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ESG-PRINCIPLED INVESTORS ABANDON **BOOHOO**

THE SIGNS THAT INVESTORS WANTED NEW CEOS AT **LLOYDS AND AVIVA**

GROWING CONCERNS ABOUT **RENEWABLE ENERGY FUNDS**

Pau Buscato | London, 2016

The signs that investors wanted new CEOs at Lloyds and Aviva

A share price jump on each CEO's resignation suggest investors are happy about the changes

A 3% jump in **Lloyds' (LLOY)** share price upon news that chief executive António Horta-Osório is leaving next year would suggest investors are happy to see him go. While the broader stock market was up on the same day (6 July), the bank's price movement was nearly twice the rise in the FTSE All-Share.

Measuring the share price reaction to management change can tell you a lot about how investors rate a person.

For example, Disney's shares fell nearly 4% upon Bob Iger saying in February that he was standing down as chief executive. Commentators suggested that his replacement, Robert Chapek, was a surprise choice given his lack of experience with streaming and direct-to-consumer offerings that are central to Disney's future.

The share price reaction represented investors' way of saying 'are you sure you've appointed the right person?' as much as disappointment at the timing of Iger's departure. The latter had been expected to stay until the end of 2021.

Having the right person running a company is crucial to a company's success and to investors' returns.

They are the ones with the final say on strategic decisions and in a world where governance is a crucial part of the investment case, investors need to have faith in the person behind the wheel.

António Horta-Osório did a lot to repair Lloyds following the global financial crisis. He helped fix the balance sheet and returned the business to private ownership.

A stronger financial position led to resumption of dividends which was perhaps the most important thing for shareholders who held the stock through years of turmoil, waiting patiently for the income taps to be turned back on.

Dividends are off the menu once again as the whole banking sector is discouraged from paying out cash rewards to shareholders during the pandemic. That's not Horta-Osório's fault, so why did the share price rise on his resignation? It's more down to the market looking for new leadership to take the business forward. Horta-Osório was a fixer, now the bank needs a grower.

It's a similar story with **Aviva (AVV)** whose share price jumped nearly 4% on 6 July after Maurice Tulloch stood down as chief executive after just over a year in the role for family health reasons.

At the time of his appointment, some commentators were shocked that Aviva had taken so long to appoint a new CEO only to then pick an internal candidate.

There were suggestions that an outsider might have brought some fresh thinking to the company's strategy – and perhaps those wishes are now being fulfilled with ex-Axa UK boss Amanda Blanc replacing Tulloch.

Investors often welcome a new person at the top, but equally they can get nervous if someone looks like they are going to rip up the game plan entirely.

Shares in both Lloyds and Aviva have been languishing for some time so any improvement on the current strategies would be welcome.

Whoever replaces Horta-Osório at Lloyds needs to remove layers of bureaucracy that make it hard for decisions to be made quickly. As for Aviva, there has long been talk of breaking up the business and the pressure is on Blanc to get the chopping board out to see how best to slice it up.

By **Daniel Coatsworth** Editor

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News Provider of the Year (Highly Commended) CFA UK Journalism Awards 2020

Janus Henderson exists to help you achieve your long-term financial goals.

FINE WINES REQUIRE TIME

Investment Trusts, managed by Janus Henderson

One of the keys to producing fine wine is to ensure you use high quality grapes.

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KNOWLEDGE. SHARED

Dividend opportunities continue to shrink for investors

UK and global payments could fall by as much as a third this year

The number of FTSE 100 companies which have raised their dividends in each of the last 10 years fell from 25 at the start of the year to just 14 at the end of June, according to analysis by AJ Bell.

Such has been the damage to company balance sheets during the pandemic that dividend payments by FTSE 100 companies this year are expected to be just £62 billion instead of £91 billion as forecast in January.

That leaves the FTSE on a 2020 yield of 3.6%, which may be more realistic than the indicated yield of 4.7% at the start of the year and is certainly a lot better than deposit rates but still carries some risk.

'A second wave of the pandemic could cloud hopes for higher dividend payments in the second half of the year, especially as earnings cover is still thin and profit forecasts are still generally sinking lower,' says AJ Bell investment director Russ Mould.

Earnings cover, or the ratio of earnings to dividends, has dropped to about 1.4 times since the beginning of the crisis, well below the level of two times which is generally regarded as sustainable.

There was some rare good news on dividends last week when property firm **Land Securities (LAND)** announced it would resume payments later this year, after it saw 'encouraging' levels of footfall at shopping centres which reopened last month.

However, there are still plenty of companies continuing to deliver disappointing news to shareholders including packaging group **DS Smith (SMDS)** and tech firm **Micro Focus (MCRO)**, both of whom recently said it was too early to start resuming dividends.

Henderson International Income Trust (HINT) sees global dividends falling between 15% and 34% this year, more than during the global financial crisis, after rising 8.7% last year.

BT is among the companies suspending dividends

In 2019 the trust reported that over 20% of global dividends (£230 billion worth of payments) were at risk of being cut. By May 2020, 40% of the companies it identified as 'traps' had cut their dividends, including **BT (BT.A)** and **Royal Dutch Shell (RDSB)**.

Fund manager Ben Lofthouse says: 'The current recession is unusual because it is happening in almost all parts of the world at the same time and because it is so sudden. Normally in a recession, companies would flex their dividend cover target and dividends would reduce much less than profits, protecting shareholder income.

'So far, the decline in dividends looks set to be similar or worse than the decline in profits, meaning companies are protecting their balance sheets to see them through the crisis. This will allow them to emerge stronger'.

Disclaimer: AJ Bell is the owner and publisher of Shares magazine. The author Ian Conway and editor Daniel Coatsworth own shares in AJ Bell.

Housebuilders' shares in demand thanks to stamp duty boost

However, there are lingering worries over the impact of mortgage availability on the property market

There was welcome news for housebuilders in chancellor Rishi Sunak's mini-Budget (8 Jul) as he raised the stamp duty threshold on properties from £125,000 to £500,000 until 31 March 2021.

This move should boost the property market and benefit housebuilders, estate agents, DIY retailers and building materials suppliers.

The stamp duty decision, which had been widely trailed ahead of time, and a trading update espousing 'cautious optimism' on the outlook helped lift shares in **Barratt Developments (BDEV)** on 6 July. It saw further gains on the following two days.

Its peers including **Persimmon (PSN)**, **Taylor Wimpey (TW.)** and **Berkeley (BKG)** also saw their shares in demand.

In recent trading updates there have been calls from the housebuilding industry to extend the existing Help to Buy scheme beyond its current expiration date in 2021, upon which the scheme changes so that only first-time buyers are eligible. There was no news on this front in the mini-Budget.

Equity valuations among housebuilders continue to reflect some nervousness over the prospects for the sector. According to stockbroker Davy the average price-to-book value for the housebuilders over the last five years was a shade over two times. It is significantly lower today though there is variation across the sector.

Some caution is warranted due to the uncertain outlook. While order books in the housebuilding sector have been surprisingly resilient and customer demand has bounced back post-lockdown, the economic impact on the housing market is yet to fully come through.

One area to watch is the mortgage market with

lenders withdrawing higher loan-to-value products as they look to protect themselves from potential future bad debts.

The widespread availability of cheap mortgages, the Help to Buy scheme and the strong dynamics behind the housing market, with demand outstripping supply, have been big factors behind the housebuilding sector's impressive profitability for the latter part of the 2010s.

One factor in housebuilders' favour heading into a downturn in the economy and property market is they have, for the most part, significant stronger balance sheets than they did before the global financial crisis.

OTHER MEASURES IN SUNAK'S MINI-BUDGET

1. Discount for eating out and VAT cut
Positive for pubs, restaurants and hotels

2. Green home grants for homeowners
Positive for construction and building products sectors

ESG-principled investors abandon Boohoo

Online fast fashion seller has fallen out of favour with investors following damaging modern slavery claims

Shares in online fashion purveyor **Boohoo (BOO:AIM)** have plunged 45% from recent record highs to 230p following allegations of modern day slavery in supplier factories in Leicester. The negative backlash suggests that ESG-principled investors are turning their back on the company and that the shares have further to fall.

Boohoo has started a review of its supply chain and is seeking to hire two non-executive directors with experience in handling ESG issues. However, investors are worried about a brand backlash as the likes of **Next (NXT)** and **ASOS (ASC:AIM)** stop selling Boohoo's clothes and social media influencers turn against the company.

Analysts worry that as many of the younger shoppers who form Boohoo's core customer demographic have a sharp interest in business ethics, labour practices and sustainability, the latest issues around suppliers might be damaging the brand.

Boohoo's 'test and repeat' fast fashion model sees it sell products which shoppers typically wear once, then discard, which is yet another negative from an ESG perspective given the waste it creates.

The company has also attracted criticism over corporate governance practices such as an incentive scheme that would see directors share £150 million based only on share price performance and with no shareholder vote.

Cycling boom isn't enough to drive up Halfords' shares

Bikes are less profitable than motor-related sales

SHARES IN CAR parts-to-bicycles retailer **Halfords (HFD)** failed to pedal higher as we'd hoped despite the delivery of full year profit (7 Jul) at the upper end of previous guidance and the news recent trading is materially better than that anticipated at the start of the COVID-19 outbreak.

Bike sales surged during lockdown and Halfords is seeing the initial signs of recovery in motor-related sales.

Over the 13 weeks to 3 July, like-for-like cycling sales grew 57.1%, boosted by the avoidance of public transport, balmy weather and increased adoption of cycling as a health and leisure activity.

However, the fact that cycling products are lower margin means Halfords' main growth driver is currently a less profitable one for the company; selling bikes involves lots of manual labour with staff having to assemble and adjust products.

In addition, Halfords' lack of earnings guidance also disappointed the market and combined with the drag on earnings from having a bigger weighting from cycling sales, drove the shares lower on results day.

While Halfords provided different scenarios, saying it will either make or lose a certain amount of money, that wasn't enough for investors who wanted to see management have a firmer grip on how the year will pan out.

As shares break new records what is the market discounting?

Stocks are a unique asset class because they don't have a maturity date, but that makes them trickier to value

The coronavirus crisis has seemingly been absorbed by the market in stages as the scale of the economic damage has become apparent.

According to data analysed by Bank of America the broad S&P 500 index took only 22 days to fall by 30% from its record high, the fastest rate in history.

The International Monetary Fund expects the global economy to contract 4.9% this year, the worst downturn since the Great Depression, before rebounding 5.4% in 2021. It expects the UK to see a 10.2% contraction compared with 8% in the US.

Yet after bottoming on 23 March the S&P 500 index actually marked another record high by turning tail and rallying 38% in just 50 days.

WHAT'S BEHIND THE MARKET MOVEMENTS?

A popular narrative has emerged to explain these unusual events and is based upon a mixture of historical precedent, massive central bank and government stimulus efforts and so-called 'animal spirits'.

Previous health crises have tended to have a sharp but temporary effect on the economy, so why not this time, goes the thinking.

Investors have effectively 'written-off' 2020 earnings and are excitedly eyeing a bounce next year. It seems reasonable to ask whether the stock market has lost its collective mind, and if not, what current prices are telling investors.

IS IT RATIONAL?

Let's say that a friend agrees to pay you £1,000 over the next 20 years in equal £50 annual payments.

Let's also assume that your friend gets laid-off and can't pay you the £50 at some point along the way. Your friend apologises, but bad things happen from time to time and she promises to continue paying you £50 in the future. It turns out she keeps her promise.

In effect you end up out of pocket by £50 which as a percentage of the £1,000 is 5%. You were concerned about getting the balance of the promised money and lowered your expectations accordingly. But that fear turned out to be misplaced and in any case you convince yourself that 5% short isn't that bad over such a long timeframe.

Now, let's use earnings in the same example, and say £50 is the current earnings of the UK stock market which is worth £1,000. We can see that the market is valued at a price-to-earnings ratio (PE) of 20 times (£1,000 ÷ £50 = 20).

We have already seen that removing a whole year's worth of earnings reduces the total value received over 20 years by only 5%. That would be even smaller over longer durations.

The important thing to understand about shares which makes them unique is that they can exist for a long time and potentially produce an endless stream of earnings. That is why they are sometimes referred to as long duration assets.

As long as investors maintain the same level confidence in shares' long term potential, any short-term dip in earnings will have minimal impact on the value of those earnings. It takes a more sustained hit to earnings and/or a loss of confidence to create long bear markets.

Confidence is expressed through the PE which acts like a neurotic friend with big mood swings. Some days the market will effectively offer to buy your shares for a PE of 30, and other days it might be as low as 12.

BACK TO THE FUTURE

How much of the 30% market fall in March was down to fear – the PE falling – and how much was related to the actual fall in future earnings won't be known for some time and the same applies to the recovery.

Investors appear to have 'taken the long view' by pushing markets back towards pre-crisis highs with the FTSE 350 only 18% below the price levels at the end of 2019.

The bet being made is that economies will get back to 'normal' once a vaccine is found while mortality-reducing therapies such as dexamethasone can reduce the need for national lockdowns in the immediate future.

Equities aren't priced for sustained damage to the economy that would arise from a second wave of the virus, but that has to be balanced by the commitment of governments and central banks to 'do whatever it takes' to maintain confidence in the economy and the markets.

HOW TO WORK OUT WHAT THE FTSE 350 IS PRICING IN

The Gordon Growth Model approach to valuation was named after Myron J. Gordon of the University of Toronto and dates back to the 1950s. It is useful because of its simplicity, but it should be stressed that using unrealistic inputs will result in unreliable outputs.

All that is needed is the forecast dividend, index level and cost of equity. For the FTSE 350 this works out respectively at £110.80 per share, 3,463 and 8% based on data from Stockopedia. Cost of equity is essentially the return that equity owners require to compensate them for the risk of owning shares.

It can be calculated by taking the dividend yield and adding it to dividend growth rate. Historically, on average over the last 100 years UK dividends have grown 4.8% a year and the current estimated yield is 3.2%, equating to an 8% cost of equity.

Plugging these numbers into the equation shows that the FTSE 350 is trading at a price which implies a future growth rate of 4.8%, bang in line with the historical average. It's best to use ranges rather than rely on one scenario.

If you think the growth rate will average 4% in future the FTSE 350 should trade at 2,770, 20% lower. If you believe growth will average 5.5%, it equates to a level of 4,432, around 28% higher than current levels.

Market value = Dividend per share ÷ (Cost of equity - Expected growth rate)

By **Martin Gamble**
Senior Reporter

Gamma Communications is a superstar stock

This is a decent growth story in the telecoms sector with considerable appeal as an investment

With a growing track record for under-promising and over-delivering, **Gamma Communications (GAMA:AIM)** is a fairly unique play on integrated IT and communications using cloud technology.

Already a strong growth trend, the Covid-19 pandemic has hastened most organisations in their shift to embrace cloud flexibility and cost efficiency and we believe Gamma will increasingly emerge from under the investment radar.

Valued at £1.4 billion, it would go straight into the FTSE 250 index if it chose to depart AIM, and it may do so in time.

Out-competing both large and small rivals for years, Gamma is a technology-based supplier of communications solutions, or unified communications-as-a-service (UCaaS) as it is known in the industry.

The traditional telephony-based office is being transformed by new technology and mobile communications, and now businesses are embracing working from home more than ever.

Gamma has been taking advantage through a suite of in-house-designed products. Integrating services like Microsoft Teams has seen demand boom.

In 2019 the profitable, cash-generative and dividend-paying company reported a 15% rise in revenue; 10% was organic, a growth rate rare in the telecoms industry. About three quarters of the £329 million overall revenue came via its army of more than 1,000 channel partners. The rest comes from direct sales.

GAMMA COMMUNICATIONS
BUY
(GAMA) £14.95
Market cap: **£1.4 billion**

With a strong track record for developing communications solutions we would expect the company to continue expanding its suite, creating an increasingly compelling value and service-based proposition.

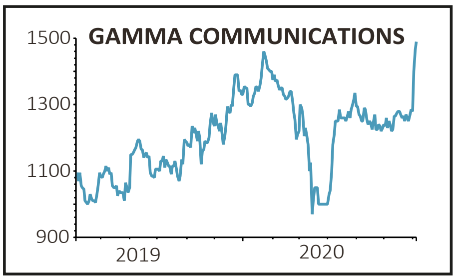
Traditionally UK-only, Gamma has expanded into Europe over the past 18 months through sensibly priced acquisitions, accessing markets in Spain, Holland and now Germany thanks to the purchase of an 80% stake in HFO earlier this month. Cloud computing penetration is much lower in Europe than the UK, and several years behind in technology adoption.

Analysts estimate that just 5% to 6% of organisations have shifted to the cloud so there is a huge opportunity for Gamma to cross-sell its best-in-class converged communications services to the enlarged customer base. That should see gross profit margins continue to escalate as they did last year, up five percentage points to 51%.

Covid-19 may have slowed the pace of installations, but this would be merely a temporary hiatus. More than 90% of revenue is recurring and billed monthly.

Compound annual revenue growth has run at about 20% a year since Gamma joined AIM in 2014, while its share price has soared by 700%.

The stock is not cheap, trading on around 29 times consensus 2021 earnings of 52p per share, but this is justified given the scope for future growth.



Volution is a Covid-19 winner and its shares are cheap

The ventilation products specialist should be boosted by renewed focus on air quality in the wake of the pandemic

There aren't too many businesses plugged into emerging trends for a post-coronavirus world which trade on attractive valuations but in our view **Volution (FAN)** is one.

Headquartered in Crawley, the company is an international operator engaged in the design, assembly and marketing of ventilation fans, systems and ducting for domestic and commercial buildings.

Investors should buy now ahead of a trading update covering the financial year running to 31 July.

Volution is a leading player across several global markets, including the UK, Scandinavia, New Zealand and Germany.

Increased focus on air flow and quality driven by coronavirus, which has principally been a respiratory disease, should be a longer-term driver for the business with the short-term hit from a reduction in construction activity more than reflected in the current share price.

Based on forecasts from Peel Hunt, the company trades on a 2021 price-to-earnings ratio of 12 times and yields 3%.

As chief executive Ronnie George recently observed: 'There is an increasing awareness, and body of research, demonstrating that efficient and well ventilated buildings are essential for health and wellbeing and have a key role to play in governmental strategies to reduce the future risks from Covid-19 and other viruses.'

VOLUTION BUY
(FAN) 180.5p

Market cap: £367 million

This should act as a catalyst for fresh regulation. Most of the company's current business comes from new construction projects but the introduction of rules affecting existing buildings could help the repair, maintenance and improvement market make a more meaningful contribution to group revenue.

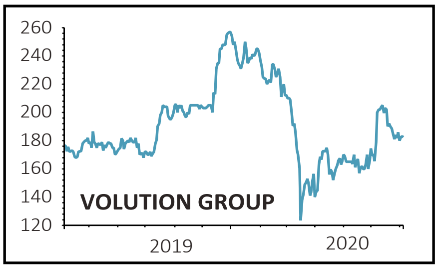
RESILIENT TRADING

Recent trading has been encouragingly resilient. In May, outside the UK which accounts for approximately half of its revenue, Volution saw business at around 90% of the level from a year earlier. The UK has been slower to come back, running at 42% of prior year levels for the same month, but all its facilities are now operational again.

This robustness is reflected in a strong financial position, with cash on deposit increasing from £41 million at the end of March to £49 million at the end of May and its £120 million credit facility undrawn.

This should enable management to continue to invest in M&A in what remains a fragmented market and where the disruption created by coronavirus could generate opportunities.

Internally the company is pushing ahead with its operational improvement plan as it looks to make its processes more streamlined. This will involve a modest number of job losses in the UK.



INTERNATIONAL BIOTECHNOLOGY TRUST

(IBT) 793p

Gain to date: 73.5%

Original entry point:

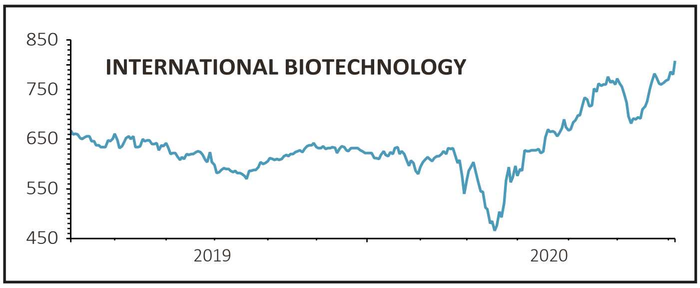
Buy at 457p, 19 March 2020

NAPOLEON SUPPOSEDLY preferred lucky generals to good ones, and while our timing to buy **International Biotechnology Trust (IBT)** was lucky, coming as it did a few days before equity markets bottomed, it also demonstrated the sense in buying quality assets managed by an experienced team at a then-18.5% discount.

The price discount to net asset value has since narrowed to 1.8%, providing a good uplift to the share price performance. In addition, the portfolio has also strongly outperformed the 38% return delivered by its benchmark, the Nasdaq Biotechnology index.

The fund manager's conservative approach to raise cash earlier in the year by trimming positions where there was a heightened risk of study or filing delays, and reinvesting in areas less affected such as critical cancer treatments, has paid off handsomely.

Among its investments, Danish firm Genmab which specialises in therapeutic antibodies for treating cancers and infectious diseases has doubled in value since March, and rare diseases specialist Horizon Therapeutics has seen its share price more than double over the same period to become the trust's largest holding at 6%.



SHARES SAYS:

Covid-19 has accelerated global research and innovation efforts to find new drugs and International Biotechnology Trust remains a conservative way to gain exposure to this sustainable trend. Buy.

H&T

(HAT:AIM) 318.5p

Gain to date: 0.6%

Original entry point:

Buy at 316.7p, 11 June 2020

MORE DETAILS around **H&T's (HAT:AIM)** store reopening and finances were released at the end of June which highlighted how well the business had been managed during lockdown.

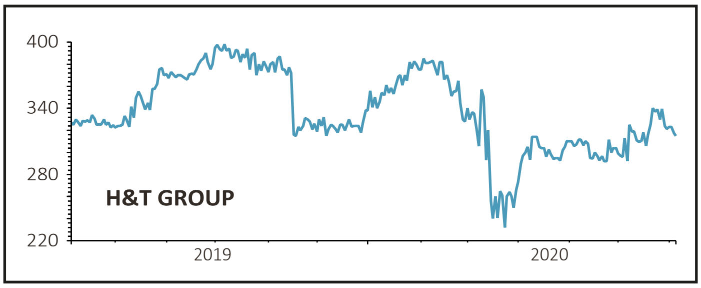
A phased reopening commenced between 12 May and 31 May, allowing the firm to provide its full range of financial services with the exclusion of unsecured lending. From 15 June the company was able to offer the sale of retail jewellery through the stores.

It continued to sell jewellery online throughout lockdown and took advantage of a relatively high gold price to smelt gold, adding to cash flows.

In addition, a new online pawnbroking portal was launched allowing customers to settle loans remotely with 12,000 customers so far taking up the service, making payments of £3 million.

Prompt cost mitigation actions and gold processing income resulted in cash inflows and a reduction of net debt at the end of June which means the group can draw upon its full revolving credit facility in coming months to support growth in the pledge book.

Uncertainty remains around how long it will take to build revenues back up to pre Covid-19 levels, but management are reassured by the volume of customers being served and a recovery in new customer lending.



SHARES SAYS:

Swift management actions have left the business well prepared for future growth. Buy.

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

3i: the investment trust helping good companies become great

Often overlooked by investors seeking growth opportunities, there's a lot to like about this FTSE 100 member

Londonbased **3i (III)** is the pre-eminent UK listed direct private equity investment trust, with a portfolio valued at £8.1 billion as of the end of March.

Founded at the end of the Second World War by the Bank of England and major UK banks to provide long-term capital to small and medium businesses, the Industrial and Commercial Finance Corporation as it was once known has been listed on the stock exchange since it floated in 1994 and has been a stalwart of the FTSE 100 ever since.

3i's name is an abbreviation of Investors in Industry, which it adopted in 1983.

UGLY DUCKLING?

Despite an average daily stock market turnover of £18 million, similar to **Scottish Mortgage Investment Trust (SMT)**, 3i has low profile among retail investors.


3i has a stake in Danish retail furniture chain BoConcept

Whereas *Shares* readers are keen followers of fund managers such as James Anderson and Nick Train, and could likely cite word for word their views on stocks ranging from Tesla to **Unilever (ULVR)** if asked to, it's a fair bet that only a handful would know many of the companies in the 3i portfolio.

This is intriguing given that Scottish Mortgage has made such a virtue of its unquoted holdings, with its exposure having risen from just 4% of net asset value (NAV) five years ago to over 20% today and with shareholders having recently voted to raise the weighting of unlisted stocks to as much as 30% of the portfolio.

TRANSFORMATION

In fairness, a decade ago 3i's portfolio was an unfocused hodgepodge stretching from Europe and the US as far as India and China and ranging from large risk reinsurance to power generation and oil services.

That broad exposure meant it performed poorly in the global financial crisis, and the firm had to go cap in hand to shareholders for £730 million in 2009 'on the clear understanding that it would be matched by self-help', as the-then chairman Baroness Hogg

3I SHARE PRICE AND NAV TOTAL RETURN VS FTSE ALL-SHARE

	1 Year	3 Years	5 Years
3i Share Price	-23.0%	4.2%	95.4%
3i NAV	-4.9%	42.5%	155.3%
FTSE All-Share Total Return Index	-13.8%	-4.0%	15.6%

Source: Citywire, Investing.com, Shares
Data as of close on 2 July 2020

put it in the 2010 annual report.

With the appointment of Simon Borrows as chief executive in 2012, change finally came. Parachuted in as chief investment officer a year earlier, he had been head of mergers and acquisitions at Barings Brothers, which advised on 3i's original float, and chairman of investment bank Greenhill & Co.

His strategic overhaul in 2012 went right back to first principles, examining what 3i was good at and focusing on those areas. 'It was clinical and analytical, and it transformed our resilience,' says finance director Julia Wilson.

The portfolio, which had almost 200 investments in 2010, now has just 31 unquoted holdings and one quoted stake. Moreover, it is focused on just four sectors – consumer, business and technology services, industrial and healthcare – in three markets, being the UK, Europe and North America.

TURNING GOOD INTO GREAT

3i's investment strategy is 'to take good companies and make them great' according to Wilson. Typical target companies have an enterprise, or combined debt and equity, value of between €100 million and €500 million, and are sustainable businesses.

Discount store chain Action is 3i's largest holding

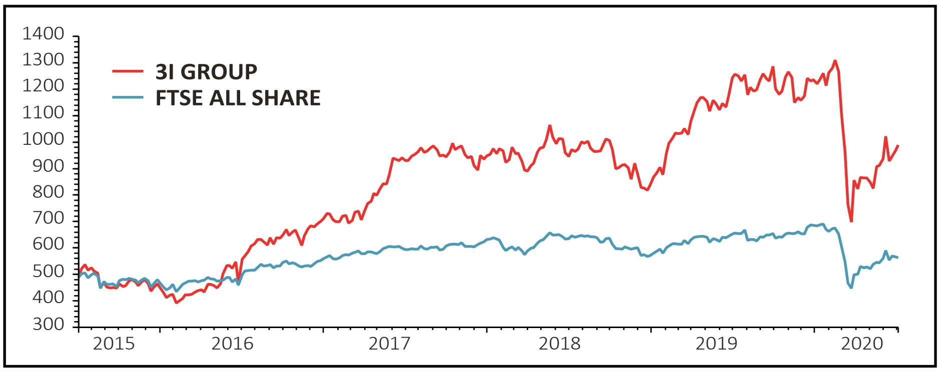
'We aren't interested in distressed companies, special situations or turnaround stories,' explains Wilson.

An example of something that does fit the bill for 3i would be a company from the German 'Mittelstand', with family ownership, revenues of €50 million or more and a few hundred employees. These firms typically have owners who are passionate about taking their business to the next level but lack the capital and/or the necessary experience to get there, which is where 3i can help.

Alternatively, a target company could be a small subsidiary of a bigger firm, where management have a vision which isn't shared by the owners. In this case 3i can help with a management buyout, but in each case, it takes a seat on the board and has a hand in the management of companies in which it invests.

The investment committee oversees and approves each new investment, and every holding is reviewed at monthly meetings looking at performance as well as being scrutinised more deeply every six months.

Meanwhile 3i's own global network of advisers and business leaders assess business opportunities and help drive value in its investments.



JEWELS IN THE CROWN

3i's biggest investment is in Dutch retailer Action which accounts for 44% of the value of the portfolio. Action is Europe's biggest non-food discount retailer, selling over €5 billion of everyday essential items each year through more than 1,550 stores.

Its average store size is between 800 and 1,000 square metres, roughly the same size as a B&M Bargains store in the UK. Having won European Retailer of the Year three years running, Action is expanding rapidly south and east in Europe from its Benelux base with 3i's backing.

3i's next biggest holding, and the only quoted asset, is a 30% stake in **3i Infrastructure (3IN)** investment trust, which was valued at £1.1 billion at the end of March. 3i Group covers its operating costs with the management and performance fees generated by the infrastructure business with a top-up of income from some of its other portfolio holdings, minimising the dilution of returns.

HAVING A GOOD CRISIS

Several of the smaller holdings in the portfolio have benefited from the shift to online consumption seen during the pandemic, such as Danish interior design and furniture firm BoConcept and German specialty online lighting retailer Lampenwelt.

Others have been more direct beneficiaries, such as Benelux personal care firm Royal Sanders, which is a leading producer of own-label and white-label hand wash; and Cirtec, a global provider of outsourced medical device and component design, engineering and manufacturing.

Notwithstanding the blanket travel restrictions, investee company and bespoke holiday firm Audley Travel has seen positive momentum in bookings over the last few weeks as many of its clients are wealthy retirees whose income hasn't been affected by the crisis.

DOUBLE YOUR MONEY

3i's goal with every company in which it invests is to double its shareholders' money over five years, meaning it aims to generate mid-to-high

> "Our priority is to support the companies already in our portfolio with their growth plans"

teens percentage returns for shareholders across the cycle.

Typically, it would target between four and seven new investments a year, as well as one or two disposals, but Wilson says it is currently more focused on existing investments.

'Since quantitative easing started the private equity industry has amassed a lot of fire power, so we are extremely selective. Our priority is to support the companies already in our portfolio with their growth plans.'

This includes 'buy and build', where 3i can help its investee companies operating in fragmented industries to scale up by buying smaller rivals.

When an investment has grown to the extent that 3i achieves its target return, the typical buyers are larger private equity firms or companies looking to expand.

AN INVESTOR'S VIEW

Sam Morse, manager of **Fidelity European Values (FEV)**, is a long-time supporter of 3i and the stock is one of his very few UK holdings.

He says: 'Simon Borrows and the 3i team have honed the portfolio into a focused collection of high-quality private equity and infrastructure assets.

'The group's balance sheet is strong and 3i has plenty of dry powder to take advantage of upcoming investment opportunities while continuing to pay shareholders an attractive 4%-plus dividend yield.'

SHOULD YOU BUY THE SHARES?

While on paper 3i's portfolio may be less exciting than Scottish Mortgage, which is more focused on highly rated technology stocks, it does include well-run businesses with steady cash flows and plenty of potential for growth.

As well as providing exposure to unlisted companies, almost all the firm's revenues are generated outside the UK making it a useful tool for investors seeking diversification.

The premium to net asset value has narrowed dramatically from more than 50% in 2017 to 7.8% at the start of July 2020. This narrowing helps to explain why the share price gains have lagged the NAV growth over the past three years.

Anyone investing now should assume that the pace of NAV growth slows because 3i isn't making many new acquisitions. However, the valuation has become more favourable which makes the stock considerably more attractive. This is a solid 'buy' for anyone who is patient and happy to tuck their money away for a long time.

Senior reporter
Ian Conway

By the *Shares* Team

DOWN, UP, WHERE NEXT?

The outlook for investments after a wild six months

The last six months have been extremely turbulent for the markets with significant divergence in performance across different regions, sectors and themes.

The story has been one of topsy-turvy trading with an alarming cliff edge drop in March, as investors capitulated, and then a rapid recovery from these lows.

In this article we take stock of the first half of 2020 in more detail and consider the outlook for those parts of the investment universe which have both outperformed and underperformed through this period.

We address such questions such as:

- Will the US remain in the ascendancy?
- Can the UK play catch up?
- Where next for emerging markets?

We also offer investment ideas to play the themes which we believe will persist in the remainder of the year.

HOW DIFFERENT FUND SECTORS HAVE PERFORMED

Sector	Performance H1 2020 (%)
Global Bonds	6.2
North America	3.1
Sterling Corporate Bond	2.7
Sterling Strategic Bond	1.0
Global	0.9
Asia Pacific Excluding Japan	0.6
Targeted Absolute Return	-2.0
Europe Excluding UK	-2.1
Global Emerging Markets	-5.1
Sterling High Yield	-5.2
Global Equity Income	-6.3
UK Smaller Companies	-16.6
UK All Companies	-17.7
UK Equity Income	-20.2

Source: FE Trustnet. All data: IA sectors, total return in GB

PERFORMANCE OF GLOBAL INDICES IN H1 AND Q2 2020

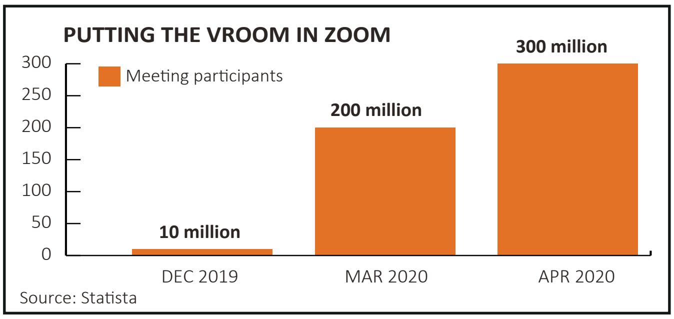
Index	Performance Q2 2020 (%)	Performance H1 2020 (%)
Nasdaq 100 (US)	36.0	16.9
Shanghai Stock Exchange Composite (China)	9.2	-2.2
S&P 500 (US)	25.9	-3.4
Nikkei 225 (Japan)	23.4	-5.8
MSCI World	21.9	-6.4
Deutsche Borse DAX 30 (Germany)	28.6	-7.1
Dow Jones Industrial Average (US)	22.8	-9.5
Dow Jones Composite Average (US)	20.2	-11.7
Hang Seng (Hong Kong)	7.1	-11.9
FTSE 100 (UK)	13.5	-16.9
Brazil Bovespa (Brazil)	33.9	-17.8
RTS Index (Russia)	25.5	-20.0

Source: FE Trustnet, data as at 30 June 2020

WHY THE TECHNOLOGY BOOM HAS FURTHER TO GO

COVID-19 AND ITS challenges have really put the spotlight on the technology sector. Netflix subscriber numbers have risen sharply and we have all shopped on Amazon for stuff while stores remained closed during lockdown. Some of us, having never made a video call before, have now become minor Zoom experts.

Shares in these three companies have jumped roughly 53%, 48% and 278% respectively so far in 2020. You do not need to be a tech fan to have developed a new appreciation of what technology can do for us, as both ordinary people and ordinary investors.



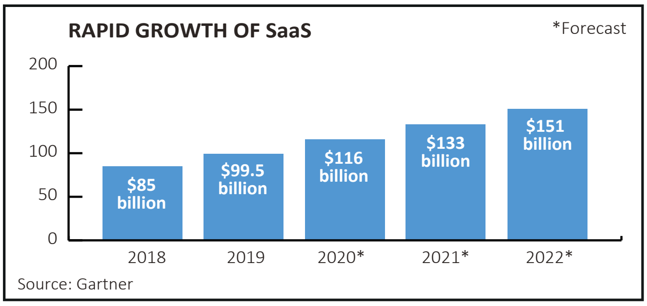
This attraction to tech is not simply a response to Covid-19. The world's five largest companies by market value are tech names we all know well, and most of us use. Between them, Microsoft, Apple, Amazon, Google-parent Alphabet and Facebook command a market value of more than $6.2 trillion and produce much of the growth in the US stock market.

> **Cloud computing is reshaping the way consumers, businesses and governments use technology to access the exponentially growing mountains of data being created by our modern, inter-connected world.**

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

These are essentially digital, flexible, cloud-based platform businesses that can control costs, maintain service standards and still fulfil customer needs during these difficult times, and long into the future. Software-as-a-service (SaaS for short), for example, which effectively means providing IT services over the cloud on subscription, provides the flexibility and scalability valued by users, and the predictability and cash generation loved by investors.

Cloud computing is reshaping the way consumers, businesses and governments use technology to access the exponentially growing mountains of data being created by our modern, inter-connected world.



Fund managers remain excited about the growth opportunities in artificial intelligence, robotics, complex microchips and digital commerce.

'The cost of computing is collapsing', says Polar Capital fund manager Ben Rogoff, as suppliers with huge investment resources bring scale and processing power.

Fund managers also remain excited about the growth opportunities in artificial intelligence, robotics, complex microchips and digital commerce.

This means that the technology sector has provided protection for investors during the volatility of 2020's first six months, propping up stock markets and recovering much faster than wider markets. For example, the tech heavy Nasdaq index is up nearly 17% in 2020 having recovered all of its Covid losses by the start of June.

In contrast, Hong Kong's Hang Seng, the Nikkei in Japan, all of Europe's major markets and even the S&P 500 in the US, remain down on their pre-coronavirus peaks. The UK's FTSE 100 is 17% down in the first half of 2020.

The significant allocation to technology in North American and Global funds explains why these sectors have also performed strongly in relative terms this year.

Increasingly, ordinary investors are embracing tech themes, and who can blame them. Data from investment platform AJ Bell Youinvest shows that some of the most bought funds and investment trusts with clients during the first half of 2020 come with technology-laden portfolios.

Collectives like **Polar Capital Global Technology (B42W4J8)**, **Polar Capital Technology Trust (PCT)** and **Baillie Gifford American (0606196)** have joined long popular products such as **Fundsmith Equity (B41YBWT)**, **Lindsell Train Global Equity (B644PG0)** and **Baillie Gifford US Growth Trust (USA)**, which also hold substantial tech names including Tesla, Amazon, Microsoft and Facebook.

Disclaimer: The writer Steven Frazer owns shares in Polar Capital Technology Trust

OUR TOP IDEAS TO PLAY THE TECH BOOM

MICROSOFT (MSFT)

Polar Capital Technology Trust (PCT)

Baillie Gifford US Growth Trust (USA)

THE UK'S CATCH-UP CHALLENGE AND THE INCOME CONUNDRUM

THE UK WAS one of the worst performing markets in the first half of 2020. The FTSE 100 failed to keep pace with the recovery seen in other major indices from the low point seen in March.

A material weighting towards banks and oil and gas companies has been a significant factor behind the underperformance of the UK index and could remain a drag on performance in the remainder of the year.

According to the latest figures which run to the end of May, these sectors combined account for more than 15% of the index. If you include financial services that total increases to over a quarter.

> **Banks have struggled to perform and worryingly for anyone hoping the FTSE can play catch-up in the remainder of 2020, these factors do not look like they are going away soon**

Banks have struggled to perform for several reasons and, worryingly for anyone hoping the FTSE can play catch-up in the remainder of 2020, these factors do not look like they are going away soon.

Interest rates have been cut which impacts directly on bank profitability. At the same time lending activity is down as institutions rightly become more cautious about the risk of increasing bad debts in the recessionary environment resulting from coronavirus.

The situation has been exacerbated by the regulator effectively preventing banks from paying a dividend. This reduces investor appetite to own the stock as income has historically been the main reason why people invest in banks.

In the oil sector **Royal Dutch Shell (RDSB)** cut its dividend by two thirds in April as it responded to the collapse in energy prices brought about by lockdown, and **BP (BP.)** is widely expected to follow suit when it announces its second quarter results on 4 August. Again, lots of people principally invested in the oil sector for generous dividends and this appeal has now been diluted.

INCOME FUNDS UNDER PRESSURE

The wider wave of dividend cuts, suspensions and deferments has contributed to the extremely weak performance put in by UK Equity Income funds.

The widespread nature of dividend disruption, which to date has involved nearly half the constituents of the FTSE 100, have made it very difficult for managers of income funds to avoid being hit and these funds have been sold down as investors go elsewhere in the hunt for potentially more reliable sources of income.

A POTENTIAL INCOME SAVIOUR

Anyone in this situation should buy shares in **Assura (AGR)** which invests in GP surgeries and primary care centres.

With the UK Government effectively funding around 90% of its rental income Assura has been relatively unaffected by Covid-19, with the need to reduce pressure on hospitals likely to see further investment in facilities based in the community. This is reflected in a large pipeline of acquisitions and development opportunities for the company.

While a share price of 79p means the shares trade at a near 40% premium to forecast net asset value they do offer a decent and resilient yield of 3.5% based on forecasts from investment bank Jefferies.

EMERGING MARKETS HAVE DIVERGED DRAMATICALLY POST-COVID

THE WILD GYRATIONS in emerging markets (EM) in the first half of this year may finally serve to explode the myth that lumping a group of highly diverse developing markets together under one banner makes any sense from an investment perspective.

Anyone who thought emerging markets were created equal, and would therefore react the same way to the coronavirus crisis, had a rude awakening in the second quarter.

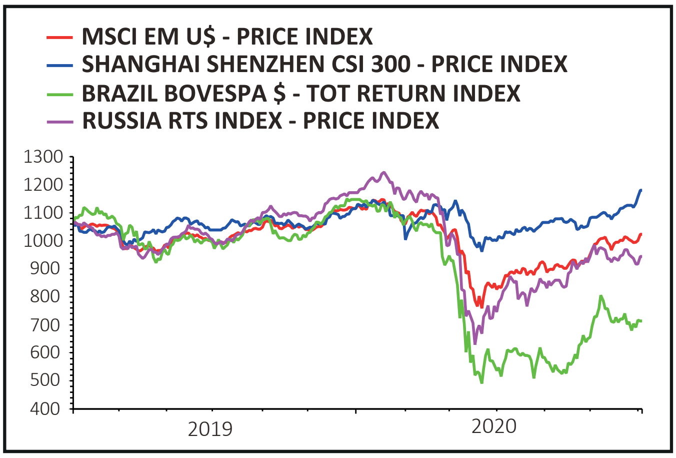
The MSCI Emerging Markets index – the most widely used EM benchmark for fund managers and investors alike – is heavily skewed towards China (plus Taiwan), South Korea, India, Brazil and Russia.

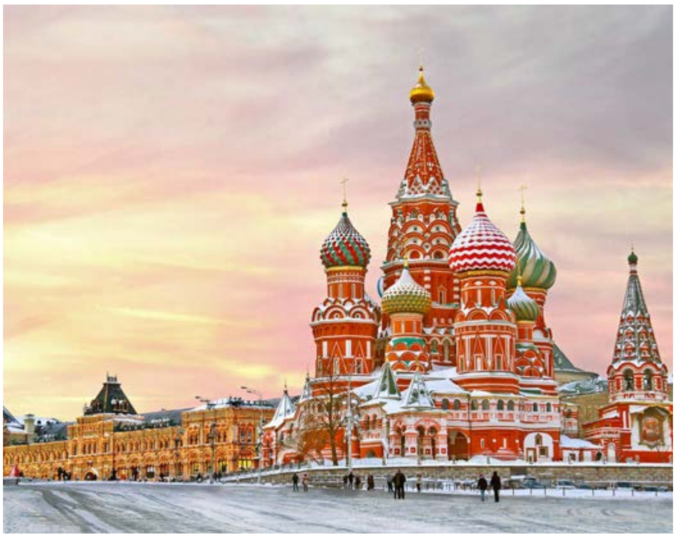
China was the first country to confront the pandemic and was able to impose draconian restrictions on movement, halting the spread of the virus and allowing activities to get back to 'normal' well before other countries.

So successful was it at controlling the virus that industrial confidence is back to pre-crisis levels and the latest service sector confidence survey is at a 10-year high.

As a result, China's CSI 300 index has rocketed from its March lows to a five-year high and has left the rest of the EM basket for dead. Yet the economy is only half the story – six of the top 10 stocks in the EM index are Chinese.

The two biggest stocks are Alibaba and





Tencent, which not only make up almost 13% of the benchmark between them but are widely held by global growth funds, especially those with a technology bent. As soon as markets began to recover in late March, investors piled into growth funds and tech stocks.

POOR RELATIONS

In contrast there are two Indian stocks in the top 10 – neither of which has a technology angle – no Russian stocks and no Brazilian stocks.

Russia's economy and its stock market are inextricably linked to the oil price, which is still down close to half since the beginning of the year, while Brazil not only has the second worst level of coronavirus deaths globally but is suffering increasing political instability, sending investors scurrying for the exit.

After months of outflows from EM funds, Bank of America's global research team believes the asset class is now a contrarian buy along with commodities, as a counterpoint to weakness in the US dollar.

For investors with a high tolerance for risk, Russia could be a good option. One way of playing this market is **JPMorgan Russian Securities (JRS)**.

BOND RETURNS LOOK LIKELY TO WANE

BOND MARKETS DELIVERED strong returns in the first half with the Investment Association Global Bonds category up 6.2%, beating most global equity markets. Given the backdrop of ultra-low interest rates and compressed credit spreads, it seems unlikely such a return will repeat itself in the second half.

GOVERNMENT BONDS

Central banks acted swiftly and aggressively in response to the coronavirus pandemic, pushing interest rates down right across the maturity spectrum, from short-dated to 30 years. Bond prices go up when interest rates go down.

Due to the greater sensitivity of long dated bonds to interest rate moves, the long end of the market has seen the lion's share of the gains. For example the US 30-year Treasury bond has delivered a 20.7% return year-to-date.

By contrast the 10-year Treasury bond is only up just over 1%, which means the interest rate curve has flattened. In the UK, the spread between the 30-year and 10-year bonds has narrowed to only 0.35% compared with 1.5% back in 2012.

With interest rates anchored at such low levels there is little scope for the curve to flatten much further, even if the US Federal Reserve and the Bank of England follow the European Central Bank and entertain negative interest rates.

Ben Edwards, fund manager at BlackRock, doesn't believe there is much upside from owning government bonds at the current juncture.

VANGUARD'S VAGU GLOBAL AGGREGATE BOND ETF

CORPORATE BONDS

Corporate bonds are divided into investment grade and non-investment grade or high yield with the distinction being linked to the likelihood of default. Poorer quality companies issue debts with higher yields to compensate for the higher risks. Corporate bonds behave more like shares as the key driver is corporate profits.

> **Corporate bonds behave more like shares as the key driver is corporate profits.**

At the height of the lockdown the spread between high yield corporate bonds and government bonds hit 12% as investor priced in higher perceived risks of economic distress.

Edwards said the investment grade corporate bond market offered some of the best value he had seen in the middle of March.

The bond buying programme launched by the Federal Reserve which included high yield and bond ETFs for the first time had the desired effect and pushed high yield spreads back down to 6.5% from 12%.

While there is some scope for corporate bond spreads to shrink further, Edwards believes it has become more of a 'bond-picking market' with less value on offer.

WHERE TO PUT YOUR MONEY IN THE BOND MARKET

For investors looking for exposure to bonds, we would suggest focusing on strategic bond funds such as the **Artemis Strategic Bond Fund (B2PLJR1)**.

This fund has the flexibility to invest in the most attractive areas of global bond markets, as well as dial risk up or down according to prevailing market conditions.

Invesco

STOCKS WHICH CAN GROW IRRESPECTIVE OF THE WIDER ECONOMY

Jonathan Brown and Robin West
UK Equites Fund Managers
Invesco

The impact of Covid-19 and the economic cost of the measures put in place to try and contain it have injected unprecedented levels of volatility into the UK equity market. As countries around the world entered lockdown, economic activity in many sectors ground to a halt.

Investors reacted by selling shares and in the first quarter the UK equity market posted its biggest quarterly fall for more than three decades. Since then, volatility has reduced but it remains well above pre-pandemic levels for both large and small-cap equities.

Initial fears about the economic fallout from Covid-19 saw typically perceived as 'safe-haven' assets rally, such as government bonds, gold, and defensive stocks (those which are less sensitive to the economic cycle). This was accompanied by significantly higher valuations of technology and internet-related companies. As valuation-conscious investors (we look for companies whose share prices we consider to be below their intrinsic value), we remain highly aware of the impact that valuation can have on future returns. So, while some investors were happy to pay very full valuations for these stocks, we were more inclined to take profits.

More recently, however, the UK equity market has recovered strongly from its lows in March on fresh stimulus measures (action by the government to stimulate the economy) and hopes

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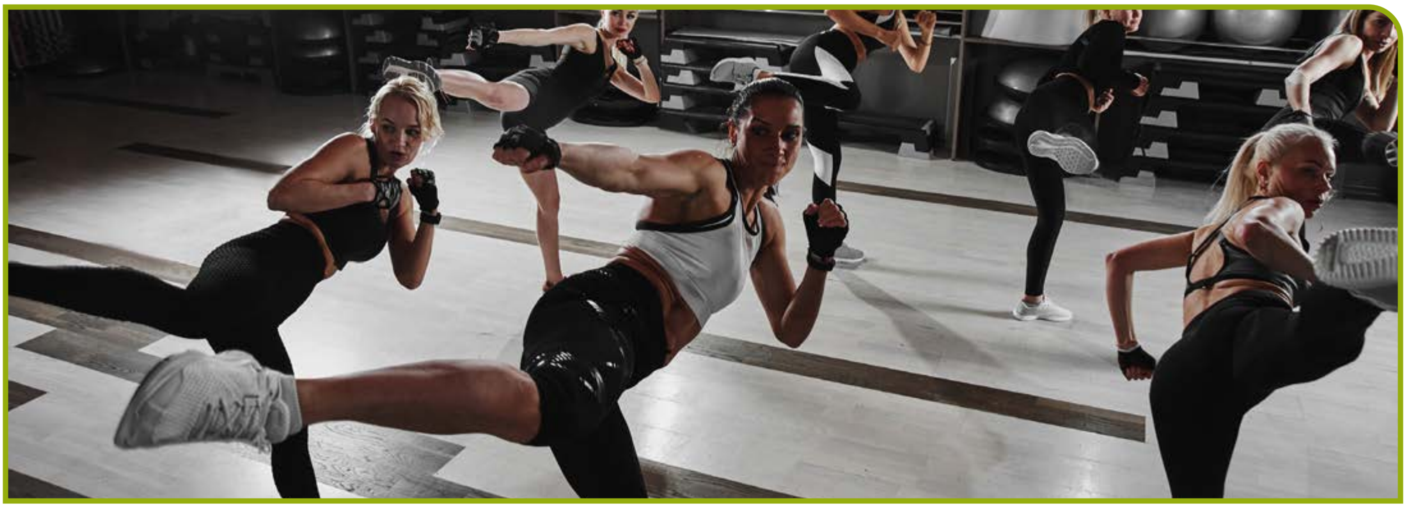

that economies are on the mend as lockdowns ease. This in large part can be attributed to the expected impact of a dramatic easing of fiscal and monetary policies (central banks and government policies) in all the major economies. Investors certainly seem to have pinned their hopes on a swift economic rebound in the UK. This has led to lower quality cyclical stocks (those more sensitive to the economic cycle), which often do not meet our quality criteria, rallying hard.

In our view, however, markets have seemingly shrugged off the economic cost of the pandemic, which is likely to be significant. The UK is expected to face a severe recession and estimates for second quarter GDP (gross domestic product) are around -16%, and for the year -8% (Bloomberg consensus as at 29 May 2020). Unemployment could more than double by next spring, according to the Bank of England, and we believe that it could be two-three years before the economy returns to previous levels of activity.

Our Invesco Perpetual UK Smaller Companies Investment Trust plc strategy

Our focus is on finding quality businesses with strong balance sheets, and which have the potential to be significantly larger in the medium term. Crucially, we prefer to invest in those which have the opportunity to grow irrespective of the health of the wider economy.

In the UK Smaller Companies portfolio, we prefer to invest in businesses exposed to higher growth niches, restructuring stories, businesses that have scope to roll-out a successful concept more widely, or companies that can consolidate a fragmented industry and derive a benefit from increased scale.

As active fund managers, our approach to stock selection is driven by our assessment of valuation and growth potential over the longer term. Companies have to be good businesses of course, and not just cheap. We remain confident in our portfolio and our existing process and caution that there are dangers with investors buying stocks at any price rather than at a reasonable price.

In recent months we have been somewhat perplexed at the bifurcation of the small cap market. Those companies that have performed extremely well have quite often been highly, if not overvalued businesses, or have often been lacking in quality, in our view. This has meant that our strategy of buying fundamentally good business at sensible valuations has been out of favour.

During the market sell off, we added a mixture of stocks trading at deep discounts (compared to what we perceive to be their intrinsic value) and some high-quality names which we had been following for some time. Amongst the heavily discounted names were new holdings such as Gym Group and Mitchells & Butlers. Gym Group is the second largest operator of low-cost gyms in the UK. We had always liked the model and had been waiting for the right entry point in April.

Mitchells & Butlers is the largest pub operator in the UK. The recent sell-off left the stock trading at an attractive valuation, in our view. We felt there was significant opportunity in this stock.

For stock pickers such as us, the small-cap end of the market is an exciting place to be. Significantly lower analyst coverage of smaller companies compared to the broader UK equity market offers the opportunity to find genuine mispricing,

Invesco

whilst a high proportion of founder-ownership encourages management to focus on long-term shareholder value creation.

Our analysis is focussed on the sustainability of returns and profit margins, which are vital for the long-term success of a company. We continue to look for businesses with "pricing power" by assessing positioning within supply chains and having a clear understanding of how work is won and priced. It is also important to determine which businesses possess unique capabilities, in the form of intellectual property, specialist know-how or a scale advantage in their chosen market.

We continue to manage the portfolios with the same uncompromising focus. We believe that the current unusual movements of the market will provide us with opportunities, but it has never been more important to stick our principals and continue to invest for the long term.

Investment risks

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

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

The Invesco Perpetual UK Smaller Companies Investment Trust plc may use derivatives for efficient portfolio management which could result in increased volatility in the NAV.

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

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

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

Important information

This document is marketing material and is not intended as a recommendation to invest in any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication. The information provided is for illustrative purposes only, it should not be relied upon as recommendations to buy or sell securities.

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

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RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

Earnings forecasts flag FTSE 100's mixed profit pedigree

Examining the sectors which are expected to deliver growth

The Financial Conduct Authority's decision to give companies additional time to prepare their financial statements may elongate the process but the imminent reporting season for UK plc could go a long way to shaping how the headline FTSE indices perform for the rest of this year and beyond.

The good news is that few if any companies have made a rod for their own back by giving any specific guidance for revenue, profit or dividends, owing to the uncertain environment created by the pandemic and their inability to predict how customers and clients will respond even as lockdowns are (generally) eased around the globe.

The bad news is that analysts still have to provide forecasts and it is by these estimates that the reporting season for the first six months of calendar 2020 will be judged, especially if companies do feel able to offer some sort of forecast of their own for the second half of the year or 2021, unlikely as this seems right now.

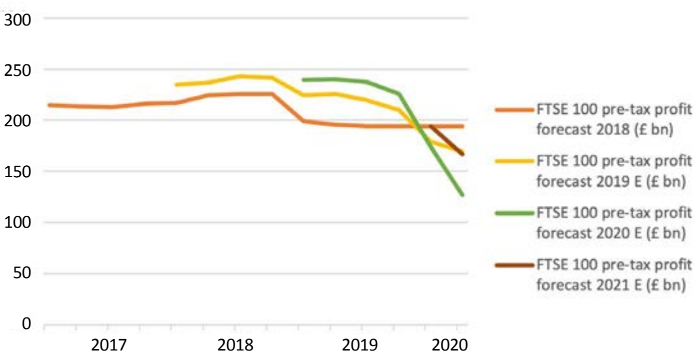
TREND IS NO FRIEND

Analysts have been busy cutting their estimates for aggregate FTSE 100 profits throughout 2020. Investors will hardly be shocked by this, as at the turn of the year no-one could have forecast the pandemic and the UK stock market was instead preoccupied by the Conservatives' general election victory in December and what this might mean in terms of policy with regard to the economy and Brexit.

It now looks like the FTSE 100 in aggregate

delivered £169 billion in pre-tax profit in 2019, compared to the £240 billion analysts were expecting at the start of that year. Forecasts for 2020 have plunged by 45% to £126 billion since Christmas.

FTSE 100 PROFIT FORECASTS CONTINUE TO SLIDE



Source: Company accounts, Sharecast, consensus analysts' forecasts

At the moment pre-tax income is seen reaching £166 billion in 2021. That is just less than the members of the FTSE 100 generated between them in 2017, to suggest analysts feel the recovery will be a tepid one, at least initially.

This could be seen as a good thing, as it does not make companies or their shareholders too much of a hostage to fortune relative to lofty expectations.

RUSS MOULD
AJ Bell Investment Director

IN THE MIX

Investors may decide it is impossible to second-guess Covid-19's impact whether there is a second wave or not, especially as central banks and governments still seem determined to throw everything they can at the economy. But analysis of the profit mix within the FTSE 100 may at least help portfolio-builders develop an awareness of the key sensitivities.

DEFENSIVE AREAS ARE PROVIDING SUPPORT TO FTSE 100 EARNINGS IN 2020...

	2020 E	2021 E
Consumer Staples	22%	19%
Financials	22%	24%
Mining	19%	15%
Health Care	12%	10%
Industrial goods & services	10%	9%
Consumer Discretionary	5%	8%
Telecoms	4%	4%
Utilities	4%	3%
Oil & Gas	2%	8%
Technology	1%	1%
Real estate	1%	1%

Source: Sharecast, consensus analysts' forecasts, company accounts

... BUT OILS, BANKS AND CONSUMER PLAYS ARE SEEN LEADING THE RECOVERY IN 2021

	Percentage of FTSE 100 profits growth 2021 E
Financials	29%
Oil & Gas	28%
Consumer Discretionary	18%
Industrial goods & services	7%
Consumer Staples	6%
Health Care	5%
Mining	3%
Telecoms	2%
Technology	1%
Utilities	0%
Real estate	0%

Source: Sharecast, consensus analysts' forecasts, company accounts

For example, it may be a source of relief to some investors, either on ethical or purely financial grounds, that oil stocks are no longer expected to be big profit contributors to the FTSE 100, at just 2% of the total in 2020. Looking at that, they may not be able to do much more damage either and could be a source of potential upside if oil and gas prices forge a sustained and unexpected recovery.

Instead, consumer staples – food producers, food retailers, alcohol and tobacco stocks – are providing the bedrock to profits in 2020. Note also how health care, consumer staples, telecoms (**Vodafone (VOD)**) and utilities are expected to generate earnings growth, albeit not enough to offset the collapse at consumer plays, miners, banks and oils. It could be argued that this may give the FTSE 100 some defensive qualities.

However, more than 40% of pre-tax income is still expected to come from financials and miners so it may not pay to overplay that theory, as a sluggish recovery (or a downturn) and interest rates staying lower for longer are not likely to help here. The same concerns apply to 2021, where forecasts of a rebound in overall earnings rest heavily upon oils, financials and consumer plays like retailers and media stocks.

Any investor, and especially one looking for passive exposure through an index tracker, now knows exactly what they are getting with UK stocks: some downside protection but a lot of gearing into any economic upturn, through commodity prices, consumer plays and banks.

It could be argued that is not an especially high-quality earnings mix, not least as those areas are fiendishly difficult to forecast. Investors must now decide whether forecasts of a 3.6% dividend yield in 2020 and 4.3% in 2021 are sufficient compensation for them while they wait to find out what is coming next.

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

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

Growing concerns about renewable energy funds

Some analysts argue renewable funds could see their share prices and net asset values plunge as they become a victim of their own success

Renewable energy looks to be one of the areas set to receive the greatest amount of investment over the next 10 to 20 years. However, some market commentators have argued it's a sector not worth backing.

A hard-hitting research note at the start of the year from JP Morgan claimed renewable energy investment trusts could end up becoming a 'victim of their own success', as growth in carbon-free energy slashes the cost of electricity and so reduces the amount of money they can generate.

Cracks are already appearing in the sector with falling power prices putting a question mark about the strength of future dividends from renewable energy investment trusts. There have also been declines in long-term cash flow assumptions resulting in falling net asset values (NAVs).

We fear these factors could weigh on share prices and for the stocks to trade on lower premiums to NAV, thereby suffering a double de-rating.

We attempt to address the key points in this article and would suggest anyone invested in this area should reappraise their holdings and read the latest announcements from relevant trusts to understand what's going on.

The risk/reward dynamics are changing and so the sector's reputation as a seemingly safe haven may be tested soon.

HIGH DEMAND FOR RENEWABLES TRUSTS

Renewable funds have been in high demand for years due to their reliable dividends, solid yields and environmental friendliness, meaning they often trade at double-digit premiums to their net asset value (NAV).

While all the UK-listed renewable energy trusts have a substantial part of their revenues backed by subsidies and long-term agreements to sell the electricity they generate at a fixed price, they also have a smaller

NEARLY ALL RENEWABLE ENERGY INVESTMENT TRUSTS ARE TRADING ON A PREMIUM TO NAV

Trust	Price	Premium/ Discount to NAV
JLEN Environmental Assets	119.5p	24.7%
Bluefield Solar Income Fund	134.5p	21.1%
Greencoat UK Wind	144.2p	20.8%
Greencoat Renewables	€ 1.21	19.2%
Renewables Infrastructure Group	127.2p	13.9%
Foresight Solar Fund	110p	13.5%
Octopus Renewables Infrastructure	110.8p	13.1%
NextEnergy Solar	108.8p	11.8%
Gresham House Energy Storage	109p	9.3%
Gore Street Energy Storage	100p	8.6%
SDCL Energy Efficiency Income	106.5p	8.1%
Aquila European Renewables Income	€ 1.01	1.7%
US Solar Fund	$0.94	-1.6%
Sector average		15.9%

Source: AIC. Data taken 2 July 2020

but not insignificant exposure to the wholesale market price for electricity.

The recent hit to electricity demand from the coronavirus pandemic coupled with increased supply has shown the impact lower market prices can have on these funds, with the current power price dropping to around £32 per MWh (megawatt hour) as a result of lockdown and warm weather.

In a presentation accompanying its 2019 results **The Renewables Infrastructure Group (TRIG)** wrote down its net asset value (NAV) by £101.3m as a result of lower near-term gas prices and an acceleration of new renewable energy projects being built.

Gas prices are used to determine wholesale electricity prices because gas-fired power stations are often what's called the 'marginal source of generation'.

When electricity demand is low, it is met by cheap sources of power. This has traditionally included coal-fired and nuclear plants, but when demand increases gas-fired generation (which is more expensive) is added to the mix as the marginal source of generation and therefore sets the wholesale power price.

POWER PRICE ASSUMPTIONS

Similar to other renewable trusts, The Renewables Infrastructure Group's new 2040 power price assumption is about £44 per MWh, down from the £52 per MWh it was forecasting previously.

However, the big concern among some investors is whether or not these price assumptions, which are roughly similar to the average baseload price of £46 per MWh over the past five years, are still too optimistic and that the negative impact on their NAVs could be far more dramatic than the market is currently expecting.

One power price forecast that has caused a lot of discussion is Bloomberg New Energy Finance's, which estimates baseload power prices will be around £19 per MWh in 2040, far below the figure the renewable funds are currently forecasting.

JP Morgan referenced the Bloomberg forecast in its negative note on the sector at the start of the year, and said that 'as a result, we take a very cautious view [on the sector] given the risks'.

BLENDED FORECASTS

Trusts tend not to forecast prices themselves and instead use a 'blended curve' by taking projections from two or three of the main established forecasters. Bloomberg New Energy Finance is a relatively new entrant to the space and so its forecasts tend not be considered by the investment trusts. Instead they use the likes of Afry, Baringa and Aurora Energy Research.

Stephen Lilley, partner at Greencoat Capital and co-manager of **Greencoat UK Wind (UKW)**, tells *Shares* 'we don't forecast power prices ourselves'.

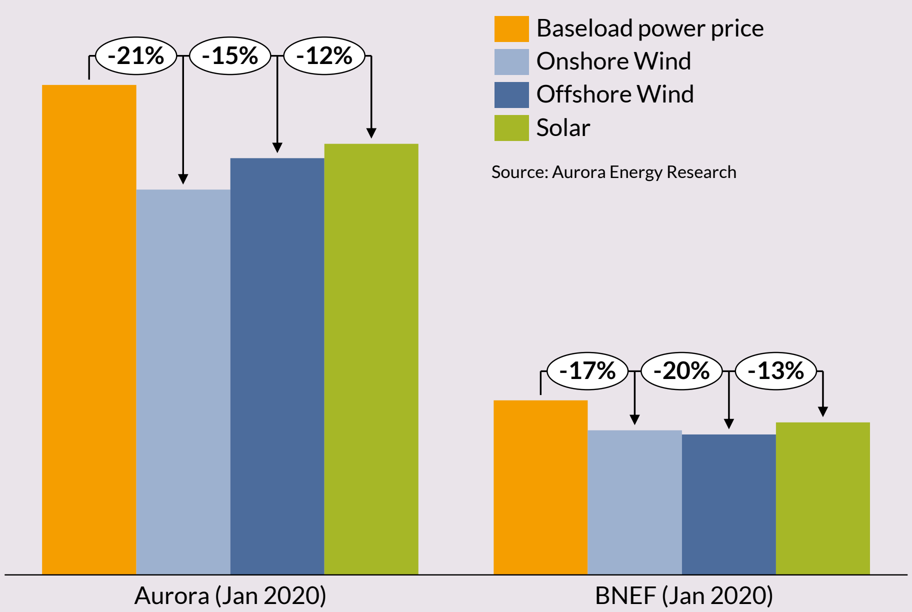
He says: 'Given that the future power price is a significant component of the present value of our assets, it wouldn't be appropriate for us to dictate the numbers that we use in our models and valuations.

'Instead, we take the central case of a leading independent power price forecaster and this process and provider have remained unchanged since our listing in 2013.

'We may on occasion make more conservative assumptions than the forecaster, but we never adjust their figures upwards.'

This is echoed by Christine Brockwell of Aquila Capital, investment adviser to **Aquila**

GB baseload and capture prices, average 2030-35
£/MWh (2018 real)



Aurora declined to reveal the prices in this graphic, saying they are commercially sensitive

European Renewables Income (AERS), who says forecasting accurate power price curves can be 'notoriously difficult'.

She explains: 'While none of us has a crystal ball, we do look to factor in as much information as we can, to try to create as reliable a picture as possible.

'To this end, the fund builds its forecast of future power pricing by combining forward pricing in the market with independently sourced market power price projections, specific to both the country and technology of the asset we are looking at.'

QUESTIONS BEING ASKED

Key questions Aurora Energy Research has received from its clients include whether prices will 'crash' to £25 per MWh by 2030, and whether they could even go below £10 per MWh by 2040.

When looking at past evidence they're fair questions, given that for example solar prices have fallen far faster than anyone predicted.

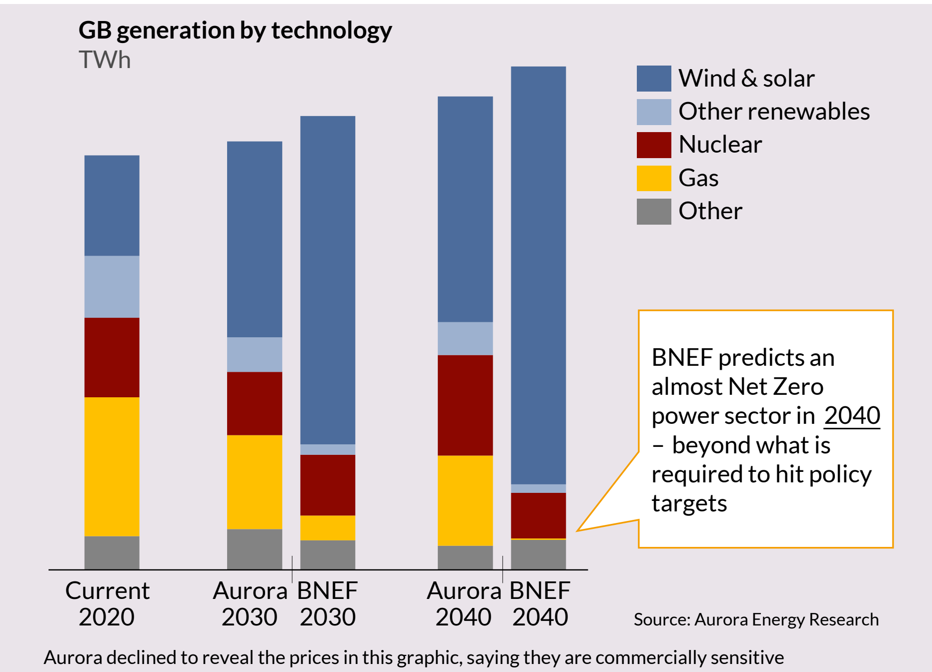
A report by clean energy investor Ramez Naam showed the price of solar power now in 2020 is 30 to 40 years ahead of what the International Energy Agency (IEA) predicted in 2014, and even cheaper than what the IEA ever thought it would be back in 2010.

But Aurora sees prices remaining broadly flat in the period to 2030 to 2035, with an increase in supply being offset by a rise in demand due to higher economic growth in the long-term, increased usage of electric vehicles and the electrification of heat.

Martin Anderson, who heads up its GB Renewables team, says power prices are all about supply and demand. He doesn't subscribe to the view that supply will rise exponentially.

For example, the Bloomberg forecast projects there will be 40GW (gigawatts) of wind capacity added to the grid by 2030, but Anderson points out that this is a 'very high level' and not feasible.

He says: 'Our estimate is much, much lower. You'd need a higher level of build rate than the current level. And remember, one of the key requirements of the deployment of renewables is project economics. At the end of the day they need to make money. There needs to be an equilibrium.'



Aurora declined to reveal the prices in this graphic, saying they are commercially sensitive

CANNIBALISATION THREAT

One of the main arguments against renewable funds is the long-term 'cannibalisation threat', whereby so many projects get built that supply goes up rapidly, demand doesn't catch up and these funds 'cannibalise' their own revenue base.

But Ricardo Pineiro, who runs FTSE 250 investment trust **Foresight Solar (FSFL)**, says this argument is flawed, and that new projects won't get built if the right level of return isn't there.

Pineiro says: 'The Bloomberg forecast takes a very aggressive view of how much can be deployed and takes the approach that there will be no ceiling, which is incorrect. Capacity will not be added if it's not economically

viable to install.'

Pineiro adds that the main issue is establishing the pace of renewables deployment and believes it will happen over time. He also points out there are many ageing powerplants that will soon need to be taken off the grid and their capacity replaced.

AN OUTSIDE VIEW

What should someone looking to invest in one of these renewable trusts make of it all?

Fund manager James Smith, who runs **Premier Global Infrastructure Trust (PGIT)**, says having a positive or negative view on these trusts 'depends on what you think is going to happen to power prices in the future'.

He adds in the renewables space in general there are three main types of stocks – 'some will develop a wind farm for example then sell it to others (such as utility giant **SSE (SEE)**), some will develop and own an asset, and some – like the UK renewable funds – will not develop assets but will own them.'

Most of the value from an asset is crystallised in the first year after it's built, Smith adds, and highlights Spanish construction giant Acciona as a type of company that builds and then owns renewable energy assets, and so captures this upside.

He says: 'The UK renewables sector is low risk but then they don't necessarily capture as much of the upside. Their rate of return tends to be 7% to 8% rather than the 12% to 13% you'd get from stocks that build and own assets.'

WARNINGS SIGNS

A lot of bad news is coming out of the renewable energy investment trust sector which means it is now less attractive from an investment perspective.

In April, analysts at investment bank Stifel said it thought many funds would be vulnerable to revenue shortfalls and reduced dividend cover when they come to renew price agreements, unless there is a substantial recovery in power prices.

Dividend policies are now changing in parts of the market. **Bluefield Solar Income (BSIF)**, Foresight Solar, **JLEN Environmental Assets (JLEN)** and The Renewables Infrastructure Group have all dropped their RPI inflation-linked dividend strategy and switched to a progressive policy.

Bluefield has announced plans to radically change its portfolio, moving from only having UK solar projects to now having up to 25% of gross assets in other renewable energy types such as wind and energy storage, together with the ability to invest up to 10% outside of the UK.

NextEnergy Solar (NESF) is also pursuing a similar diversification strategy and its dividend policy is under review, suggesting it too could move away from inflation-linked payouts.

Spreading risks across a broader range of asset types is fine from an investment perspective but this move does highlight the issues in the industry, such as increased competition and lower returns from UK solar assets.

Foresight Solar has seen the amount of fixed price arrangements for its UK assets fall from 53% of the UK portfolio in December 2018 to 32% a year later and they will decrease to just 8% by the end of 2020.

It says: 'Fixed price arrangements provide greater visibility over future cash flows and limit potential price volatility in the short and medium term.'

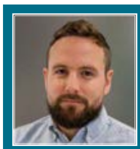
There is a real risk of much lower revenue from Foresight's UK portfolio from 2021 which leads us to reassess our view on the stock. We previously said to buy at 117p in October 2019 and the stock now trades slightly lower at 110p. Amid growing concerns over the sector, we think it is time to sell.

By **Yoosof Farah**
Reporter

What happens to shares in a company which enters administration?

We discuss investors' limited options when it comes to the administration and delisting process

If a company goes into administration, have shareholders lost everything? How long on average does it take to find out, what market if any exists if the listing is suspended and can retail investors access such a market? Finally, what are the implications with HMRC?
Robert



Deputy Editor **Tom Sieber** replies

Unfortunately, the answer to the first part of this question is almost always yes – administration leaves shareholders out of pocket.

A company's shares will be suspended when the business goes into administration and there are no real options for ordinary investors to trade them beyond this point, even if a buyer is found for part or all the business. In most cases the shares will eventually be delisted.

It's therefore bad news for investors in stocks like shopping centre investor Intu and medical centre operator NMC Health which have both recently entered administration.

An administrator's job is to either restructure the business and reach an agreement with indebted creditors, pay the creditors by realising the company's assets, or sell the business to new owners as a going concern to yield greater returns than if the company was liquidated. Shareholders are right at the back of the queue behind all the firm's other creditors.

It can take some time for shareholders to find out their fate and for the situation to be fully resolved. For example, shareholders in department store Debenhams were certain to be wiped out by its administration process in April 2019 but they had to wait until May 2020 before the company's shares were moved from administration to dissolution status.

At that point, administrators of the company confirmed there had not been and will not be any return to the company's shareholders, thus Debenhams' shares were finally removed from shareholders' investment accounts as they were worthless.

It is worth keeping a full record of all relevant information as soon as an administration or delisting process starts. From a tax perspective if you can give evidence to HMRC that shows that your assets no longer have any value since you acquired them, you may be able to make a negligible value claim. You can use this to realise a loss and thereby reduce your capital gains tax liability.

More details on how to make a claim can be found via this link where there is also a list of shares which have already been accepted as being of negligible value.

Sometimes there are warning signs before a company's shares are suspended because of going into administration. For example, Citigroup analysts assessed the value of doomed travel agent Thomas Cook's shares as zero in May 2019, months before its collapse in September of that year. While swallowing a potential loss on an investment can be painful it is better than being left with nothing at all.

Is there an equally-weighted market index?

The answer is yes and the results for the FTSE 100 version are very interesting

Most if not all indices used to track market performance seem to be capital weighted, i.e. shares with the largest capitalisation have a greater effect on performance than the shares in the index with smaller capital value.

Given that most private investors will tend to spread investments roughly equally rather than in line with market weighting, why are there no indices which show a non-market weighted return?

Ian Forder

By **Ian Conway**
Senior Reporter

Year	FTSE 100 Equal Weight	FTSE 100
2010	21.3%	12.6%
2011	-7.3%	-2.2%
2012	17.9%	10.0%
2013	19.8%	18.7%
2014	4.5%	0.7%
2015	3.0%	-1.3%
2016	12.6%	19.1%
2017	13.2%	11.9%
2018	-9.0%	-8.7%
2019	23.1%	17.3%
Average	**9.9%**	**7.8%**

Source: FTSE Russell, Shares. Data correct as of 29 May 2020

The issue with market cap-weighted indices is that they are overly impacted by the performance of a small number of large stocks, whereas equally weighted indices give a greater relative weighting to smaller companies.

While giving smaller companies a bigger weighting might be thought to increase the volatility of returns, in practice volatility is no more than that of a market cap-weighted index.

Moreover, because equally weighted indices are rebalanced every quarter, they effectively 'buy low and sell high'. Stocks which have outperformed are trimmed, banking profits, while stocks which have lagged are topped up on a 'pound-cost average' basis.

While this incurs a fee, it can pale in comparison with the long-term outperformance of the equally weighted index versus its market cap weighted rival, as illustrated by the table.

The average annual performance between the 10 years to the end of 2019 was 9.9% for the equally weighted FTSE 100 index versus 7.8% for the normal FTSE 100 index.

There used to be an equally weighted FTSE 100 exchange-traded fund on the UK stock market, but it was shut down last year due to lack of demand. However, you can still track performance by looking at the equally weighted FTSE 100 index published by FTSE Russell.

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.

The bosses who have made a mint by dealing shares amid Covid-19

We analyse key director trades amid significant market volatility

It can be useful to keep an eye out for directors that are buying and selling shares in their own companies.

There is a simple reason for this; those at the top should know the state of their businesses better than anyone and so a chief executive investing his or her hard-earned cash into a company can provide a measure of confidence in its prospects.

Conversely, people with a negative view of a stock will latch onto a significant share sale, as this can sometimes indicate something is amiss, with a downswing in fortunes and the share price potentially on the cards. Alternatively it could mean the director in question believes the market valuation of a firm is too high.

The first six months of 2020 has been a tough period for investors with the stock market bottoming on 23 March due to coronavirus-driven panic selling before rallying strongly as investors priced in various recovery scenarios.

Using the Director Deals tool on the *Shares* website, we have analysed data to identify some of the most interesting director trades during this period.

PROFITABLE TRADES AMID CORONAVIRUS

Declared	Company	Director	Gain
19-Mar	IWG	Mark Dixon	£2,585,600
17-Mar	IWG	Mark Dixon	£2,512,000
20-Mar	Plus500	Gal Haber	£971,608
31-Mar	Ninety One	Hendrik du Toit	£544,500
03-Mar	Reckitt Benckiser	Laxman Narasimhan	£292,063
17-Mar	Man Group	Luke Ellis	£226,529
19-Mar	Playtech	Mor Weizer	£218,219
23-Mar	Synthomer	Calum MacLean	£207,280
17-Mar	M&G	John Foley	£91,620
23-Mar	William Hill	Ulrik Bengtsson	£57,450

Source: Shares/Morningstar. Data as at 3 July 2020

WHO HAS MADE A MINT?

Mark Dixon, the founder and CEO of serviced office group **IWG (IWG)**, has consistently been buying shares in his serviced office charge, though a pair of mid-March purchases during the market meltdown proved particularly profitable. Dixon snapped up two tranches of shares at 115.2p and 151.2p that have subsequently generated a combined gain of over £5 million as shares in IWG have rallied to 276.8p.

After hovering around the 440p mark at the start of the year, IWG's shares took a big hit with many investors concerned that the pandemic could lead to permanent changes in working practices as more companies and people become accustomed to working remotely.

However, IWG and Dixon see an opportunity post-coronavirus for more demand for flexible workspace and the company has raised cash for an aggressive expansion, buying struggling rivals and taking on empty space from landlords.

Also in the money is **Plus500's (PLUS)** CEO Gal Haber, who spent over £1.39 million on 174,624 shares at 797.6p in late March and is now sitting on a £971,608 gain on this well-timed trade.

Shares in the trading platform have subsequently ticked up to £13.54, a rise of almost 70%, as the market volatility of recent months enticed more punters to its platform.

Relatively new **Reckitt Benckiser (RB.)** chief executive Laxman Narasimhan is another boss to have made a very lucrative trade during the dark days of March. He invested around £1 million acquiring 17,241 shares in the Dettol-to-Durex supplier at £58-a-pop as markets went into meltdown. Investors who followed his lead will have also made out like bandits because shares in the consumer goods colossus now trade at £74.94, leaving Narasimhan sitting on a quick paper gain of £292,063.

Reckitt Benckiser's shares have appreciated significantly during the pandemic with investors pricing in buoyant demand for its Lysol and Dettol disinfectants, Mucinex cough treatment and Nurofen painkiller brands.

And last but not least, **William Hill (WMH)** chief executive Ulrik Bengtsson took advantage of the gambling and betting group's weak March price tag to snap up a tranche of shares at 39.83p. A subsequent near-doubling of the William Hill share price means Bengtsson's purchase has been rewarded with a £57,450 paper gain in just over three months.

PACK TRADES - LAST 3 MONTHS

Company	Directors	Buys	Sells
Pearson	11	6	1
GlaxoSmithKline	9	7	0
Anglo Pacific	7	14	5
BT	7	9	0
Legal & General	7	21	2
Hurricane Energy	7	7	0
Northbridge Industrial Services	6	10	0
Grafenia	6	6	0
Anglo American	6	11	0

Source: Shares/Morningstar. Data as at 3 July 2020

SIZEABLE TRADES

The stock market's strong rebound has also provided an opportunity for directors to de-risk portfolios by taking significant sums of money off the table.

Among them is Mark Coombs, billionaire founder and CEO of emerging markets asset manager **Ashmore (ASHM)**, who promises to sell up to 4% of his shares per year. During June, one trade saw Coombs sell 10 million shares in his charge at 435p, raking in a meaty £43.5 million profit following a strong share price run. Just days later, Coombs flexed his philanthropic muscles too by gifting 3 million shares to charity.

The month also witnessed a £13.3 million-plus share sale by Peter Cowgill, executive chairman of **JD Sports Fashion (JD.)**. Widely credited as the architect of the trainers-to-tracksuits seller's meteoric rise, Cowgill cashed in by selling (5 June) 1,985,000 shares in the retailer at 671.77p.

On 25 May, retiring **Ceres Power (CWR:AIM)** chairman Alan Aubrey offloaded 12.25 million shares at 425p, raking in more than £52 million in a single trade.

HUNTING IN PACKS

Screening for share purchases by more than one director is another interesting feature for investors to track. Over the past three months, the list of companies that have seen pack trades, namely dealings by two or more directors, includes **Pearson (PSON)**, which has seen six director 'buys' to one 'sell'.

Hot on its heels is FTSE 100 healthcare colossus **GlaxoSmithKline (GSK)**, the drugs giant whose world class vaccines division is a key tenet of the bull case, which has seen seven director purchases versus zero disposals.

Elsewhere, directors have been out in force at communications company **BT (BT.A)**, where there have been nine 'buys' and no 'sells'.

By **James Crux**
Funds and Investment Trusts Editor

The funds which have seen the biggest outflows in 2020 so far

We look at data covering Absolute Return, UK Equity and UK Equity Income funds

The volatile markets this year have sent some investors running to cash, while others have switched to relative safe havens, such as bonds or gold. As we've now reached the six-month mark in the year it is a good time to look at the individual funds which have seen the largest outflows during this period.

Using Morningstar data it's possible to look at how much money investors have pulled from funds, while removing the impact of performance on flows. These figures show just what investors have redeemed from funds, not the impact of performance or losses on the fund assets.

EXODUS FROM ABSOLUTE RETURN SECTOR CONTINUES

In theory the Absolute Return sector should have been a natural home for nervous investors during market falls, as the funds aim to deliver positive returns in all market conditions and limit the losses that are seen across markets.

However, investors have been leaving these funds in their droves. This was the case before the Covid-19 crisis hit markets, with Absolute Return funds having seen outflows for 23 consecutive months, up to May (the latest figures available). It has continued during the pandemic, with March alone seeing the largest monthly outflows during the past two years.

Merian Global Equity Absolute Return (BLP5SB3) has seen the worst of the outflows so far this year, losing £1.7 billion of customer money in the past six months. The fund has lost 4.1% over the past half year – more than double the average return of funds in the sector, which stood at -2% year-to-date.

Coming second for outflows is **Invesco Global Targeted Returns (BJ04HL4)**, with £1.2 billion of outflows, but as this data only runs until the end of May (June data isn't yet available for this fund) the figure could be far higher.

The fund has returned -1.3% in the year so far. Meanwhile

ABSOLUTE RETURNS FUNDS - BIGGEST OUTFLOWS

Fund	Fund Size (£m)	Estimated outflows year-to- date (£m)
Merian Global Equity Absolute Return	1,251.9	-1,683.7
Invesco Global Targeted Returns*	8,374.7	-1,177.8
ASI Global Absolute Return*	3,801.9	-758.9
BNY Mellon Real Return	5,510.1	-682.0
Jupiter Absolute Return*	366.1	-641.0
Aviva Investors Multi-Strategy Targeted Returns	3,641.1	-528.8
Baillie Gifford Diversified	6,270.3	-416.9
Royal London Absolute Return	1,153.7	-249.2
Nordea 1 - GBP Diversified Return	2,428.2	-232.9
BlackRock Absolute Return Bond*	2,584.6	-223.0

Source: Morningstar. Data is of estimated flows and runs to 30 June 2020, unless stated otherwise.
*Data runs to 31 May 2020

ASI Global Absolute Return (B7K3T22), which is often seen as the pioneer of the sector, has seen £759 million of outflows (with the figures also not including June's flows data).

The fund has seen a dramatic fall from grace after reaching around £27 billion at its peak and has now fallen to £3.8 billion in assets, with eye-watering customer outflows of more than £21 billion over the past five years.

UK EQUITY FUNDS STRUGGLE

Investors in UK markets are still sitting on heavy losses as we hit the six-month marker in 2020, with the FTSE 100 index down 17%, the FTSE All Share down a similar 18% and the FTSE 250 index of smaller companies down just over 21% during that time.

However, UK equity funds overall have seen inflows so far this year. But UK fund managers haven't covered themselves in glory, with the average UK All Companies fund delivering the same return as the FTSE All Share year-to-date, of -18%, rather than outperforming markets as you might have expected active fund managers to do. In total, almost half of active funds in the sector have delivered a worse return than the index.

The worst of the outflows were from the **LF Majedie UK Equity (B8BH0R2)**, which saw £660 million of investor money pulled, followed by **Invesco High Income UK (3303148)**, which had £606 million of outflows up to the end of May, and **HSBC UK Growth & Income (B0S7PF2)**, with £577 million of outflows.

The Majedie fund was far from the worst performer in the sector over the past six months, with a loss of 17%, just ahead of the average for the sector. But the outflows on the Invesco fund are more likely to be performance related, as the value-focused fund handed investors a 28% loss during the six months, while the HSBC fund returned a loss of 24%.

UK EQUITY FUNDS - BIGGEST OUTFLOWS

Fund	Fund Size (£m)	Estimated out-flows year-to-date (£m)
LF Majedie UK Equity	1,478.6	-660
Invesco High Income UK*	3,291.5	-606
HSBC UK Growth & Income	271.0	-577
ASI UK Equity Index Managed	313.3	-349
Merian UK Alpha	1,050.6	-329
Invesco Income UK*	1,495.2	-274
Ninety One UK Special Situations	512.9	-223
M&G Recovery GBP	1,140.6	-157
Polar Capital UK Value Opportunities	848.3	-142
Jupiter UK Growth*	550.6	-135

Source: Morningstar. Data is of estimated flows and runs to 30 June 2020, unless stated otherwise.
*Data runs to 30 May 2020

INCOME WITHDRAWALS

Investors in UK Equity Income funds have fared worse, with the average fund manager losing more than the FTSE All Share and the FTSE 100 – an average fall of 20.3% year-to-date. What's more two-thirds of funds in the sector delivered a worse return than the FTSE All Share. This likely reflects the swathe of dividend cuts and suspensions seen amid the global pandemic.

The **JOHCM UK Equity Income (B03KP23)** fund has been the worst for outflows in the sector, with £579 million withdrawn by investors during the past six months, followed by **Schroder Income (764890)**, with £340 million of outflows, and **LF Miton UK Multi Cap Income (B41NHD7)** with £160 million of outflows.

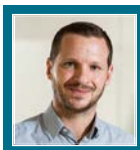
The JOHCM fund has been one of the worst performing in the sector, handing investors a 29% loss over the past six months, while the Schroder fund has delivered a 26% loss. But interestingly, the Miton fund has been the best performing of its peer group, albeit still delivering a loss, but far lower at -8%.

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

What should I do if I've deferred my state pension?

AJ Bell pensions expert Tom Selby explains the rules around enhanced payments and lump sums

Having deferred my state pension for five years, what are the key issues I should be considering in deciding whether to take the lump sum or an enhanced pension?
David



Tom Selby
AJ Bell
Senior Analyst says:

The ability to defer when you claim your state pension is one of the less well-known features of the UK retirement system. In fact, the Government won't pay your state pension at all unless you actively claim it.

First off, a bit of background. Anyone who reached state pension age after 6 April 2016 can claim the full 'new' flat-rate state pension – usually payable to UK residents with a 35-year National Insurance contribution record. In 2020/21 this is worth £175.20 a week.

Anyone who built up state pension rights under the pre-2016 system – such as 'state second pension' or SERPS – has these honoured under the flat-rate system, meaning if you reach state pension age after 2016 you might get more than the flat-rate amount.

Those who 'contracted-out' under the old state pension system may get less than the full flat-rate amount.

For those who started receiving their state pension before 6 April 2016, the basic-rate state pension for 2020/21 is £134.25 a week. They may receive additional amounts from SERPS or state second pension on top of this amount.

DEFERRAL DILEMMA

For anyone who reached state pension age on or after 6 April 2016, your state pension amount will be increased by 1% for every nine weeks you defer receiving it (you must defer by at least nine weeks to receive an uplift) or 5.8% per year. The extra amount is paid via an increase in your state pension.

For those who reached state pension age before 6 April 2016 the deferral rules are slightly different. Your state pension will be increased by 1% for every five weeks you defer, subject to a minimum deferral of five weeks. This means if you defer for 52 weeks you will receive an extra 10.4% in state pension.

If your state pension age was before 6 April 2016 then you usually have the option of either increasing the annual amount of state pension you receive or taking the entire deferral as a lump sum.

You can receive a lump sum payment if you have deferred claiming your state pension for at least 12 months in a row. This will include interest of 2% above the Bank of England base rate, and the lump sum will be taxed at your current income tax rate (e.g. if you are a basic-rate taxpayer it will be taxed at 20%) – but you won't be pushed into a higher tax rate because you received a lump sum.

Some of the things you should consider in deciding whether to take your deferral payment as a lump sum or income include:

- Your health (the longer you live, the more valuable a guaranteed income stream will be)
- Your current income and spending priorities (do you have enough income from other sources to fund your lifestyle?)
- Whether you want to pass money on to someone who isn't your spouse after you die. While a spouse can inherit some of your state pension entitlement, other relatives or loved ones cannot. A lump sum can be passed on to whomever you choose, although it may be subject to inheritance tax.
- Inflation protection – any extra state pension you receive as a result of deferral will usually increase in line with Consumer Prices Index inflation. If you take a lump sum you will lose this protection.


The longer you live, the more valuable a guaranteed income stream will be.

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.

Creating a strategy for a beginner stock investor

Getting to grips with investment strategy basics

Investors need to have a clear goal as this helps to define the type of investments to be considered for a portfolio.

For example, are you investing over several decades for a pension pot to draw on when you stop working or are you approaching retirement and need to assess your options now? Is regular income going to be important to you in the future or are you keen to build capital?

We'll now explore some simple types of investment strategy, what helps create value for investors, and some warning signs that might signal the destruction of value.

WHY STOCKS GO UP

To state the obvious, investors want to buy stocks that go up. There are countless factors that can influence share prices, such as consumer spending, business confidence and economic growth. The most important factor is how well the company is performing.

When a business is doing well investors want to own it, so demand pushes the share price higher, and vice versa. People talk about 'buying low and selling high', and while this may sound awfully simple, it's very hard to do successfully.

WHAT BUY LOW, SELL HIGH MEANS

The idea behind buy low, sell high relates the nature of stock market cycles. Stock prices fluctuate based on many factors; world events, interest rates, consumer spending, business confidence, a company's growth and much else.

The price of a stock is based on the supply and demand among investors at that moment in time. As the environment changes, so does the stock price.

TIMING THE MARKET

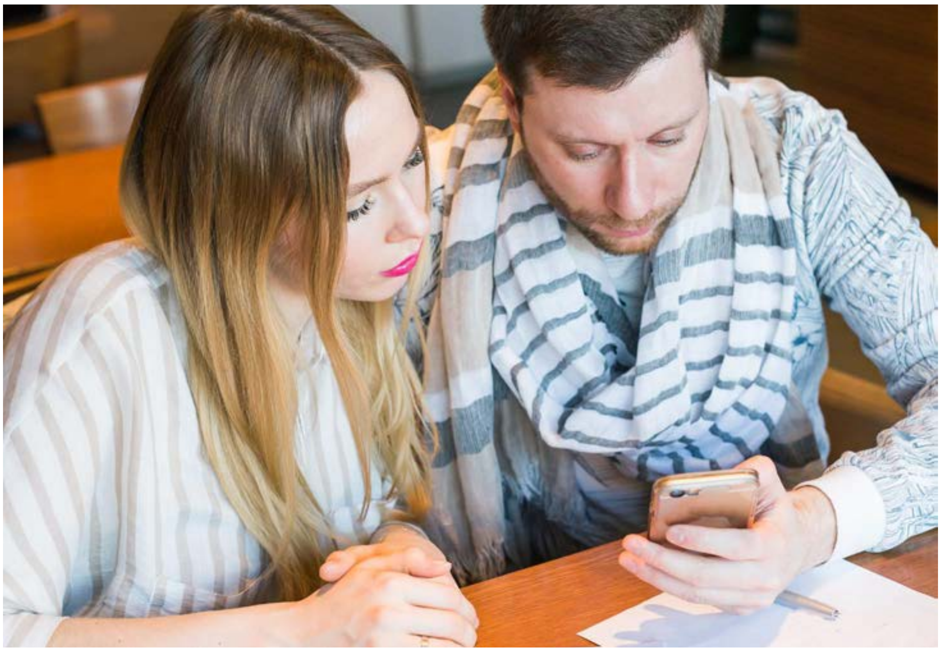
The strategy behind buying low and selling high relies on trying to time the market. Buying low means trying to determine when a share price is out of favour and buying in the hope of it going up as conditions improve for the company.

Conversely, selling high relies on figuring out when a share price has hit its peak. Once stocks have hit their maximum value, investors sell their shares and reap the rewards.

This looks like a good idea, on paper, but it essentially requires an investor to 'time the market', or in other words, predict the highs and lows.

Anyone who doesn't want to risk getting their timing wrong should really consider tracker funds or exchange-traded funds which merely track the performance of the market, so no timing is required.

An alternative is to buy a fund managed by someone who is doing all the stock research and making a judgement on when to buy and sell.



THE DIY ROUTE

For those happy to do it themselves, there are various valuation tools that can help such as the price-to-earnings (PE) ratio. This compares the share price to a company's earnings.

In theory, you buy when it looks cheap and sell when it looks fair value or expensive.

We'll go into more detail on what the PE is, what it tells you and how to calculate it in a future installment of our *First-Time Investor* series. We'll also look at other valuation methods.

Even the highest paid fund managers with decades of success won't get everything right

It is important to stress that while you may have some success with picking stocks, it is extremely hard to get it right all the time. Even the highest paid fund managers with decades of success won't get everything right.

VALUE INVESTING AND GROWTH INVESTING

There are countless methods of stock picking that analysts and investors employ, but virtually all of them are one form or another of the two basic stock buying strategies of value investing or growth investing.

Value investing involves finding a stock that is trading below its intrinsic value. Essentially it means identifying a company that should be valued at a higher price if it fixes a problem or once the market recognises its true worth.

Growth investors seek out companies with high growth potential over the long-term, hoping earnings improvement will fuel a higher share price over time. They are usually less concerned with dividend income and are more willing to risk investing in relatively young companies. Technology stocks, because of their high growth potential, are often favoured by growth investors.

GOOD AND BAD TRAITS

There are some key characteristics of good companies and red flags for ones to avoid. The positives include things like consistent performance over several years, strong cash generation, manageable borrowings plus aspects like a proven management team, best-in-class products and growth potential within its markets that stretch long into the future.

Too much debt is one of the big red flags. Repaying large borrowings can put too much pressure on a company's overall finances, starving the business of vital investment. In bad cases it can force companies to raise fresh funding, usually at the expensive of shareholders.

We will explore investment styles, company qualities and red flags each in more detail in future *First-Time Investor* articles.

Next time we look at the various places you can find stock ideas and the pros and cons of internet bullet boards and social media channels for an investor.

By **Steven Frazer**
News Editor

KEY

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

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

14 July: AO World, Halma, Motorpoint, Zoo Digital.

Half year results

14 July: Ocado. **15 July:** McCarthy & Stone.

Trading statements

15 July: Burberry. **16 July:** Hays.

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