at Killik & Co comment: 'We believe that rising costs of capital to the sector could create barriers to entry from which the strongest names could benefit, while the integrated stocks are best placed to transition their businesses from big oil to big energy companies.'

WHEN DO SHELL AND BP REPORT?

- **Shell Q2** – 30 Jul
- **BP Q2** – 4 Aug

Work from home boom spawns specialist ETF

UK investors won't be able to buy this product but they can invest in relevant tech funds

AS WORKING FROM home takes on a life of its own, the trend has now become an investment strategy after the launch of a specialist exchange-traded fund in the US.

The **Direxion Work From Home ETF** will track the Solactive Remote Work Index, a 40 stock index of work from home-friendly product and service providers. This means areas like remote communications, cyber security, document management and cloud technologies.

Communications platform Twilio, cloud tech specialist Inseego and Crowdstrike, the cyber security firm, are the top three stakes in the ETF.

UK investors won't be able to buy the ETF due to EU regulations, yet there are some UK funds also tapping into the broader theme.

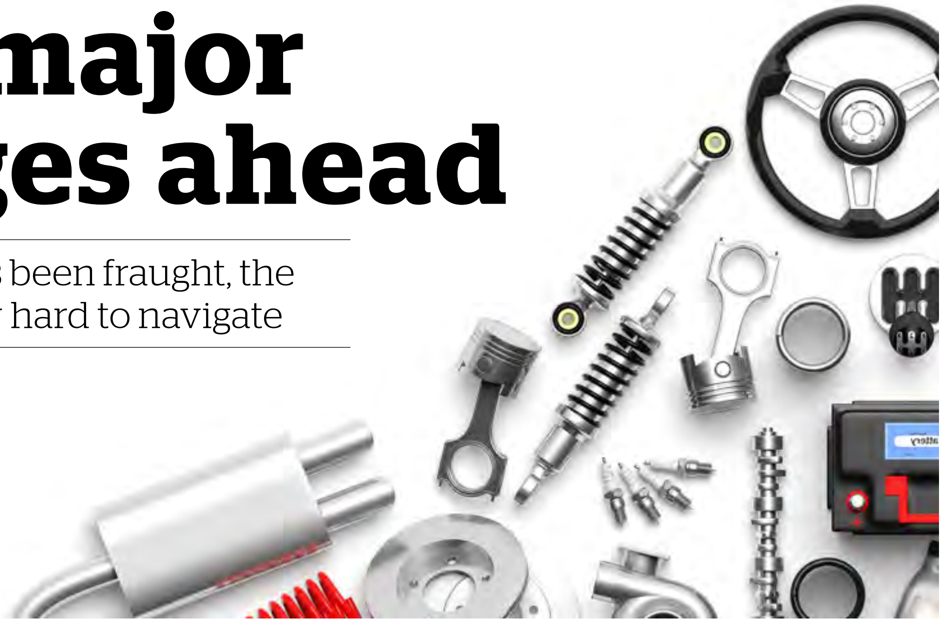
For example, **Polar Capital Global Technology Fund (B42W4J8)** invests in companies helping to make working from home possible. These include cloud infrastructure, software-as-a-service companies and digital payments providers, while Crowdstrike and video meetings platform Zoom are among the top 10 stakes of **Allianz Technology Trust (ATT)**. Both funds invest in Microsoft, which owns collaboration platform Teams.

The **SPDR MSCI World Technology UCITS ETF (WTEC)** offers an ETF option on the home-working theme, aiming to capture future growth of the wider technology industry.

Disclaimer: The writer Steven Frazer owns shares in Allianz Technology

Taking stock of markets and the major challenges ahead

If the first half of the year has been fraught, the second half could be equally hard to navigate



As we reach the halfway stage in what has been a year of upheaval, we thought we would look at which markets and sub-areas of those markets have held up best and which are still nursing their wounds.

For the first half of the year the UK's FTSE 100 benchmark of large cap companies had lost 16.9% while the FTSE 250 mid-cap index had lost 21.9% and the higher-growth AIM 100 market had lost just 8.4%.

WINNERS AND LOSERS

The best performing part of the UK market has been the Leisure Goods sector with a gain of 32.2%, which seems unlikely until you discover that the sector is dominated by 'stay at home' success story **Games Workshop (GAW)**. Its fantasy miniatures and intellectual property have been in strong demand through lockdown.

Other winners have been pharmaceuticals, food and drug retailers and personal goods, all made up of large, unglamorous but dependable stocks.

The biggest losers so far are oil services and autos, both of which reflect the lack of travel during lockdown. Close behind are banks, which are essentially a leveraged play on the prospects for the UK economy and the direction of interest rates and as such probably tell us more about the market's view of what is to come than any of the winners.

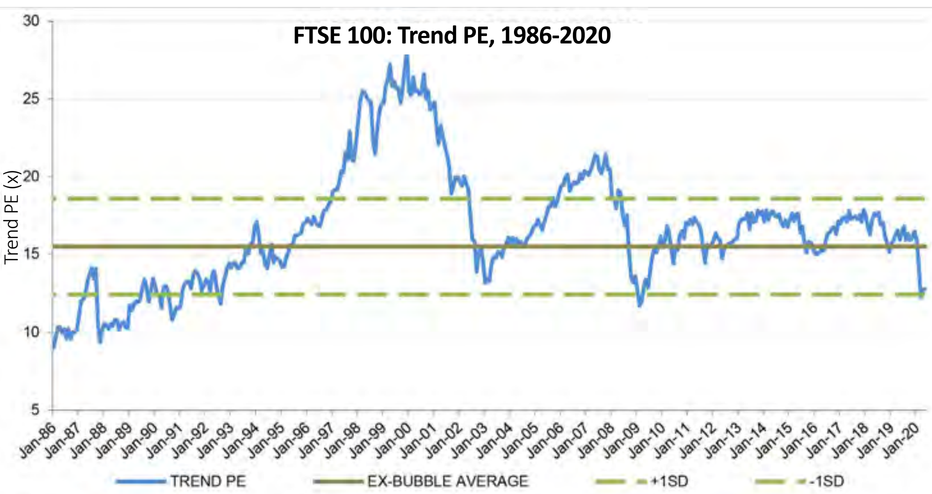
VALUE AND EARNINGS

Unlike the US market, which was trading at stretched multiples before the coronavirus crisis, the FTSE 100 was only trading at or slightly above its long term average valuation on the basis of cyclically adjusted earnings prior to the March sell-off.

On the same basis, today it trades close to the level reached at the bottom of the great financial crisis in 2009 which suggests long-term investors could find value in large-cap UK stocks.

However, the flip side of the value case is the fact that earnings will take many years to

FTSE 100 TREND PE VALUATION CHART
(TREND EPS GROWTH RATE 4.9%)



Source: M23 Research. SD: Standard Deviation

UK 12M FORWARD ROLLING EPS UPGRADE / DOWNGRADE

Source: M23 Research

recover to their previous levels so reversion back to the mean for the market is going to take some time.

Analysts are currently cutting their 12-month earnings forecasts for the UK market as a whole by more than a quarter, approaching the same level as in early 2009.

Whether they subsequently raise them as fast as they did over a decade ago is the great unknown. For all the talk of a V-shaped recovery, few firms seemed to have any visibility in terms of earnings in their latest trading updates.

First half reports, which will begin rolling in this month, are likely to be a write-off so investors need to concentrate on the outlook statements before coming to any conclusions on particular stocks.

BULLS VERSUS BEARS

Strategists such as Morgan Stanley's Andrew Sheets are upbeat, arguing that the global economy was showing typical late-cycle characteristics before the pandemic, and that 'the market is under-pricing the extent to which the recovery could follow the traditional playbook'.

On the other hand, the International Monetary Fund (IMF) has warned that the global economy faces the biggest slump since the Great Depression of the 1930s and that financial markets are 'disconnected from shifts in underlying economic prospects'.

Last week the IMF cut its 2020 global growth forecast to minus 4.9% from minus 3% previously due to lower consumption, demand shocks from social distancing and an increase in the savings rate as people hunker down.

It also said that if there was a second wave of infections the global economy could flatline instead of growing 5.4% next year.

BREXIT TIGHTROPE

Politics is likely to play a large part in how markets behave in the second half of the year, both in the UK and abroad.

While there seems to have been little progress so far on a Brexit deal with the EU, European chief negotiator Michel Barnier believes an agreement is still within reach as long as the UK adheres to 'the letter and the spirit' of its non-binding declaration last year.

There are hints the UK would accept tariffs and quotas in areas of its choosing if they allowed it to walk away from other conditions.

Ultimately the 'moment of truth' will come at the EU summit in October when the bloc will want to see a draft agreement.

TRUMP DUMPED?

In the US, which is grappling with severe outbreaks of coronavirus across several states, investors will eventually have to switch their focus to the presidential election in November.

The latest *Financial Times* poll calculator puts Joe Biden on 287 electoral college votes against 142 voted for Donald Trump, with support for Biden on both coasts far outweighing Trump's narrow central southern base.

Interestingly, key states such as Florida and Michigan are leaning towards Biden while Texas, the second biggest state in terms of college votes, is considered a toss-up.

Despite his erratic performance, Trump is pro-business and pro-markets so if the current projections prove to be correct there could be volatility ahead for US stocks.

By **Ian Conway**
Senior Reporter

Flutter Entertainment's shares are a winner

The Flutter/Stars tie-up brings huge benefits for the gambling business

We believe the pandemic-induced shift towards online gambling and acceleration in the opening up of US states puts **Flutter Entertainment (FLTR)** in the box seat, stealing a march on the competition and underpinning growth.

Flutter, which owns Betfair and Paddy Power, agreed an all share tie-up with Canadian sports betting company Stars Group in October 2019 to create the world's largest online business-to-consumer betting company with forecast revenues expected to exceed £4 billion this year, according to data compiled by Refinitiv.

The combined group has a better balance of sports and gaming revenues and a larger global reach, increasing diversification and growth opportunities.

The pandemic-induced lockdown has accelerated the shift towards online, as highlighted by first quarter results to 31 March which showed a 200% increase in US gaming revenues, which offset the 46% fall in sports revenues.

In addition to the online tailwind, pressure on public finances resulting from COVID-19 will increase the pace of US states opening to online sports betting and ultimately gaming, according to management.

For example, California could raise around $400 million a year in taxes assuming a 15% tax rate, helping to 'cut through' some of the political obstacles. Using the UK spending per head as a proxy for US spending suggests gross revenues of $19 billion and earnings before interest, tax, depreciation and amortisation (EBITDA) topping $5 billion in sports betting by 2023.

FLUTTER ENTERTAINMENT
BUY
(FLTR) £108.75

Market cap: **£16.2 billion**

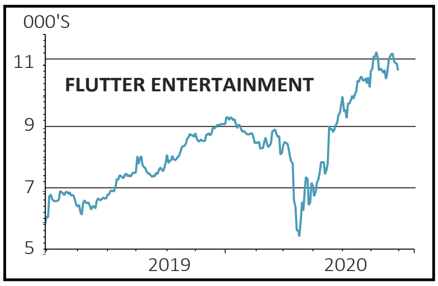
While only Jersey, Delaware and Pennsylvania currently permit online casino and poker, with Nevada online poker only, investment bank Jefferies expects around 20 states to pass the necessary legislation by 2023 out of 44 possible.

The onset of the pandemic forced all gambling firms to cut non-essential expenses and raise new money to tide them over during lockdown and strengthen finances. Flutter successfully raised £812 million of fresh capital on 29 May which reduced the ratio of net debt-to-EBITDA by 0.9 times towards its one-to-two times target.

Arguably Flutter wouldn't have moved so quickly to deleverage without the impetus provided by the pandemic.

Importantly the company now has extra firepower to access further deals and enhance competitive positioning. Some of the money will be used to retain poker and casino customers it gained through lockdown.

Analysts don't expect a dividend for the 2020 financial year, but the cash reward should resume in 2021, albeit most likely at a lower level. Jefferies forecasts 134p in 2021 and 200p in 2022, the latter putting the dividend back at the level paid for the 2019 financial year.



JPMorgan Japanese: buy Japan's best-in-class innovators on the cheap

Specialist Japan trust focuses on quality companies with strong balance sheets and structural growth

JPMORGAN JAPANESE INVESTMENT TRUST
BUY
(JFJ) 547.92p
Market cap: £877.5 million

Although the Japanese economy and its corporates haven't escaped the effects of coronavirus, which compounded a hit from 2019's consumption tax hike, the country has navigated the pandemic fairly well.

Japan remains overlooked by many investors which is a shame since the nation is home to best-in-class innovative companies that are growing both at home and overseas.

One way to gain exposure is via the **JPMorgan Japanese Investment Trust (JFJ)**, which boasts a five-star Morningstar rating and sells on a 10.2% discount to net asset value (NAV) that belies a strong long-run record as well as a high Morningstar sustainability rating.

First and foremost a capital growth-focused fund, JPMorgan Japanese's investment managers Nicholas Weindling and Miyako Urabe seek the most attractively valued Japanese investment themes and companies in what remains an under-researched stock market.

According to Morningstar performance data, the trust has delivered 10-year annualised NAV and share price returns of 13.6% and 14.7% respectively versus the MSCI Japan GR USD benchmark's 8.4% return.

Being Tokyo-based gives Weindling, Urabe and the investment team a competitive advantage, as does their ability to leverage JP Morgan Asset Management's formidable research resource.

Unconstrained by sector or market cap, the unwavering focus is on quality companies with strong cash flows. Weindling and Urabe put money to work with innovative Japanese companies that boast strong future growth prospects and bring investors exposure to Japan's new products, technologies and markets.

It is also worth noting that in contrast to the dividend suspensions witnessed in Western markets, in general Japanese companies haven't been cancelling dividends or buybacks thanks to the strength of corporate balance sheets.

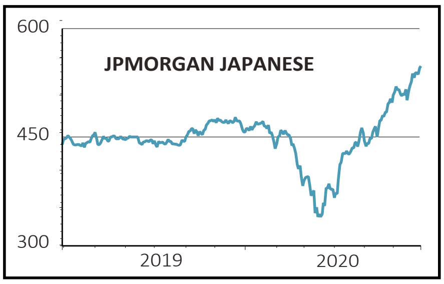
Investment themes to which the portfolio already had exposure, such as automation, video game downloads and e-commerce, have been accelerated by the pandemic.

Top holdings in its portfolio include Keyence, a rapidly growing factory automation business that manufactures sensors and has one of the highest operating margins of any company globally at around 50%.

It has a stake in Hoya, which has a 100% market share in the glass substrate used in hard disk drives for data centres.

JPMorgan Japanese holds stakes in Uniqlo clothing brand owner Fast Retailing, console maker Nintendo and online legal documents company Bengo4.com.

It also has a stake in GMO Payment Gateway, an online payment platform set to benefit as cashless payments become more prevalent in Japan amid pandemic-induced health concerns over touching physical notes and coins.



The Royal Mint® hanetf

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, which 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

When you trade ETFs and ETCs, your capital is at risk. For professional investors only.

This content is issued by HANetf Limited, an appointed representative of Mirabella Advisers LLP, which is authorised and regulated by the Financial Conduct Authority.

REDROW

(RDW) 439.7p

Loss to date: -39.7%

Original entry point:

Buy at 729.54p, 19 December 2019

OUR CONFIDENCE IN housebuilder **Redrow (RDW)** as a winning stock for 2020, originally buoyed by greater certainty on the UK's political situation, has been badly undermined by the coronavirus crisis.

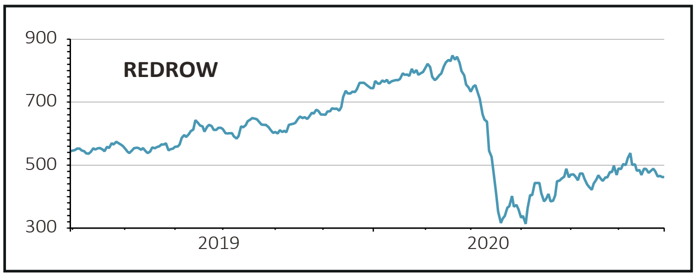
The latest update from the company (30 Jun) laid bare the impact that the pandemic has had as it announced profit for the year to 28 June would be substantially below last year's level.

The company also announced a shift in strategy, stepping away from London and focusing on higher-margin areas like its regional operations and its traditionally styled Heritage homes.

This reflects changes in customer appetite, as people look to buy outside city centres and prioritise outside space and things like home offices.

Scaling back in London involves a short-term hit as it writes down the value of some assets. The company will give further detail on this change in direction when it unveils full year numbers on 9 September.

There was more positive news on trading since the housing market reopened with the ratio of net sales per outlet hitting 0.56 compared with 0.59 for the same period a year ago.



SHARES SAYS: ↗

Redrow's performance has clearly been very disappointing but we hope it can recover some ground in the remainder of 2020. Stick with the shares.

SUPERMARKET INCOME REIT

(SUPR) 111.44p

Gain to date: 6.1%

Original entry point:

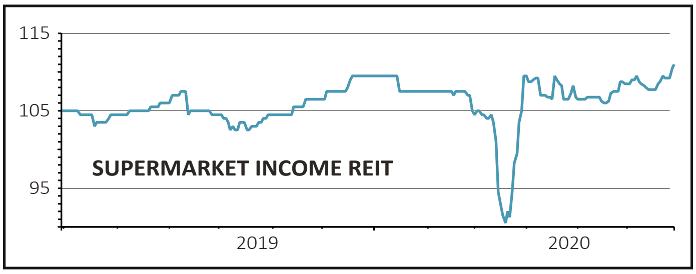
Buy at 105p, 2 April 2020

AS WE HOPED, groceries-related property investor **Supermarket Income REIT (SUPR)** has been a solid performer through the coronavirus crisis with the company looking to add to its portfolio in recent weeks.

After its May acquisition of a stake in 26 Sainsbury's stores through a joint venture with the British Airways pension fund (a deal which involved an outlay of £51 million), the company has confirmed rumours it is in discussions about a sale and leaseback transaction with a major supermarket.

The company's ability to continue to deliver a reliable stream of income to investors was underpinned by the news it received 100% of rent due for the three months to June.

Independent valuer Cushman & Wakefield has said the company will not need to include a material uncertainty clause for its valuation covering the year to 30 June. Supermarket Income REIT noted this reflected the credit strength of its tenants and sustained demand for assets in the sector.



SHARES SAYS: ↗

We continue to see Supermarket Income REIT as a reliable source of dividends at a time when income investors have been hit by a wave of payout cuts and cancellations. Keep buying.

How Games Workshop became a FTSE 350 star performer

Mid-cap star dominates a growing, global niche

GAMES WORKSHOP
SHARE PRICE: £81.40
MARKET CAP: £2.6 BN

Nottingham-based fantasy miniatures manufacturer **Games Workshop (GAW)** has been the best FTSE 350 performer over the last five years, providing a total return, which includes reinvested dividends, of 1,600%.

That means a £1,000 investment in 2015 would have turned into £17,000 today, which works out at an extraordinary compound annual growth rate (CAGR) of 76%.

It demonstrates what can happen when strong earnings growth is accompanied by a rising price-to-earnings ratio (PE).

We see Games Workshop as a unique business with strong returns which has arguably only scratched the surface of potential growth opportunities. However, given the growth expectations already embedded in the share price, we believe it is best to wait for a more attractive buying opportunity.

TURBOCHARGING RETURNS

The chart shows that from 2015 onwards the one-year forward price-to-earnings ratio started to rise steeply from around 12 times to the current 29 times. Analysts often use forecast earnings because they are more relevant to investors than historical numbers.

This should always be used with some caution but generally a rising PE means investors expect higher future profits.

In Games Workshop's case net profits have grown from £12.3 million in 2015 to around £70 million for the year to 31 May 2020, an increase of 5.7 times. If the PE had remained at 12,

SHARE PRICE AND PE HAVE ADVANCED RAPIDLY

Source: Factset

WHO IS GAMES WORKSHOP?

Warhammer and Warhammer 40,000 is a miniature wargame based on Warhammer Fantasy Battle, the most popular wargame in the world. The game is set into the distant future where a stagnant human civilisation faces hostile aliens and malevolent supernatural creatures.

The company doesn't sell ready-to-play models but rather it sells boxes of model parts which enthusiasts are expected to assemble and paint. The tools, glue and paints are sold separately. Effectively the company serves and inspires millions of table-top hobbyists across the world.

Board gaming is a global market growing at an estimated compound annual growth rate (CAGR) of 9% and is expected to be worth around $12 billion by 2023 according to consultancy Statista.

today's market value would only be £840 million compared with the actual £2.6 billion.

A higher PE has increased the perceived value of the company significantly.

Before dissecting the financials of the business to understand how the company has achieved such impressive growth, we explain some of the unique aspects of the business that add up to what famed investor Warren Buffett has called an economic moat and which the company calls its 'Fortress Moat'.

ECONOMIC ADVANTAGES

Games Workshop is categorised a retailer inside the FTSE 350 Leisure Goods sector, but in reality it is much more.

Traditional retailers are intermediaries between suppliers of products and consumers. They apply a small mark-up for providing this service.

However Games Workshop is vertically integrated, which means it designs, manufactures and distributes directly to the consumer via its 529 Warhammer stores, online customers and through over 6,000 trade partners. Effectively it controls all parts of the value chain, from design, manufacturing and distribution.

The company employs a 200 person design studio which creates all of the firm's miniature designs, artworks, games and publications. That adds up to over 30 years of intellectual property rights. As we will elaborate later, the business is starting to reap some meaningful revenue from selling TV and production rights to its products.

Focusing on fantasy characters instead of historical ones means future product innovation is only limited by the designers' imaginations and provides endurance to the brand, a valuable trait.

Investing in the best manufacturing and tooling equipment means the company makes the best quality and most detailed miniatures on the market which protects the business from inferior imitators. In addition the firm is much larger than its nearest rival which means it can manufacture the products more cheaply.

Finally, controlling the whole supply chain means the company has flexibility to set prices. Once made all products are distributed from a warehousing facility in Nottingham to stores, trade partners and online customers or via hubs in Sydney and Memphis.

STRONG RETURNS

The financial consequence of possessing a 'Fortress Moat' and having control over the entire value chain is that the company achieves a very high return on capital employed (ROCE). According to company data the ROCE hit 111% last year, one of the highest in the UK market.

This means the company can

RETURN ON CAPITAL EMPLOYED (ROCE)

Year	ROCE %
2014	32.1
2015	30.5
2016	31.8
2017	65.0
2018	97.2
2019	82.3

Source: Sharepad

easily self-fund future growth from internally generated cash with the flexibility to pay consistent dividends. Since listing in 1995 the company has grown its dividend by a CAGR of 9.5%.

WHAT HAS DRIVEN SUCH STRONG GROWTH?

The short answer to what is behind the firm's rapid expansion was eloquently articulated by small cap fund manager at Aberdeen Standard, Harry Nimmo who told *Shares* 'new management made it fit for the internet age'.

Having joined the company in 2008 and served time as chief financial and operating officer, Kevin Rowntree took up his current chief executive role in January 2015.

Stronger revenue growth can be traced back to the 2016 launch of online hub WarhammerCommunity.com, which attracted 5 million users and 70 million page views over the first two years.

In the 2019 half-year report the company highlighted 48% growth in users accessing its online hub while sessions per user also increased, 'meaning our fans are visiting more often and are more engaged with the content'.

At least one new video is uploaded to Warhammer TV every day across YouTube and Facebook platforms, detailing how to build and paint models as well as unbox the kits. This is a marked improvement from 2016 when only 40 videos were uploaded in a year.

Twitch is a streaming service that allows users to watch live and pre-recorded recording of a broadcaster's video game. Warhammer is featured heavily with a busy programme that includes 'Hang out and Hobby' which broadcasts from 4pm to 7pm during weekdays and live content at 3pm every day bar Wednesday.

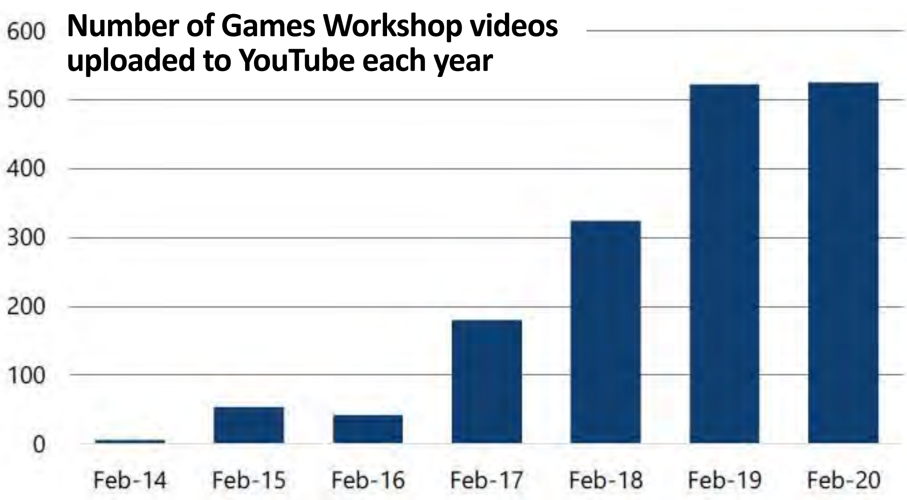
LICENSING DEALS

According to some analysts there was a step change in the company's approach to licensing from around 2015, which has resulted in income increasing from £1.5 million to around £16 million in the year to 31 May 2020.

All in all, successful social media engagement has not only resulted in the company selling more products to its existing customer base but has also attracted new, younger hobbyists.

Revenue has gone from £119 million in 2015 to around £270 million in 2020. However operating profit has increased five-fold.

STRONG GROWTH IN CONTENT ON WARHAMMER TV



Source: YouTube

The table shows the operating margin has more than doubled over the last few years as more revenue was captured as profit. This is due to management keeping a tight lid on administration expenses which have not kept pace with the expanding size of the business.

As a proportion of revenue, they have fallen by over a third, allowing operating margins to expand appreciably.

While the company should be applauded for good financial controls, it has also benefited from an increase in volumes going through the manufacturing and warehouse facilities at no marginal cost.

One underappreciated aspect of Games Workshop's business model is the huge fan base that in effect acts as a free sales and marketing team. The move to online has accelerated this effect because of the viral nature of social media, where videos, podcasts, interviews and tutorials spawn yet ever increasing content.

In turn, discussion among users drives awareness, attracting new hobbyists, creating a virtuous circle.

GAMES WORKSHOP PROPORTION OF REVENUES

	2014 (%)	2019 (%)
Gross Profit	70.0	67.5
Admin Expenses	56.5	36.0
Operating Margin	13.6	31.6

Source: Sharepad

HOW FAR CAN OPERATING MARGINS EXPAND?

A key consideration for investors is to make an assessment of how sustainable the current economic advantages enjoyed by Games Workshop can continue.

Analysts at Jefferies believe sales growth momentum will continue for the next decade, eventually fading to around 3% a year by 2030. Recognising the benefits from operational leverage they expect the operating margin to continue to expand to 40.5%.

The higher margins are also expected to get a boost from increasing, higher margin license revenues.

By **Martin Gamble**
Senior Reporter

BlackRock

BEYOND OIL: THE WORLD'S CHANGING ENERGY MIX

BLACKROCK ENERGY AND RESOURCES INCOME TRUST PLC

The way the world fuels its transport, heats its homes and powers its industry is changing, but the path to renewables will not be linear, says Mark Hume, Co-Manager of the BlackRock Energy and Resources Income Trust plc.

Mark Hume
Co-Manager, BlackRock Energy and Resources Income Trust plc

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

The world's energy mix is in motion. The most recent data from the International Energy Agency shows that while around a quarter of the world's electricity is powered by renewables, capacity is expected to expand by 50% by 2024[1]. The path ahead if clear: dominant fossil fuels are being replaced and a new energy infrastructure is emerging.

The adoption of renewables has been strongest in the electricity sector, where solar and wind power have seen rapid growth driven by policy initiatives and falling prices[1]. The size of the global wind power market grew 35% in 2018 and is expected to reach $124.5 billion by 2030 as the Asia-Pacific region drives growth[2].There is similar growth potential in solar, hydro and biofuels as the world transitions to a less carbon intensive energy system.

Any energy strategy needs to reflect this shift and the BlackRock Energy and Resources Income Trust recently moved to incorporate more companies linked to the global energy transition in its portfolio mix. Today's GDP growth is less energy intensive, which means that there is less growth in core energy markets. As such, this shift is important to build sources of new growth into the portfolio.

THE ROLE OF OIL

However, electricity accounts for only a fifth of global energy consumption[1]. There are still areas such as heating where renewables are a relatively small part of the mix. Renewables met only 10% of global heat demand in 2018 and is only expected to reach 12% by 2024[3]. Within transportation, dependence on oil is partly being addressed through electrification, but although this is growing fast, it is from a small base.

As such, the energy mix is likely to include some traditional sources of power for some time. There is also the question over whether the current coronavirus outbreak may put a temporary pause on the move to decarbonise as governments turn their attention elsewhere. It is our view that the pace of the energy transition will evolve and shift over time, which may change the opportunity set at any given point in the cycle.

Equally, it is important to note that many 'traditional' energy companies – oil majors and so on – are likely to play a key role in the energy transition. Many of them have championed renewable fuels. BP for example, is the UK's biggest name in electric vehicle (EV) charging, while also holding investments in biofuels, wind and solar. It has committed to becoming a net zero company by 2050 or sooner[4].

CHANGING BUSINESS MODELS

Royal Dutch Shell has developed wind and solar-power projects, encouraged the adoption of hydrogen electric energy and invested in low-carbon start-ups — spanning electric vehicle charging to home energy storage[5]. In early 2020, Rio Tinto shared plans to invest around $1 billion over the next five years to support the delivery of its climate change targets[6]. It is also working towards net zero emissions from operations by 2050[6]. Increasingly, it is not a question of a company being on one side or another but all being part of a broader transition.

The question is what happens in the meantime. A side effect from the COVID-19 outbreak has been extreme volatility in the oil price including, at one point, a dip to a negative rate. There have been many questions over whether the oil producers can weather the short-term shock. We estimate that oil demand may be as much as 10% lower for the year ahead. While some of the recent price fluctuations have been anomalous, there can be little doubt that the oil price could remain under pressure for some time.

VULNERABILITY

Certainly, there may be bankruptcies among those companies with the highest costs of production – the US shale companies look particularly vulnerable. However, for larger companies, with lower debt and strong management teams, these low oil prices should not disrupt their longer-term strength and it may even accelerate their adoption of alternative energy sources. Many entered this crisis in a good position with strong balance sheets, advantaged assets and a clear and well-articulated strategy to be part of the solution.

The world's energy mix is fluid. While the path of travel is clear – towards renewables and away from fossil fuels – it may not be linear. Active management can help direct investment to those companies with the greatest influence at any given point in the cycle.

Risk: The specific companies identified and described above do not represent all of the companies purchased or sold, and no assumptions should be made that the companies identified and discussed were or will be profitable.

For more information on this Trust and how to access the opportunities presented by the energy and resources markets, please visit www.blackrock.com/uk/beri

Unless otherwise stated all data is sourced from BlackRock as at May 2020. All amounts given in USD.

TO INVEST IN THIS TRUST CLICK HERE

[1] IEA, Feb 2020. [2] Power Technology, Nov 2019. [3] IEA, Feb 2020. [4] BP, Feb 2020. [5] FT, Sep 2019. [6] FT, Feb 2020.

Risk Warnings

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Trust Specific Risks

Exchange rate risk: The return of your investment may increase or decrease as a result of currency fluctuations.

Emerging markets risk: Emerging market investments are usually associated with higher investment risk than developed market investments. Therefore, the value of these investments may be unpredictable and subject to greater variation.

Mining investments risk: Mining shares typically experience above average volatility when compared to other investments. Trends which occur within the general equity market may not be mirrored within mining securities.

Gearing risk: Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.

Important information

Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: + 44 (0)20 7743 3000. Registered in England and Wales No. 02020394. For your protection telephone calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock.

BlackRock have not considered the suitability of this investment against your individual needs and risk tolerance. To ensure you understand whether our products are suitable, please read the Key Investor Documents (KIDs) and the Annual and Half Yearly Reports available at blackrock.co.uk/its which detail more information about the risk profiles of the investments. We recommend you seek independent professional advice prior to investing.

The Company is managed by BlackRock Fund Managers Limited (BFM) as the AIFM. BFM has delegated certain investment management and other ancillary services to BlackRock Investment Management (UK) Limited. The Company's shares are traded on the London Stock Exchange and dealing may only be through a member of the Exchange. The Company will not invest more than 15% of its gross assets in other listed investment trusts. SEDOL™ is a trademark of the London Stock Exchange plc and is used under licence.

Net Asset Value (NAV) performance is not the same as share price performance, and shareholders may realise returns that are lower or higher than NAV performance.

The BlackRock Energy and Resources Income Trust plc currently conducts its affairs so that its securities can be recommended by IFAs to ordinary retail investors in accordance with the Financial Conduct Authority's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The securities are excluded from the Financial Conduct Authority's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

Any research in this material has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

This material is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

ID: MKTGH0520E-1196782-4/4

DIGITAL PAYMENTS BOOM

How to profit from the decline of cash

By **Steven Frazer** News Editor

In 2020 you are no longer faced with the dilemma of fumbling around in your pocket for change to pay for your coffee as the train readies to leave. Instead you can simply tap your debit or credit card, or even your phone or smartwatch, on the machine and get on your way.

This is the modern world of cashless, digital payments. It might not be what we want all of the time, but there is safety and convenience that most people appreciate.

In this article we examine this fast growing industry and explain why ordinary investors might want to gain exposure to the theme.

We also highlight some of the industry's most significant players, emerging names, and offer a selection of companies and funds that will give you exposure.

DIGITAL PAYMENTS LANDSCAPE

The rise of digital cashless transactions is hardly new. People have been paying for more stuff

SPENDING THE MOST DIGITAL DOLLARS

China	$1.92 trillion
US	$895.79 billion
Japan	$165.21 billion
UK	$164.41 billion
South Korea	$113.52 billion

Source: Statista

electronically for years, usually with debit or credit cards. But the increasing shift to online shopping, technology improvements, such as better smartphones and smartwatches, and the emergence of digital wallets has created a boom in the digital payments industry.

This has drawn interest from lots of fund managers, from mainstream global growth funds, like the **JPM Global Unconstrained Equity Fund (B235QT6)** and the **Liontrust Global Equity Fund (3067916)**, to thematic specialists, such as tech investor **Polar Capital Global Technology Fund (B42W4J8)** and **Robeco Global Consumer Trends Equities (BZ1BV36)**, which does what it says on the tin and backs consumer growth stocks.

The global Covid-19 pandemic has greased the wheels of transition and accelerated the switch for millions, says Stephen Yiu, chief investment officer at Blue Whale Capital and lead manager of the **Blue Whale Growth Fund (BD6PG78)**, with payment platforms and merchants using dirt cheap debt to pay for digital investment.

People are using digital payment options to avoid contact and the spread of infection that direct cash handling risks, while it has also made social distancing easier to manage during these testing times. But it is the mass closure of shops during lockdown that really pushed people online and, in many cases, use digital payments for the first time.

The mass closure of shops during lockdown pushed people online and many tried digital payments for the first time

For example, at the end of April Amazon revealed itself as one of the big winners of the coronavirus pandemic.

It announced revenue of $75.4 billion in the first three months of the year as millions of consumers used the platform to buy healthcare and antiseptic products, bits and pieces for odd jobs around the home, food and other necessities and much else during lockdown.

That meant a better than expected 26% year-on-year revenue jump, and was calculated at more than $33 million of sales an hour.

Black Friday sales in November 2019 showed an 82% global increase in purchases made with mobile wallets compared to 2018, according to data compiled by Research & Markets.

The preference for cashless payments offline and one-touch payments online is changing the e-commerce landscape. Buyers want to be able to pay anytime, anywhere and with minimum hassle.

According to Verdict data, around 720 billion digital transactions will be made in 2020, up from 641 billion in 2019. That could be worth more than $4.4 trillion this year, if market and consumer data firm Statista is right. Compound average growth is forecast to run at 17% a year over the next five years, projecting nearly $8.3 trillion of digital payments by 2024.

By then, Verdict estimates that we'll be making in excess of 1.1 trillion transactions globally, over smartphones and other connected gadgets.

PUSHBACK ON CASHLESS

Plenty of people still prefer to use cash. It is often the best, and often only, way to shop at street markets or buy items in small stores like your local newsagent or corner shop.

There has also been push back from consumers and campaigning organisations that digital payments can be a challenge for vulnerable groups like the elderly, those with poor credit histories or simply the less tech savvy.

In Sweden for example, which leads the world in cashless payments, there is a growing feeling that the pace of change to cashless is moving too fast.

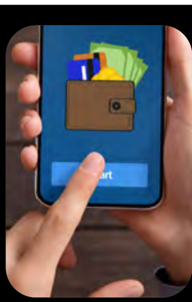
In Stockholm's Odenplan square, at the heart of the city centre and a hotspot for visiting tourists, you'll struggle to buy a cup of coffee and a bun with cash today, while you can no longer use coins or notes to hop on one of the capital's buses, just like in London.

According to Riksbank, Sweden's central bank, cash retail sales transactions in the Scandinavian nation have dropped from around 40% to below 15% over the past decade. Data such as this has led Swedish National Pensioners' Organisation to lobby the government on behalf of its 350,000 members to force shops, cafes and other businesses to accept cash in Sweden for as long as people have the right to use it.

Despite these issues, governments around the world continue their push towards cashless societies. Ostensibly, having a digital paper trail for all transactions would decrease crime, money laundering and tax evasion.

This is driving favourable regulation, which seeds greater adoption. According to data from digital payments researcher Mordor Intelligence, electronic payments in the UK have 'experienced constant and sustained growth,' with debit cards overtaking cash as the most popular form of payment in recent years. In 2016 about a quarter of in-store payments were made digitally, but that is now well over 50%, says Mordor.

WHAT IS A DIGITAL WALLET?



A digital or e-wallet is a way of electronically storing all your payment details in one place. They can make it safer and simpler for you to make cashless purchases online and in-store.

As well as storing your payment details for online payment systems, like PayPal, Google Pay and Apple Pay, digital wallets can also connect with traditional bank accounts and store your credit and debit card information.

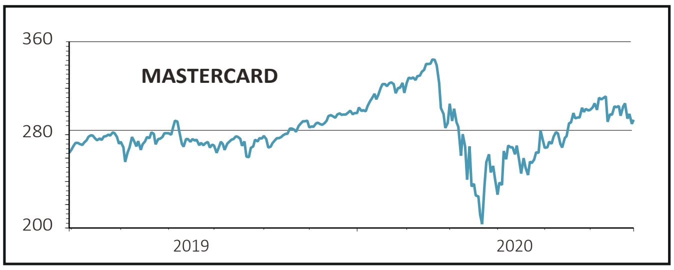
According to Blue Whale's Stephen Yiu, data shows that having someone's financial details recorded on a digital wallet increases the chance of a customer completing an online purchase by 50%.

STOCKS TO PLAY A CASHLESS SOCIETY

In simple terms there are two types of digital payment provider; the Mastercard/Visa duopoly, or the digital wallet providers, such as PayPal, Apple Pay, Amazon Pay, Google Pay, Shopify, Square, Worldpay and a long list of others. Our top stocks to buy are Mastercard, Visa and Paypal.

MASTERCARD (MA) BUY $289.34

BUY

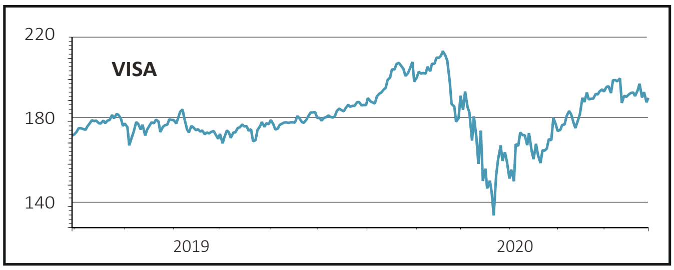


VISA (V) BUY $189.27

BUY

According to Blue Whale's Stephen Yiu, Mastercard and Visa are the lower risk ways into this growing space with one or the other appearing on the front of any of the debit or credit cards sat in your wallet or purse. Visa, which has the larger market cap of the two ($403 billion versus $290 billion), has a greater US domestic and debit card slant, while Mastercard has a modest advantage in credit cards.

Both make their money by taking tiny percentage charges every time a one of their cards is used. But with transactions in the trillions every year across billions of merchants, that small



cut on card payments really adds up.

Revenue this year is forecast at $15.6 billion (Mastercard) and $20 million (Visa), with net income of $6.5 billion and $11.1 billion estimated respectively. Operating margins run at more than 50%.

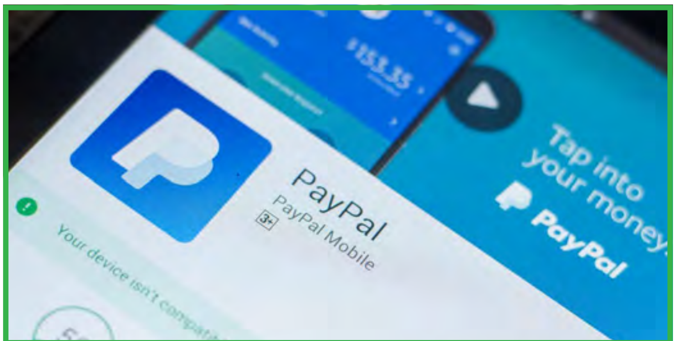
The stocks trade on 12 month price-to-earnings multiples in the region of 35-times, and while they admitted transaction volumes slowdown during lockdowns (travel spending has been very hard hit), Yiu believes extra online shopping will have offset much of the decline this year.

PAYPAL (PYPL) BUY $170.87

TOP PICK

PayPal is the dominant digital wallet provider, and our top pick, with more than 20 million online merchants signed up. To put that into perspective, Facebook has only half that number of merchants advertising across its ecosystem, Square says it has about 2 million merchants while Worldpay has 400,000.

PayPal was the first digital payment company of scale, and it is probably the most familiar to readers. This is an intensely competitive space with new entrants emerging all of the time. For example Stripe, the private digital payments provider popular with start-ups, was only set up 10 years ago by Irish brothers Patrick and John Collison, but was valued last year at $35 billion.



PAYPAL ACTIVE USERS HAVE GROWN RAPIDLY

Period	Users
Q1 2020	325 million
Q1 2019	277 million
Q1 2018	237 million
Q1 2017	205 million
Q1 2016	184 million
Q1 2015	165.2 million
Q1 2014	148.4 million
Q1 2013	127.7 million
Q1 2012	109.8 million
Q1 2011	97.7 million
Q1 2010	84.3 million

Source: Statista, company accounts

THREE GOLDEN RULES FOR DIGITAL WALLETS

- **Easy to use**
- **Competitively priced**
- **Trusted by consumers**

Source: Stephen Yiu, Blue Whale Capital

PayPal has used its first mover advantage to good effect by continuing to evolve by investing in the business. This has created a network effect, a virtuous circle where the company gets bigger by attracting more merchants to its platform, which makes it more attractive to new merchants, and so on.

Yiu believes there are three factors more important than any others when considering digital payment platforms; ease of use for consumers, cost to merchants and, above all else, trust. When it's your bank and credit card details on the line, you need to be sure that your information will be held securely and used responsibly. That's another advantage for PayPal.

But competition does cap profit margins, at 23.2% for PayPal last year. They are creeping higher, largely thanks to its current dominant position, with 25% predicted over the coming year or two, but PayPal is never likely to match the 50%-plus of the card giants. Still, the business has the capacity to grow much faster as the share of cardless digital transactions escalates.

MONEY SPENT OVER PAYPAL HAS JUMPED 255% SINCE 2014

Year	Amount spent
Q1 2020	$190.6 billion
Q1 2019	$161.5 billion
Q1 2018	$132.4 billion
Q1 2017	$100.6 billion
Q1 2016	$81.1 billion
Q1 2015	$63.0 billion
Q1 2014	$53.7 billion

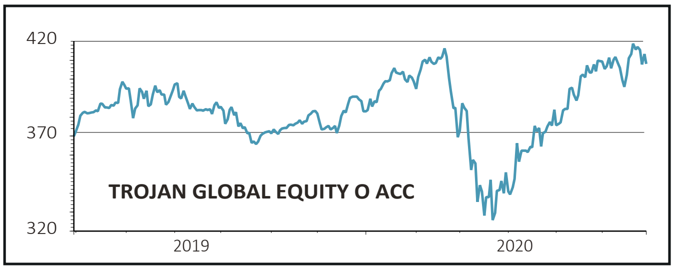
Source: Statista, company accounts

FUNDS TO PLAY A CASHLESS SOCIETY

For investors looking to use funds to get exposure to the rapidly growing digital payments space, here are three good options:

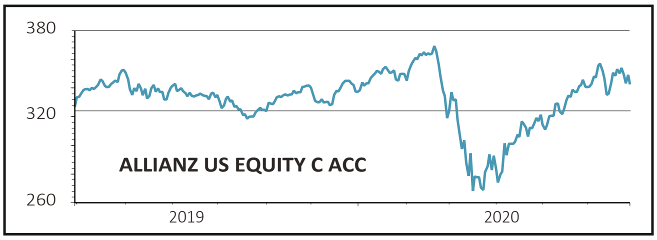
TROJAN GLOBAL EQUITY (B0ZJ5S4)
% OF PORTFOLIO: VISA 5.6%, PAYPAL 6.8%

Invests globally with a longer-term remit of at least five years, is tech heavy and includes American Express, Google Pay-parent Alphabet and UK-listed credit checker **Experian (EXPN)**. Run by joint managers Gabrielle Boyle and George Viney, the Trojan fund has outstripped its Investment Association Global benchmark over one, three and five years by some margin, 98.7% versus 59.3% on the five year measure.



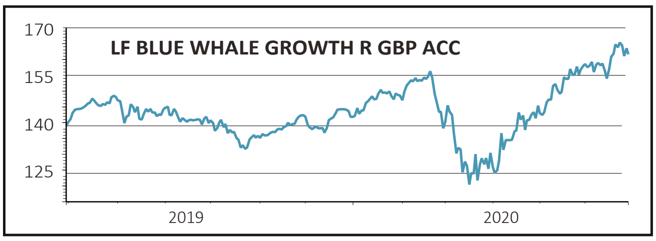
ALLIANZ US EQUITY (B4N1GS7)
% OF PORTFOLIO: PAYPAL 2.3%, MASTERCARD 2.3%

The Allianz fund prefers large companies with good prospects for increasing profits in the years ahead and which trade on attractive valuations. That valuation caution possibly explains its lukewarm performance in rcent years, where it has struggled to beat its IA US benchmark. The fund draws from healthcare and other consumer sectors but is currently most exposed to finance and technology, with stakes in Alphabet, Amazon, and Apple alongside several of the big digital payments specialists.



BLUE WHALE GROWTH FUND (BD6PG78)
STAKES: MASTERCARD, PAYPAL, VISA (ALL IN TOP 10 HOLDINGS 31 MAY)

This is a portfolio of technology-based growth companies where manager Stephen Yiu hopes to pick out best-in-class ‘winners’. This is a very concentrated fund of about 25 stocks in the US and Europe which it follows daily, although that makes it fairly high risk. It’s a young fund, set-up in 2017 but it has smashed its IA Global benchmark in each of the past two years, with 18.2% and 19.9% returns respectively.



RUSS MOULD
AJ Bell Investment Director

Good portfolio planning matters more than good luck

The VIX index helps investors measure levels of market volatility

The twentieth-century American journalist Edward R. Murrow may be best known for his ground-breaking reports from Buchenwald in 1945 and the manner in which he signed off each of his broadcasts by saying 'Good night and good luck'.

That phrase was ultimately used in 2005 as the title of a film that depicted his battle with communism-obsessed Senator Joseph McCarthy but this column's favourite pearl from Murrow is his comment that: 'Anyone who isn't confused doesn't really understand the situation.'

In the narrow context of financial markets, this seems particularly apposite. Equity markets switched from blind panic in late February and early March to what felt like exuberance by mid-June.

Sentiment has therefore switched from deep pessimism about Covid-19 and its implications, to optimism that the damage to health and wealth may not be too long-lasting. The truth may well lie somewhere in between, so late June's slide in share prices could be seen as sensible, especially as doubts about the health of the global population (let alone its economy) creep in once more.

Given the uncertainty over the pandemic and the range of possible outcomes, this may seem sensible to many investors, and the range of emotions can be tracked, albeit in a rather shorthand form, by the VIX index.

PANIC TO OPTIMISM AND BACK

The so-called 'fear index', which can be tracked for free via the internet, measures expected future volatility in the US equity market (there used to

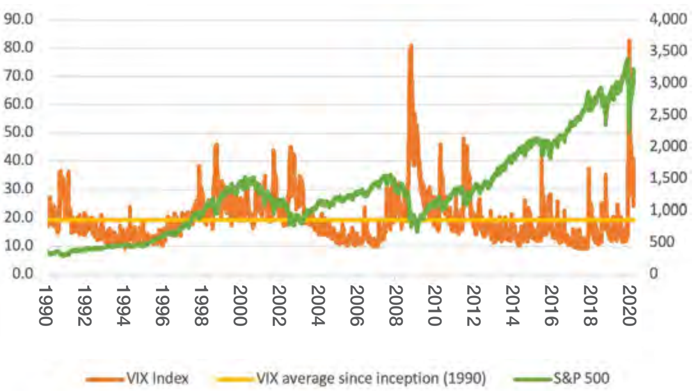
be a UK equivalent but it appears to have been discontinued in summer 2019, at least according to this column's regular data provider).

The VIX was launched in 1990 and it has averaged a reading of 19.4 over its 30-year history. The lowest reading ever was 9.1 in November 2017 and the VIX set a new high this year of 82.7 in March, when it surpassed the 80.9 peak seen in November 2008 as the Great Financial Crisis reached its zenith.

A long-term chart shows that the VIX tends to peak as share prices bottom and vice-versa. This makes sense in that valuations will be at their cheapest (and therefore most rewarding) during panics and sentiment is washed out, while valuations will be at their highest (and therefore least rewarding, at least over the long-term) when animal spirits are rampant and confidence is high.

RUSS MOULD
AJ Bell Investment Director

THE VIX CAN BE A HELPFUL CONTRARIAN INDICATOR, AT LEAST AT THE EXTREMES



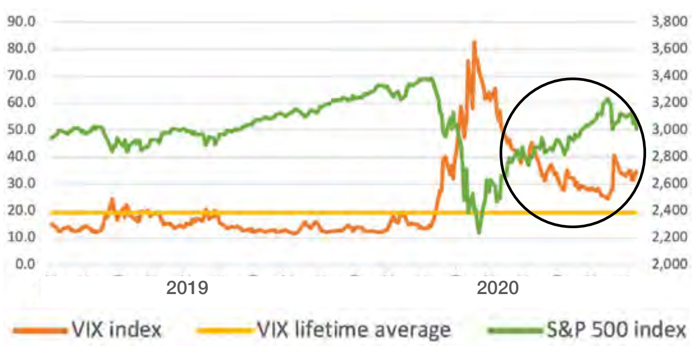
Source: Refinitiv

What is eye-catching about the rally in the S&P 500 US equity benchmark since March is how the VIX has not once even gone back to that lifetime average of 19.4, let alone below it.

This would suggest that conviction levels may not be high, given the possible reliance of the advance upon largesse from the US Federal Reserve which may now be drying up, at least temporarily.

It also suggests that investors do not entirely trust the rally since March and are at the very least preparing for more lumps and bumps along the way as policymakers and the actions of the wider population try to strike the right balance between physical and financial health in their responses to the ongoing pandemic.

VIX SUGGESTS INVESTORS DO NOT ENTIRELY TRUST THE POST-MARCH STOCK MARKET RALLY



Source: Refinitiv

MIXED MESSAGES

A little bit of Mr Murrow's good luck therefore may not go amiss but this leaves investors with a dilemma, not least because relying on fortune is no sort of strategy at all.

Some will be tempted to see the VIX's elevated levels as a chance to buy on the dips and make the most of the prevailing cautious sentiment.

Others will take the view that no-one truly knows what is coming next – a vaccine, a second wave, an inflationary economic recovery, a deflationary economic shock or even stagflation. The VIX's refusal to go anywhere near its average points to great uncertainty and the potential dangers that could come with taking a strong view on any of the possible scenarios that may ensue.

VIX readings over 40 (just more than twice the long-run average) are pretty rare – the 'fear index' has only got there in nine years out of 30 and for just over 200 days in total (barely 2.5% of the time).

Some of the annual samples are very limited but across those nine years, the S&P 500 has recorded a gain three times (1998, 2009 and 2010), done nothing twice (2011 and 2015) and fallen on the other four occasions (2001, 2002, 2008 and 2020 to date).

That mixed bag again speaks against taking too definitive a view amidst the current uncertainty and perhaps in favour of a diversified portfolio that is designed to cater for, protect against and hopefully benefit from multiple possible outcomes. For example, the S&P 500's record in those nine years when the VIX hits 40 is pretty mixed but gold can point to seven gains and just two losses so the precious metal could be considered as a possible diversifier, especially if investors fear a sustained economic downturn.

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

Admittedly, an argument in favour of portfolio diversification is hardly new but in its defence this column will reach for a third and final quote from Ed Murrow, by way of conclusion:

'The obscure we see eventually. The completely obvious, it seems, takes longer.'

GOLD HAS HISTORICALLY DONE BETTER THAN THE S&P 500 IN YEARS WHEN THE VIX HITS 40

	Number of VIX readings of 40+	S&P 500 annual return (%)	Gold annual return in $ (%)
1998	15	26.7%	-0.5%
2001	4	-13.0%	1.4%
2002	11	-23.4%	24.0%
2008	64	-38.5%	3.1%
2009	67	23.5%	27.1%
2010	3	12.8%	29.3%
2011	11	0.0%	11.1%
2015	1	-0.7%	-10.4%
2020	34	-6.9%	16.5%

Source: Refinitiv


SCOTTISH MORTGAGE INVESTMENT TRUST
We invest in profound change, disruptive technologies and big ideas.
Not just the stock market.
We don’t see Scottish Mortgage Investment Trust as simply trading stocks on the world’s markets. We see our role as seeking out those genuinely innovative businesses that are shaping the future. We call it investing in progress. And by using our skills as actual investors, not simply stock traders, we believe we can deliver strong returns for your portfolio.
Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.
Find out more by watching our film at scottishmortgageit.com
A Key Information Document is available. Call 0800 917 2112.
BAILLIE GIFFORD
Actual Investors

Why Scottish Mortgage won't go the way of Woodford

There are good reasons why shareholders have given the investment trust permission to invest in a greater proportion of privately-owned companies

Shareholders in FTSE 100 member **Scottish Mortgage (SMT)** have just voted in favour of the popular investment trust increasing the maximum percentage of privately-owned businesses in its portfolio from 25% to 30%.

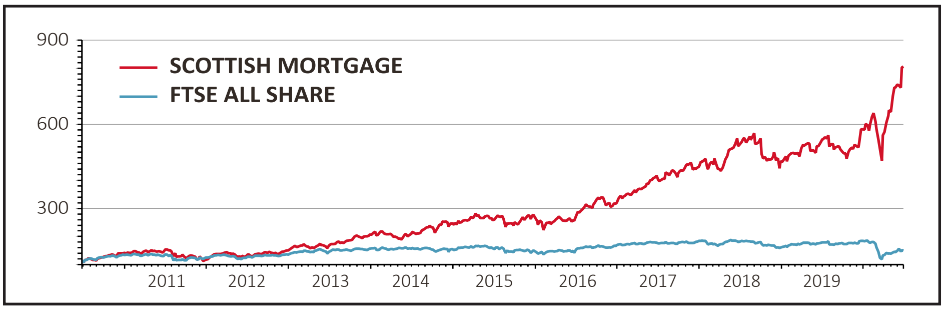
This is an important development for the trust for several reasons, one of which is the heightened risks associated with investing in unquoted companies – businesses that do not trade on a stock market.

Disgraced fund manager Neil Woodford fell out of favour partly because he deviated from his tried and trusted strategy of buying mainly large caps stocks whose income potential had been undervalued by the market.

Woodford moved away from what had made him so successful at his previous employer Invesco Perpetual and instead invested in lots of tricky-to-value unquoted assets in sectors in which he wasn't an expert. These illiquid investments were then difficult to sell when he needed to hand investors back their cash.

Given that this style drift was at the heart of the Woodford debacle, should risk-averse investors be worried by the developments at Scottish Mortgage? We think not.

Scottish Mortgage's portfolio includes Zoom



DIFFERENTIATED PROPOSITION

The rapid rise of some of Scottish Mortgage's most successful investments over the past couple of decades, and their apparent resilience during economic hardship, means some of its biggest stakes increasingly feature in passive tracker funds.

One of the ways Scottish Mortgage can diverge from more mainstream funds is to unearth opportunities among privately-owned companies not listed on stock markets.

GREAT TRACK RECORD

Shares is a long-run admirer of Scottish Mortgage, which gives investors a way to access the world's most exciting growth companies.

Co-managers James Anderson and Tom Slater identify companies, enabled by technology, which they believe have the potential to be much greater in size in the future thanks to having a proposition which is scalable and could be market-leading in time.

They will hold on to these investments once investee companies become market leaders, thereby turbo-charging returns for shareholders.

The investment trust performed strongly during the market weakness surrounding the pandemic and economic shutdown and has also benefited during the equity market rebound thanks to its focus on tech companies, disruptive businesses and a relatively high weighting in Chinese domiciled companies.

For instance, the trust owns shares in the likes of video conferencing star turn Zoom, online shopping-to-cloud services colossus Amazon, Google-parent Alphabet and Illumina, which is building advanced equipment to unlock the power of genetic science.

Illumina, another company featured in Scottish Mortgage's portfolio, works in the field of genetic science

GOING WHERE THE GROWTH IS

The exposure to unquoted companies in Scottish Mortgage's portfolio continues to grow rapidly. It has risen from only 4% of net asset value (NAV) in 2015 to 22% as of 31 March 2020.

For Scottish Mortgage to crystalise any value creation from its unquoted investments, it would need to find a buyer for its holdings privately or wait until one of these holdings lists on a stock market so it can freely trade the shares. However, its team are masters at finding excellent growth companies and we have great faith in them picking the right ones.

Analysts at investment bank Stifel say the level of disclosure on unquoted companies in Scottish Mortgage's accounts has improved and a number of these companies have delivered strong returns for investors in recent years.

Fund managers Anderson and Slater argued for the 5% increase in the unlisted exposure to 30% in the belief that 'it is just as important to ensure that further investments may be made in those private companies showing real progress, as it is to ensure that all new opportunities may be judged equally on their fundamental merits'.

The unquoted exposure increase will enable them to continue to invest in the best opportunities available, whether they be public or private companies, without changing the nature of the investment proposition.

They say that if Scottish Mortgage hadn't made this amendment, this valuable flexibility would have become severely constrained and largely dependent on the timings of stock market flotations of existing unquoted companies, to the clear detriment of shareholders.

As Scottish Mortgage clearly articulated in its full year results (15 May), 'equity investing is all about capturing long run compounding returns' and one of the important advantages the trust has when investing in established private companies is the ability to continue owning such businesses as and when they become public companies. 'This means that it is possible to capture the benefits from the long run compounding of returns as they grow from a lower starting value.'

GOOD ACCESS TO GROWTH COMPANIES

Stifel points out that investment manager Baillie Gifford has unparalleled access to many of

VARIOUS UNQUOTED INVESTMENTS IN SCOTTISH MORTGAGE'S PORTFOLIO

Company	Total assets (%)	Country	Industry
Ant International	2.3	China	Financial Services
Ginko BioWorks	1.8	US	Synthetic Biology
Tempus Labs	1.5	US	Healthcare AI
TransferWise	1.1	UK	Financial Services
Grail	0.8	US	Healthcare
Bytedance	0.7	China	Social Media
Space Exploration Technologies	0.6	US	Satellite Comms & Aerospace
Tanium	0.5	US	IT
Affirm	0.3	US	Financial Services
Full Truck Alliance	0.3	China	Logistics
Palantir Technologies	0.3	US	IT
Stripe	0.3	US	Financial Services
Airbnb	0.2	US	Travel & Leisure
AUTO1	0.2	Germany	Automotives
Snowflake	0.1	US	IT

Source: Scottish Mortgage

these unquoted opportunities.

It says: 'The unlisted portfolio continues to become a more significant part of Scottish Mortgage's portfolio and potentially returns. The performance of the unlisted segment of the portfolio, as a whole, appears to have been relatively good in the past year at around +11% and this is similar to the performance of the NAV of the rest of the portfolio over the year at +13.7%.'

Admittedly, there have been disappointments – par for the course when investing in unquoted growth hopefuls – but there have also been some significant successes, with five initial unquoted investments delivering annualised returns in excess of 40% per year in recent years.

SEVERAL ADVANTAGES

Shares believes Scottish Mortgage and Baillie Gifford are well positioned to invest in unquoted companies for two key reasons.

Firstly, Anderson and Slater take a long-term view which suits growing unquoted companies – a number of the listed holdings have been owned in excess of 10 years – and they like to hold on to investments for a long time, meaning that a stock market listing is not necessarily the point at which Scottish Mortgage will exit an investment.

Secondly, the closed-end structure of an investment trust works well with an unquoted strategy given there is no requirement for immediate liquidity, unlike an open-ended fund such as the ill-starred Woodford Equity Income.

PORTFOLIO EXCITEMENT

Unquoted companies are growing in importance to the returns delivered by Scottish Mortgage too and add a sprinkle of diversification to a trust with a concentrated portfolio including only 43 listed companies as of the end of May; the largest investment is electric vehicle maker Tesla, followed by Amazon.

Within the trust's largest 30 investments there are six unquoted companies, the largest being online financial services platform Ant, a subsidiary of Chinese internet titan Alibaba. While there have been some disappointments, Stifel says there have also been numerous significant successes.

It points out that of the 59 investments that Scottish Mortgage originally backed as unquoted companies, including music and podcast streaming platform Spotify and Alibaba, 21 have delivered annualised returns north of 10% per year, with five of those names, including Alibaba and Slack Technologies, returning over 40% on an annualised basis.

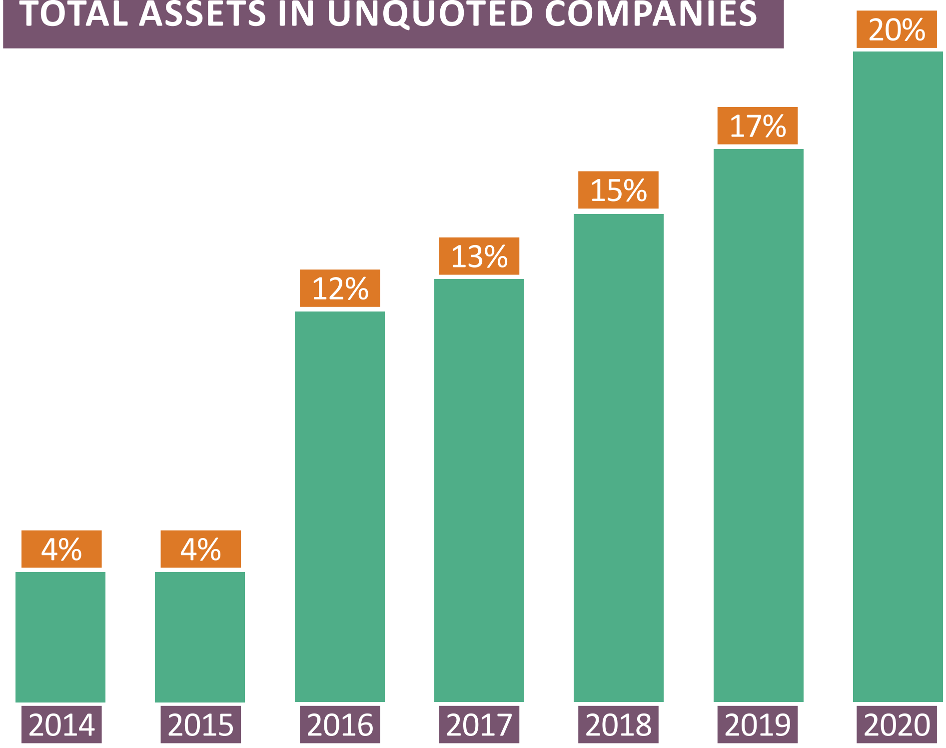
The best performer is Vir Biotechnology whose stake was initially purchased in 2017 and it has returned 115% annualised.

The top unquoted holdings by scale include Elon Musk's rocket and spacecraft designer SpaceX.

Unquoted portfolio investments expected to float on a stock market in the future include accommodation platform Airbnb; Ant Financial; Bytedance, which owns the social media phenomenon TikTok; and data integration software play Palantir Technologies.

Other private companies in Scottish Mortgage's portfolio that should excite investors include online payments platform Stripe, cloud data warehousing platform Snowflake and Indigo Agriculture, a company that analyses plant microbiomes to increase crop yields. It is also worth noting stakes in electric aircraft hopeful Joby Aero and Recursion Pharmaceuticals, which uses machine learning to improve drug discovery.

SCOTTISH MORTGAGE: TOTAL ASSETS IN UNQUOTED COMPANIES



Source: Scottish Mortgage

© Official SpaceX Photos

James Crux,
Funds & Investment Trusts

Why do companies join the stock market and which ones can I invest in?

We examine the 'menu' of shares from which an investor makes their selection

In the previous part of this series we defined what a share was, how you can generate a return by investing in them and how this return can be made up both of dividends and capital gains.

In this article we turn to the menu from which you can pick shares. After all, shares come in different sizes, shapes and flavours just like the dishes you choose in a restaurant or from a takeaway menu.

Before we stretch the analogy too far it is worth clarifying that we are talking about the wider stock market and the different exchanges, sectors and stocks it encompasses. It is this market of buyers and sellers which enables you to buy and sell shares. In the UK nearly all shares are traded on the London Stock Exchange.

Did you know?
Investment trusts and exchange-traded funds are also traded on the stock market

WHY DO BUSINESSES JOIN THE STOCK MARKET?

There are a variety of reasons why a company joins the stock market. These include raising the profile of the business, increasing its credibility with customers and prospective lenders, and potentially to use shares for acquisition purposes.

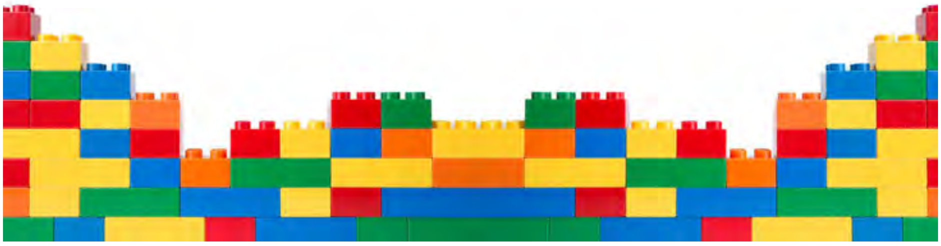
A key motivation is to gain access to investors' capital and as a way for the founders of a business or staff to profit from a successful venture by selling some of their interest to new shareholders.

Firms typically raise money when they first join the stock market and may well follow up with further issues of shares when they need more cash to finance their growth ambitions.

Typically, but not always, a business will wait until it has reached a certain level of maturity before joining the stock market, perhaps already generating a profit.

After all, this is not a cost-free equation, there are significant fees and responsibilities associated with being a public company. Engaging with the market will take up a significant chunk of management's time.

You can't buy shares in any company you want. Some companies like Lego are privately-owned and so the general public cannot buy shares in the business



Not all companies have a stock market listing. Confectionery giant Mars and toy maker Lego are just two examples of high-profile brands which have no stock market presence as they are privately owned.

THE LIST OF COMPANIES ON THE STOCK MARKET

You can download a full list of all the companies on the stock market from the London Stock Exchange website.

According to the World Federation of Exchanges, as of May 2020 there were 2,359 companies listed on the London Stock Exchange with a total market value of $3.16 trillion.

Shares are divided into different sectors based on the industry in which they operate. There are different layers of sector – the Industry Classification Benchmark is a global standard which has four tiers with 11 different industries, 20 supersectors, 45 sectors and 173 subsectors.

As a snapshot of how this works, the accompanying table shows the consumer staples industry classification and the supersectors, sectors and subsectors within it.

This separation into different sectors makes it easier for an investor to identify potential investment opportunities.

SHARE PRICE INFORMATION

The UK stock market is open from 8am until 4.30pm. During this time share prices will probably move up and down depending on demand from people wanting to buy and sell. Share prices will be heavily influenced by news either specific to a company or to sectors or even broader factors such as central bank interest rates, economic activity and political events.

FROM CONSUMER STAPLES TO BREWERS

Industry (Level 1)	Supersector (Level 2)	Sector (Level 3)	Subsector (Level 4)
Consumer staples	Food, beverage and tobacco	Beverages	• Brewers • Distillers and vintners • Soft drinks
		Food producers	• Farming, fishing, ranching and plantations • Food products • Fruit and grain processing • Sugar
		Tobacco	• Tobacco
	Personal care, drug and grocery stores	Personal care, drug and grocery stores	• Food retailers and wholesalers • Drug retailers • Personal products • Nondurable household products • Miscellaneous consumer staples

Source: FTSE Russell

You can find the latest share prices on a variety of websites, ranging from *Shares*' own website and that of your ISA or SIPP (self-invested personal pension) provider to those run by the London Stock Exchange and more specialist finance data sites such as Morningstar.

FOCUSING ON WHAT YOU UNDERSTAND

If you are new to investing it might make sense to concentrate on companies whose products and services you recognise, understand and can easily research. This might include a supermarket like **Tesco (TSCO)** or a property website such as **Rightmove (RMV)**.

You might, for example, see your local streets busy with Tesco delivery vehicles and make the educated guess that this local phenomenon was being replicated across the country.

That doesn't mean Tesco shares are automatically worth buying; you would need to do further research into areas like valuation (is the stock cheap or expensive?) which we will cover in future parts of this series, but it does illustrate how you can apply what you see with your own eyes to your investing.

Alternatively, if you work in a specific industry you might feel qualified to invest in other participants in the same industry because you are familiar with how it works.

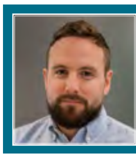
THE DIFFERENT INDICES

As well as sitting in different sectors, stocks also trade on a variety of exchanges and belong to various indices, the latter being specific baskets of shares relating to characteristics such as the size of a company.

The London Stock Exchange encompasses the Main Market and AIM, the latter principally aimed at smaller growth-focused businesses and has looser regulation than the Main Market. There is also a rival market called NEX Exchange which is aimed at junior companies.

The flagship index for the UK is the FTSE 100 which is made up of the largest firms listed on the London Stock Exchange. There is also the FTSE 250 which is the venue for medium-sized firms and the FTSE All-Share which includes pretty much everything on the Main Market.

Many FTSE 100 businesses have international horizons, but some areas like technology are under-represented on the UK stock market and this is one of the potential motivations for more experienced investors to broaden their search to other stock markets around the world and look at indices such as the S&P 500 or Nasdaq in the US.



By **Tom Sieber**
Deputy Editor

REDROW'S STOCK MARKET EXPERIENCE

Registered by a 21-year-old Steve Morgan in the 1970s after taking over a failing civil engineering business with the help of a £5,000 loan from his dad, **Redrow (RDW)** got into housebuilding in 1982.

Having navigated some ups and downs in the housing market, it joined the London Stock Exchange in 1994 raising around £60 million to invest for future growth.

Having sold much of his stake and stepped away Morgan subsequently returned to lead the business in the wake of the financial crisis when the group also raised £150 million from shareholders to shore up its balance sheet. Morgan abandoned an attempt to take the group private in 2013 and eventually retired in 2018. As of June 2020, Redrow was worth £1.7 billion.

SHARES
INVESTOR EVENING

WEBINAR

08 JULY 2020

Presentations:
18:00 BST

Sponsored by
AJBell Youinvest

Join ***Shares*** in our next Spotlight Investor Evening webinar on Wednesday 8 July 2020 at 18:00

CLICK HERE TO REGISTER

COMPANIES PRESENTING:

GBG

GB GROUP (GBG)
Dave Wilson, Finance Director
GB Group (GBG) provides identity intelligence solutions through its two divisions of Identity Proofing and Identity Solutions that offers electronic ID Verification services and ID Registration, ID Engage
and ID Trace and Investigate software and services.

Oncimmune®

ONCIMMUNE (ONC)
Adam Hill, CEO
Oncimmune (ONC) is a cancer detection company engaged in developing and commercializing its proprietary EarlyCDT platform technology. Its product EarlyCDT-Lung is a simple blood test to aid the risk assessment and early detection of lung cancer.

The webinar can be accessed on any device by registering using the link above

Event details
Presentations to start at 18:00 BST

Contact
Becca Smith
media.events@ajbell.co.uk

Register for free now
www.sharesmagazine.co.uk/events

Which pension pot should I use first?

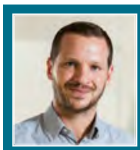
AJ Bell pensions expert Tom Selby weighs up the options for a reader

I have a defined benefit (DB) and defined contribution (DC) pension with ex-employers and will be 55 in September this year.

I would like to make the most of my personal yearly income tax allowance while also leaving some of my pension funds untouched in the hope that future annuity or drawdown figures will improve.

Is there any advantage of using the DC over the DB or vice versa? Should I consider transferring my DB pension to DC one to use as drawdown income as I do not require a spouse pension or life cover from the plan?

Gary



Tom Selby
AJ Bell
Senior Analyst says:

Your first port of call should be to think about your retirement income priorities. For example, do you want a secure income every month, or would you prefer more flexibility and the opportunity for your money to grow (albeit with the risk, particularly in the short-term, that it may go down as well as up in value)?

Is the personal allowance (£12,500 in the 2020/21 tax year) enough to cover your spending needs, or will you need more than this? Do you have the time and inclination to manage your fund in retirement?

All these questions and more will help you decide whether taking an income through drawdown or buying an annuity, or a combination of the two, is right for you. It should also help guide any decision to access a defined benefit pension.

Do you want a secure income every month?

Is the personal allowance enough to cover your spending needs?

Do you have the time to manage your fund?

INCOME

It is unlikely your defined benefit pension will be available at its full value from age 55. Most DB schemes have a ‘normal pension age’ – usually 60 or 65 – at which point you should be able to receive your full retirement income entitlement.

It may be possible to get your DB pension earlier, but the income will be reduced at a rate determined by the scheme.

One thing to consider is that once you access your DB pension, there is no going back. This is not the case with defined contribution, where you have a range of options including taking your tax-free cash only, ad-hoc withdrawals or a regular stream of income which you can stop and start any time.

Both DC and DB pension income is taxed in the same way as earned income, so from this perspective there should be no difference in terms of which you draw on first.

It's also worth noting there is no guarantee that annuity rates will improve, while the amount you can sustainably take as an income through drawdown will depend on a variety of factors including your age, health and the performance of your investments.

LUMP SUMS

Remember as well that both DC and DB pensions enjoy a tax-free cash entitlement, which you might be able to use to meet some of your needs. For DC this will usually be 25% of the fund value when you 'crystallise' it. This just means choosing a retirement income option such as drawdown or buying an annuity.

DB pensions also come with a 25% tax-free cash entitlement, although this will be calculated by an actuary based on the value of your pension and available when your retirement income is paid from the scheme.

ADVICE

This is one of the most important financial decisions you will make, so consider taking regulated financial advice. If your DB pension is valued at £30,000 or more you will need to take advice before going ahead with a transfer anyway. This advice should account for all your personal circumstances, including whether you have a spouse or not.

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.

Drop in investment ISA demand but more women are saving than men

New figures show how savings patterns are changing

The latest ISA data from the Government, covering usage in the 2018/19 tax year, shows that the worries about the Brexit vote and whether we'd have a hard Brexit hit investors and fewer chose to save their money in an investment ISA.

The Government figures show 450,000 fewer people subscribed to stocks and shares ISAs compared to 2017/18.

At the same time cash ISA use has leapt by a fifth, after years of falling figures. The introduction of the Personal Savings Allowance, which gave most people a tax-free allowance, seriously dented the popularity of the cash ISA in recent years, and the number of people subscribing to them has dropped every year since 2012/13.

The average amount we're all putting into our ISAs stayed about flat, with £5,187 put into cash ISAs and £9,331 into stocks and shares ISAs, far below the £20,000 annual limit that every individual gets.

MORE WOMEN SAVING

Women have consistently been bigger users of ISAs, with more females signing up to them, but tending to prefer cash accounts rather than using an investment account. The latest figures show that at every age range more women are putting their money into ISAs than men.

However, the gender gap in terms of investment usage is closing slightly. In 2017/18, the latest year this data is available, 74% of women putting their money into an ISA kept it in cash, down from 80% the previous year.

The number using an investment ISA rose from 17% to 21% in that period too. In contrast just 64% of male ISA users are putting their money in cash, compared to 29% who use a stocks and shares ISA. The remainder did a combination of the two.

DRAWBACKS OF CASH SAVING

Opting for cash damages women's wealth over the long-term. For example, the top cash ISA rate is currently just over 1%, showing the meagre returns that you get for keeping your money in cash.

With the Bank of England's base rate having been so low for more than 11 years cash savers have struggled to grow their money. In comparison, over the past 10 years the MSCI World index of global companies has returned 10.7% on an annualised basis, while the FTSE 100 index of UK companies has returned 5.7% a year on average.

JUNIOR ISAS BECOMING MORE POPULAR

More people are using a Junior ISA to save money for their children. Junior ISA usage is up 5% year-on-year, with 954,000 people using them to save money for their kids or grandchildren.

However, frustratingly people are still relying on cash ISAs for their children's savings, with cash accounts making up 70% of total Junior ISA usage – a figure that has stubbornly not budged since the previous year.

If you're putting money away for up to 18 years you're in the ideal place to be able to ride out the rises and falls in the stock market and have the potential to supercharge your child's savings by getting higher returns.

The Junior ISA annual limit increased this year, meaning people can now put up to £9,000 away for their offspring, a big increase from the previous year's £4,368. However, in reality people are putting away far smaller sums on average – £1,020. This means that the additional limit will likely only be used by very few wealthy families.

LIFETIME ISAS ALSO IN DEMAND

Lifetime ISA usage has risen dramatically in recent years. The accounts were first launched in April 2017, but it took a while before more than a couple of providers offered the accounts.

During the 2018/19 tax year, which are the latest figures available, more people started offering the accounts and that led to the number of people opening a Lifetime ISA jumping by 45%, with 223,000 accounts opened.

However, people were putting less money in the accounts, with the average subscription dropping by 16% to £2,709. This likely reflects the fact that in the first year of the Lifetime ISA you could transfer your entire existing Help to Buy ISA balance without it counting towards your annual £4,000 Lifetime ISA subscription, while in 2018/19 this was not possible.

The average subscription figure doesn't include the Government bonus, so this means the average Lifetime ISA saver is getting £677 of free money from the Government each year, topping up the average annual savings to £3,386.

In total people have put £1,090,000 into their Lifetime ISAs since launch, which means the Government has handed out a total of £272,500 in bonuses to help bolster people's savings for their first homes and retirement.

INNOVATIVE FINANCE ISAS LOSING APPEAL

The Innovative Finance ISA was launched in 2016 and initially saw usage soar, with the number of people using them rising from 5,000 in 2016/17 to 49,000 in 2017/18.

However, fewer people are now using Innovative Finance ISAs, with the number of people putting money into them dropping by almost a quarter between 2017/18 and 2018/19. However, this smaller pool of people that did use them put more money in, with the average subscription jumping by more than 50% to £8,632.

These figures hint that the Innovative Finance ISA is being used more by sophisticated investors, who hopefully understand the higher risks involved in these investments.

It's likely that there will be a larger drop-off in the numbers in the most recent tax year, following the FCA's ban on mass marketing for most of the products that fall into this bracket.

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

How to tell if your ETF is physical or synthetic

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

Some ETFs have physical underlying holdings, which is safer for the investor, whereas some are derivative instruments where you take the credit risk of the underlying issuer (eg UBS, Citibank). Is there an easy way to differentiate between the two types; for instance, is it clearly stated on their factsheet or is there some way to tell from their identifying code?
Kearia Yau

Reporter **Yoosof Farah** replies

You are correct to say there are two types of ETF – physical ones and synthetic ones.

Physical ETFs buy the underlying assets to physically replicate the index they are tracking.

A commonly used method of replicating an index is full replication, where for example an ETF tracking the FTSE 100 would buy shares in all the companies in the index.

But where this is a bit difficult, for example with an ETF tracking the MSCI World Index and its 1,000-plus constituents, ETFs will a technique called 'optimisation', whereby they will obtain the desired exposure by matching things like sector and country weights, the dividend yield, etc, without needing to buy all of the stocks in the index.

Synthetic ETFs on the other hand use complex financial tools like derivatives to replicate the returns of the index, without actually buying the holdings at all.

These are more commonly used for leveraged ETFs, more illiquid stock markets like some emerging markets, and ETFs linked to commodities, where investors wouldn't actually want to take physical delivery of things like oil for example.

There are advantages and disadvantages to both types. Synthetic ETFs tend to have a lower tracking error, meaning their returns stick closer to the index they're tracking. Yet there is counterparty risk, namely the risk of the counterparty going bust and not being able to fulfil its commitments, which would wipe out the ETF's return.

The best way to see if an ETF is physical or synthetic is to look at the ETF's literature, namely the factsheet and key investor information document (KIID).

On the factsheet, this information should be detailed in the fund's fact box, where among other details like cost, benchmark and rebalancing frequency, it should also mention 'product structure', and this will say whether the ETF is physical or synthetic.

More detail on this will be given in the KIID, on the first page under a heading like 'Objectives and Investment Policy'. For example, in the KIID for **iShares Core FTSE 100 (ISF)**, which is a physical ETF, it says: 'The fund intends to replicate the index by holding the equity securities, which make up the index, in similar proportions to it.'

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.

WATCH RECENT PRESENTATION WEBINARS

Christian Hoyer Millar, Executive Director, Oxford Biodynamics (OBD)

Oxford Biodynamics is a biotechnology company. It is focused on the discovery and development of novel epigenetic biomarkers for use within the pharmaceutical and biotechnology industry.

Rob Shepherd, Group Finance Director, President Energy (PPC)

- President Energy is an oil and gas exploration and production company. Its principal activity is oil and gas exploration, development and production and the sale of hydrocarbons and related activities.

Visit the Shares website for the latest company presentations, market commentary, fund manager interviews and explore our extensive video archive.

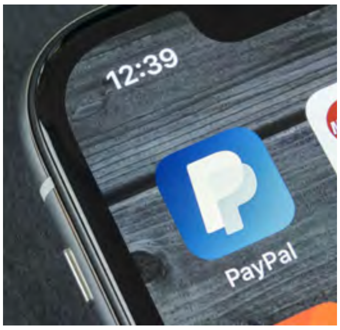
CLICK TO PLAY EACH VIDEO

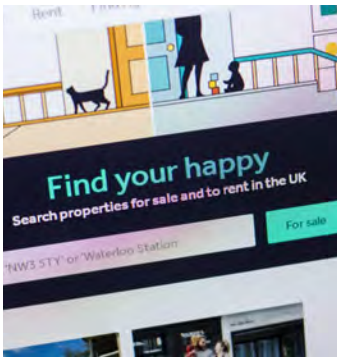
SHARES SPOTLIGHT

www.sharesmagazine.co.uk/videos

KEY

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





KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

3 July: Fuller, Smith & Turner. **7 July:** Halfords, JD Sports Fashion. **8 July:** Liontrust, U&I. **9 July:** Ilika, Superdry.

Half year results

7 July: Micro Focus, Ocado, RM.

Trading statements

7 July: Electrocomponents, Reach. **9 July:** PageGroup, Persimmon.

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

SENIOR REPORTERS: Martin Gamble @Chilligg; Ian Conway @SharesMagIan

REPORTER: Yoosof Farah @YoosofShares

CONTRIBUTORS Russ Mould, Tom Selby, Laura Suter

ADVERTISING
Senior Sales Executive
Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

CONTACT US:
support@sharesmagazine.co.uk

All chart data sourced by Refinitiv unless otherwise stated

PRODUCTION
Head of Design: Darren Rapley
Designer: Rebecca Bodi

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