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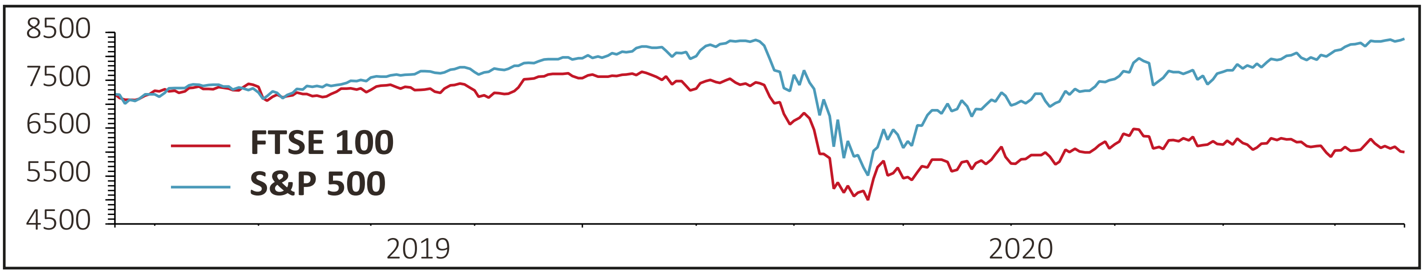
WHEN TO SELL A STOCK (AND WHEN NOT TO SELL)

FTSE primed to play catch-up after lagging US stocks

The pound losing its recent strength and oil stocks responding to a higher commodity price could boost the index



Investors in UK stocks have been looking jealously (or frustratingly) at the performance of the US markets and wondering why the FTSE 100 has stubbornly refused to rebound as fast.

Year to date, the S&P 500 is up nearly 5% and the Nasdaq is up 25% whereas the FTSE 100 is down nearly 19%, all on a total return basis.

The answer is simple – the UK stock market is very under-represented by tech stocks which is the sector that has driven US markets this year.

The UK is also heavily weighted towards banks and energy stocks, two of the worst performing sectors in 2020.

The former has been depressed by a drop in interest rates, rising concerns over potential bad debts as consumers and companies struggle as a result of the pandemic, and the suspension of dividends.

The energy sector has been hit by a big decline in the oil price and a reduction in dividends making it less appealing to income investors.

Yet are we about to see a reversal of fortunes?

Recent strength in the pound versus the US dollar will have worked against the multitude of companies on the FTSE 100 which earn in the latter currency, but whose share price is quoted in the former. Those dollar earnings will be worth less when translated into sterling.

Approximately three quarters of the FTSE 100's earnings come from outside the UK, so foreign exchange rates really matter to the performance of the index.

Bank of America this month turned bullish on UK equities, partly because it expects the pound to weaken again on the back of rising no-deal Brexit risks. If sterling weakens then dollar revenues, once converted back into sterling, are worth more.

The bank also believes the energy sector should catch up with recent strength in the oil price, thereby giving another support to the FTSE 100 with oil producers **Royal Dutch Shell (RDSB)** and **BP (BP.)** being major constituents of the index.

Such predictions would suggest investors are right to remain hopeful for better returns from the FTSE. However, performance is still dependent on economic activity picking up around the world and unfortunately there are some mixed signals.

Stock markets last week took a tumble after the US central bank expressed concern that the pandemic could greatly impact the US economy in the medium term.

The latest Eurozone PMIs disappointed while the US and China's recent figures have been more upbeat. These are various indices which show confidence levels from purchasing managers and which are a good economic bellwether.

Against this backdrop, the latest Bank of America survey of fund managers shows that institutional investors remain bullish about markets despite a difficult backdrop.

It's an ever-moving feast and investors would be best served by not fiddling with their portfolios in response to every bit of economic data that comes out. Stay diversified and accept that there may well be some parts of your portfolio lagging others – it's just the nature of investing.

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M&A revival predicted after worst first-half for deals since 2010

Activity could erupt thanks to large cash piles among private equity and low equity valuations

So far, this year has been a washout for advisers and investment banks involved in mergers and acquisitions (M&A), as the Covid pandemic has forced firms to cut back on all non-essential spending and conserve cash.

However, there are rumblings that deals could come back with a vengeance in the second-half period thanks to large amounts of cash on hand at private equity firms and cheap valuations, especially in the UK.

According to international law firm White & Case, the total value of global M&A deals announced in the first half of 2020 – both completed and pending – was $901.7 billion, down 53% on the previous year and the lowest half-yearly total since the first half of 2010. The number of deals was down 32% on last year to the lowest half-yearly total since the first half of 2013.

Yet the private equity industry – which accounts for a large proportion of M&A transactions – is awash with cash and hungry for deals. According to Bloomberg, the industry started this year with a record $1.5 trillion of cash and many observers expected 2020 to set a record for takeovers.

Adding to the mix, some companies are emerging from the crisis in a healthier position than even they had contemplated, with strong cash balances after raising funds, and are looking for new opportunities to grow.

The FTSE 100 index is down roughly 19% since the start of the year and several large cap stocks now trade on single-digit forward earnings multiples.

Moreover, despite the current weakness of the US dollar, UK companies are significantly cheaper for foreign buyers than they were in 2016 before the Brexit vote sent the pound tumbling.

Rumours have been swirling this month that French hotel operator Accor, which owns the Ibis, Novotel and Sofitel chains as well as upmarket brands Grand Mercure and Raffles, was contemplating launching a merger deal with Holiday Inn and Crown Plaza owner **InterContinental Hotels (IHG)**.

FTSE 100 stocks on single-digit PE multiples

Company	12m forward PE	12m forward EV/EBITDA	12m Price/ book
BAT	7.7	8.7	0.9
L&G	7.3	n/a	1.4
Aviva	5.6	n/a	0.6
BT	5.5	4.9	0.7
Imperial Tobacco	4.9	6.6	2.5

Source: Sharepad, Shares. Data as of close on 21 August. Price/book based on last 12m

French newspaper *Le Figaro* suggested Accor's management board was in favour of a combination, valuing the joint business at some $17 billion and putting it ahead of US rival Marriott in terms of hotel rooms, but its chief executive was more cautious.

At the same time private equity firms are mooted to be circling Walmart's UK supermarket business Asda, after it was unofficially put up for sale.

Media reports suggest two US buyers – Apollo and Lone Star Funds – are vying to buy the business for up to $8.6 billion (£6.5 billion) and parachute in experienced management teams.

BT takeover hopes shot down by analysts

It would be a risky acquisition while important decisions and commitments remain undecided

Analysts believe any takeover interest in **BT (BT.A)** is likely to be doomed by a series of effective poison pills, including regulation, massive capital expenditure commitments and a yawning pension scheme black hole.

Speculation emerged last weekend that the UK telecoms giant had engaged bankers at Goldman Sachs to put together an updated takeover defence package as rumours swirled that its battered share price could attract the attentions of either industry or private equity buyers.

The speculation saw shares in the group rise nearly 10% this week to 109.85p, yet the stock remains only fractionally above decade lows of 98p. In early 2016 the shares were changing hands for 485p at their peak. Earlier this year, BT was forced to abandon its dividend until 2022, reducing its appeal to income investors.

The share price slump is believed to have drawn the eye of potential buyers. BT has been mooted as a possible buyout target several times over the past few years, not least because German peer Deutsche Telekom owns a 12% stake in the business, a legacy from its £12.5 billion sale of mobile arm EE to BT in 2015.

Analysts at broker Jefferies admit it is likely that BT is being watched closely because of the perceived gap between the group's £10.9 billion market cap and the fair value of its Openreach network and other assets. But any deal would face massive obstacles.

"An offer would appear highly unlikely until there is more clarity around its pension funding commitments"

'The future pension funding commitments won't be known until the triennial review concludes in May 2021, and fibre regulation won't be finalised until Ofcom reports in the first quarter of 2021,' says Jefferies.

'We see a combination of the pension fund, UK infrastructure goals and network security as a difficult series of hoops for a buyout consortium to jump through,' says JP Morgan.

Barclays' analysts point out that even at the current depressed valuation, once adjustments are made for areas like the pension scheme, mobile spectrum investment and fibre network capex, BT trades broadly in line with peers on most free cash flow metrics, and there is no dividend support.

In June analysts shot down previous takeover rumours after speculation that the Saudi-backed Public Investment Fund (PIF) was thought to be quietly building a stake in the UK telecoms giant. PIF was thought to have been buying slugs of BT stock, although any stake remains below the 3% of the company threshold which would mean having to announce details to the market.

We can't rule out a bid near-term, but an offer would appear highly unlikely until there is more clarity around its pension funding commitments and the value creation opportunity from national fibre roll-out and 5G networks.

BlackRock World Mining's 'decade of lost returns'

Investec says investors may be better of buying BHP, Rio Tinto or a mining ETF

Sell investment trust **BlackRock World Mining Trust (BRWM)** and just buy **BHP (BHP)**, **Rio Tinto (RIO)** or a relevant exchange-traded fund if you want exposure to the mining sector.

That's the view put forward in a critical note on BlackRock World Mining by Investec analysts Alan Brierley and Ben Newell, who have downgraded the trust from 'hold' to 'sell' and say both it and the mining sector have endured a 'decade of lost returns'.

They calculate that the net asset value (NAV) total return of the trust over the past decade, sterling-adjusted, is just 4%, compared to 567% for the US Nasdaq stock index for example, and add that it could get worse for the trust and the sector with ESG headwinds looming in a post-Covid world.

Brierley and Newell also suggest BlackRock World Mining's directors could be 'airbrushing history', noting the decision to move away from the EMIX Global Mining index as a benchmark and instead using MSCI ACWI Metals & Mining 30% Buffer 10/40 index.

While taking no issue with which benchmark is most appropriate, they said they are 'extremely uncomfortable with the concept of simply dropping the old reference index and replacing it with one which has produced much lower returns in recent years.'

The new index's five-year total return of 67.1% is considerably lower than the 95% recorded by the previous benchmark. Over this period, the trust's NAV total return is 78.6%.

Analysts say Greencoat Renewables cannot justify premium rating

The trust is trading on a significant premium to NAV despite limited growth potential

DIVIDEND HUNGRY investors should not pay any price for income as it could result in a capital loss, warn analysts at Stifel as they downgrade the popular **Greencoat Renewables (GRP)** investment trust to a negative rating.

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

Greencoat Renewables is no different with its 4.9% dividend yield, but Stifel says its current premium of 21% is a price not worth paying given it offers 'little or no NAV growth and marginal dividend growth'.

Stifel says the fund is a 'prodigious issuer of capital' and believes investors would be better served by exiting now and biding their time until its next capital raise or share price setback.

They point out the current premium is equivalent to over three years of dividends (or two years if compared to the last share issuance price), 'giving an exiting investor plenty of time to wait for a more attractive entry point'. Stifel also notes the last capital raise in December was done at a price 10% below the current share price.

Meanwhile a lot of bad news is coming out of the sector which also makes it less attractive from an investment perspective.

Stifel said in April 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 which fell during the coronavirus pandemic.

Balfour Beatty's £2bn win fails to move its shares

Two contracts achievements are another sign of the progress made by the company's Build to Last turnaround plan

Investors are not taking any notice of construction company **Balfour Beatty (BBY)** despite it recently announcing two very large contract wins in Hong Kong worth almost £2 billion.

Its 50:50 joint venture, Gammon, won a £577 million highways contract at the end of June, which was then followed this week by a £1.27 billion deal for the expansion of Terminal 2 at Hong Kong International Airport, accounting for almost 10% of its order book.

The mega deals, in infrastructure where Balfour has the most expertise, show the progress made under chief executive Leo Quinn's Build to Last turnaround plan, with the tier one contractor focusing more on higher margin projects in areas it specialises in.

While still in the single digits, profit margins in Hong Kong have typically been a little higher than the standard 3% to 4% in the UK construction industry, and 1% to 2% in the US, two countries in which Balfour has a big presence.

The full impact of the new deals on earnings is yet to become clear, with the company warning it would take until 2021 for operating profits to get back to 2019 levels due to the impact of the coronavirus pandemic.

Analysts at Liberum point to

a rise in its order book to £17.5 billion, compared to £14.9 billion at the end of 2019, and more contracts it should be able to win on HS2.

Investor hopes raised over Covid treatments

Stocks rally around the world after plasma treatment was authorised for use in hospitals

FOR MONTHS investors have been lapping-up all positive vaccine and Covid-19 treatment news as if their lives depended on it.

Another dose was injected last weekend when the US Federal Drug Administration (FDA), the body that independently approves new drugs, cleared the use of convalescent plasma in hospital patients suffering from Covid-19.

This involves injecting antibodies from patients that have survived the virus into current hospitalised sufferers. US president Donald Trump said: 'This is a powerful therapy.'

The president has been promoting the treatment even though there isn't enough evidence that such treatments work and full clinical trials have yet to be completed.

Patients who were treated with plasma containing higher levels of antibodies were 35% more likely to survive than those who received plasma with lower levels. Yet it isn't yet known if patients treated with plasma are more likely to survive than those not treated.

Meanwhile there is increasing chatter that Trump is considering fast-tracking the experimental vaccine being developed by **AstraZeneca (AZN)** and Oxford University. AstraZeneca's shares jumped almost 4% to £87.70 on 24 August following media speculation about Trump's intentions.

Brunner offers outstanding value at current prices

Ideal time to buy into this quality-focused dividend grower at a big discount

We have long been fans of **Brunner Investment Trust's (BUT)** stock-picking approach and a 48-year track record of sustained dividend growth, so to find the trust trading at a discount to net asset value (NAV) of close to 15% is too good an opportunity to pass up.

It means you can buy a portfolio including Microsoft, Roche and Visa on the cheap.

The trust, which traces its roots back almost a century, is managed by Allianz Global Investor's Matthew Tillett with support from fellow managers Jeremy Kant and Marcus Morris-Eyton and offers a balance between growth and income.

The portfolio is invested globally with 47% of assets in the US, 28% in Continental Europe, 17% in the UK and the balance in Asia. By sector, the trust's biggest exposures are industrial stocks, financials, healthcare and technology.

As well as tapping into Allianz's in-house analysts for their expertise, Brunner is plugged into the firm's research pool which brings in market data on suppliers, competitors and industry trends.

Brunner invests in high-quality companies and it has an enviable record of increasing its NAV ahead of its benchmark over one, three, five and 10 years.

However, the share price has yet to reflect this year's improvement in NAV, so the trust is currently trading at a discount of 14.6% compared with a range of between 8% and 12% over the last 10 years.

BRUNNER INVESTMENT TRUST
BUY
(BUT) 758p

Net asset value: 888p

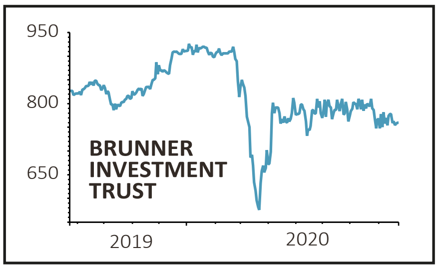
That is likely to be linked with the surprise departure of former manager Lucy Macdonald in May, with many investors following her lead and exiting. Tillett is following the same investment process used by Macdonald, so we think the market has overreacted.

Given the significant bounce-back in global equities – US indices are now trading at all-time highs – and the relatively poor returns on UK stocks this year, the current price of Brunner represents an opportunity to buy a slice of some of the world's best-quality businesses at a significant discount.

Notably, the trust doesn't chase 'momentum' stocks or invest in themes. As the manager explains, markets have been driven by two factors – central bank support and a belief that technology has changed the landscape, handing winners increasing returns at the expense of the losers.

'Much about these narratives is true,' says Tillett, 'however we should be careful in assuming that everything that has changed in recent months will stay this way.'

The portfolio's bias towards 'resilient, financially sound' companies means it should continue to perform well even if markets lose faith in central banks or the current narrow leadership of technology stocks falters.



UP Global Sourcing's shares are a real bargain

Earnings have pleasantly surprised this year yet the stock rating remains cheap

Shares in value-focused consumer brands company **UP Global Sourcing (UPGS)** are approaching two-year highs, after tripling from the March lows. There should be a lot more gains to come.

The company, better known as Ultimate Products, has navigated the pandemic impressively so far given the initial disruption to its Chinese supply chains. The business is benefiting from what could be sustainable workplace changes, while the increased scale and increasing customer diversification adds quality and stability.

These attributes are not reflected in the valuation of the shares which look too cheap on 10 times next year's expected earnings.

Its latest update (24 August) saw more evidence of strong business momentum with the firm repaying Government furlough scheme funds due to stronger than expected cash generation during the crisis. It has also brought its value-added tax payments up to date having previously taken advantage of the deferral scheme.

It's been a remarkable time with two profit upgrades in June and July, which wrong-footed analysts' and investors' expectations. If upgraded guidance for earnings before interest, tax, depreciation and amortisation (EBITDA) are delivered (above £9.6 million), it would match 2019, an outcome which seemed impossible a few months ago.

UP GLOBAL SOURCING
BUY
(UPGS) 93.7p
Market cap: £73.2 million

The key driver seems to have been greater penetration of online sales through the likes of Amazon, Ebay and Groupon.

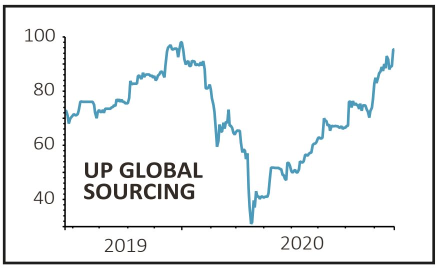
Founder and chief executive Simon Showman noted: 'The investment that we have made in our online segment in recent years is delivering particularly good results, and our adaptive, resilient and flexible business model is standing us in good stead.'

This highlights one of the key strengths of the company's business model and operating structure, which is the broad cross-section of distribution channels it has built, from large national and international multi-channel retailers to smaller national chains, discounters, general retailers and online retailers.

The other driver has been the huge shift to home working which has resulted in higher demand for cleaning and cooking products. During lockdown people focused on hygiene and cleaning which buoyed sales of the Beldray brand which makes vacuum cleaners, steam cleaners and laundry products.

The Salter brand received a boost from more people cooking at home with products such as saucepans, three-in-one snack makers and air-fryers doing particularly well according to the company.

Don't let the rally in the stock put you off buying the shares as they are running behind the improving fundamentals. An update on 7 September should see analysts introduce medium-term forecasts, acting as another share price catalyst as the market gets an idea of its earnings growth capabilities.



LUCECO

(LUCE) 186.5p

Gain to date: 60.8%

Original entry point:

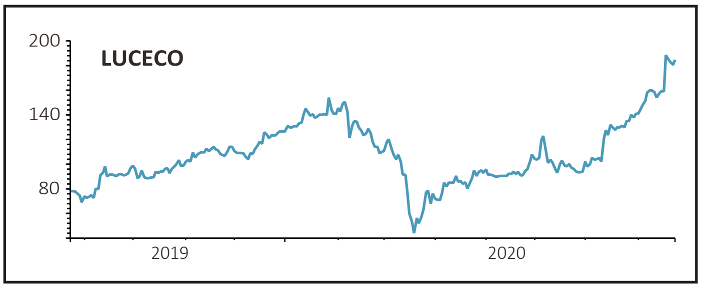
Buy at 116p, 19 December 2019

IF FEBRUARY and March provided some pain for investors who followed our **Luceco (LUCE)** investment idea, they're certainly getting rewards now. The stock has gone bananas, shooting to levels not seen since 2017, and delivering a 60% gain since we said to buy last December.

The recovery in the LED lighting and portable power products maker from the worst of the pandemic shutdown has been astonishing, clearly catching management and analysts out in equal measure. This was a real bolt from the blue, with an update on 19 August coming barely a month after Numis had to rethink its 2020 estimates for the second time.

The latest forecast revision is significant, with Numis analyst Kevin Fogerty hiking his adjusted earnings before interest and tax (EBIT) and earnings per share (EPS) by 22% and 29% respectively above the July-issued estimates. His forecasts for 2021 were given a similarly marked upgrade.

What this means is that 2020 EPS of 11.6p per share is now anticipated, where 9p was predicted just a month ago. EPS of 12.1p has been pencilled in for 2021. So even after the stock's soaring run it remains undemanding in valuation terms, on a price-to-earnings multiple of 16, falling to 15.4 next year.



SHARES SAYS: ↗

Stick with the shares as Luceco clearly has positive sales momentum.

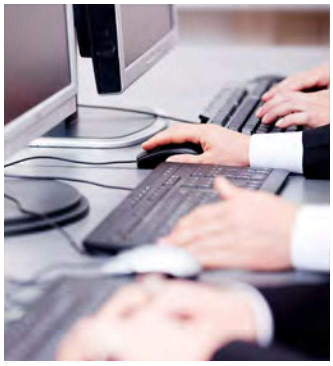
SOFTCAT

(SCT) £13.20

Gain to date: 37.6%

Original entry point:

Buy at 959.5p, 1 August 2019



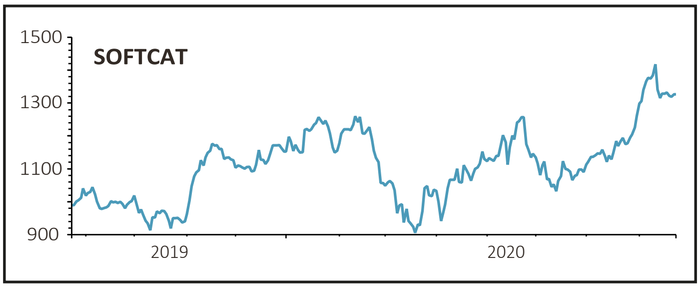
OUR RETURNS have doubled on software reseller and IT advisor **Softcat (SCT)** since we last updated on the stock two months ago, demonstrating how this technology enabler has been able to capitalise on Covid-19.

Its latest trading update (19 Aug) emphasised its reputation as a fine growth business. The company flagged the return of a dividend that was originally cancelled in response to the Covid-19 outbreak while adding that full-year operating profit would be 'slightly ahead' of expectations.

Worth noting was the strong cash generation, an important factor in its decision to recommit to pay the dividend. Full-year results to 31 July 2020 will be released in late October.

'This is another robust performance bearing in mind estimates were never downgraded for the pandemic,' says Numis analyst Tintin Stormont. We can only agree given the firm's ongoing excellent performance both operationally and in share price terms.

Peel Hunt analyst James Lockyer upped his own earnings estimates for year to 31 July 2020 and 2021 by 4% to 6%, thanks to good cost management.



SHARES SAYS: ↗

Softcat continues to repay the faith of investors during a testing time. Still a buy for the longer-term.


THE SPECIALIST WAREHOUSE INVESTOR
£450.5 MILLION PORTFOLIO*
£30.4 MILLION RENT ROLL*
6.2 MILLION SQ FT*
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5 GREAT STOCKS TO BUY NOW

We've found some decent businesses trading on attractive valuations

By The Shares Team

Many people are prepared to pay a high price for growth in the current market. Indeed, *Shares* has been keen to extol the virtues of quality businesses capable of growing despite a troubled backdrop.

However, we sense growing interest in the market for value opportunities and our research shows it is currently possible to find decent companies trading at attractive prices.

Warren Buffett famously said: 'Whether we're talking about socks or stocks, I like buying quality merchandise when it is marked down.' Investors should certainly follow his words.

We also note that Bank of America last week declared the last leg of the recovery rally is set to be driven by value stocks, helped by rising bond yields.

SCANNING THE MARKET

To help find opportunities, *Shares* has employed several different measures of value including the relatively simple price-to-earnings (PE) ratio, through to price-to-earnings growth (PEG) and price-to-book.

Identifying genuine bargains is much more than just a data crunching exercise as stocks can be cheap for a reason. A business with lots of debt on the balance sheet may look optically attractive on a PE basis but a lot of its earnings will have to go towards servicing debt which means the financial risks are significantly higher, particularly at a time when the economic outlook is so fragile.

For example, according to SharePad data roadside assistance provider **AA (AA.)** trades on a forward PE of just 3.5 but its £2.65 billion worth of debt comes in at seven times its earnings.

There are other reasons why stocks trade at a discount such as scepticism over the sustainability, transparency and reliability of its earnings. A firm might have a patchy track record or a history of corporate governance failings. Or its entire business model might be structurally challenged.

Newspaper publisher **Reach (RCH)**, for example, trades on a PE of just 1.9 for 2020. It doesn't have lots of debt to worry about (although it has significant pension liabilities) and it is cash generative but the major sticking point for investors is the consistent decline in earnings from its core newspaper business.

LOOK AT BOTH SIDES OF THE STORY

If you think you've spotted a value opportunity, make a list of all the reasons not to buy it. If this list is longer than one or two items or if one issue is so acute that it keeps nagging away at you, then chances are you could be walking into a value trap.

You also need to identify potential catalysts which can change the market's perception of a share, leading it to trade on a higher valuation. This might be evidence of an improvement in trading, a change in management or a shift in sentiment toward the sector in which it operates. Read on to discover five stocks we think look great value and have lots of positive attributes.

FIVE GREAT VALUE PICKS

BP MARSH
Investor in early-stage financial services businesses

ELECO
Construction software specialist

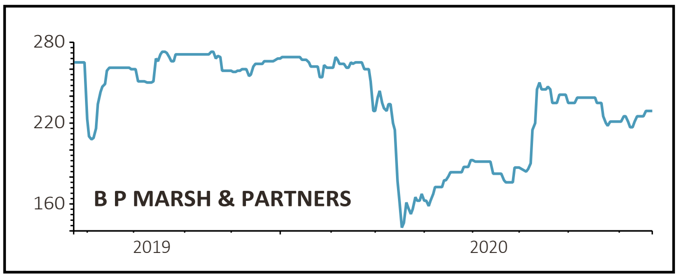
FERREXPO
Best-in-class iron ore miner

GAMESYS
Online bingo operator

JUST GROUP
Retirement products and services provider

B.P. MARSH (BPM:AIM) 226.5P

Market cap: £85 million



B.P. Marsh: Compound annual growth rates between 2015 and 2020

Revenue	16.2%
Net profit	20.5%
EPS (normalised)	15.8%

Source: Stockopedia, Shares

Specialist investment firm **B.P. Marsh (BPM:AIM)** offers individual investors the opportunity to gain exposure to early-stage financial businesses which would normally be beyond their reach.

Since it was founded in 1990 the firm has invested in 50 businesses including financial advisers, insurance companies, wealth and fund managers, and specialist consultancy firms across the globe.

It typically invests up to £5 million in the first round of fund raising, and target companies range from complete start-ups to more developed businesses. Initially it only takes a minority stake, but it works alongside management to maximise value as the business develops.

The current portfolio is strongly weighted towards insurance with all but one company operating in this sector, although given its targeted approach it has exposure to a wide variety of specialist classes of insurance. As a group, its gross written premiums topped $1 billion in the year to January.

In its last financial year the firm posted an 8.5% increase in net asset value (NAV) to £136.9m, net of dividends, meaning an increase of 29.8p in per-share NAV to 380.1p. Including the dividend paid last July, total shareholder returns increased by 9.8%.

Most of the gains were driven by Marsh's two biggest insurance businesses, UK-based underwriter Nexus and US-based underwriter XPT Group, which accounted for 35% and 9% of group NAV respectively, and by its investment in UK financial adviser LEBC which accounted for 22% of group NAV.

It first invested in Nexus in 2014, taking a 5% stake. Since that time, the investee firm has bought six businesses including the global flying book of British insurer **Hiscox (HSX)**. Marsh now has a 17.6% shareholding and since its first investment the value of Nexus has grown from £31 million to £228 million.

With Marsh's help, Nexus has grown its gross premiums from £31m to £325m and its adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) has gone from £2.3m to £15m.

This growth has come from new product lines such as trade credit underwriting as well as small bolt-on acquisitions.

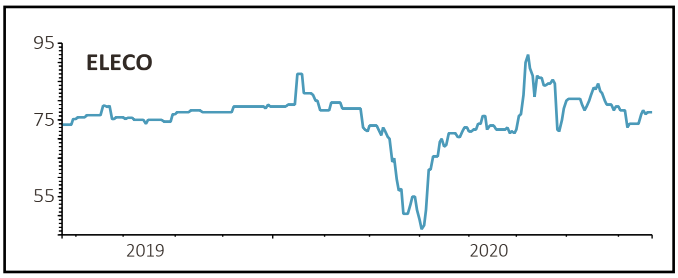
Meanwhile, from a standing start in 2017, XPT is expected to write $300m of gross premiums this year, yet Marsh's cost of investment for a 29.9% stake was just over £7m. Just last month XPT announced it had made a seventh acquisition and beefed up its senior management team to aid further growth.

Some of Marsh's smaller investments have done even better. Its 38% stake in UK insurance brokerage CBC, which cost just £4000, is now worth over £7m.

While the pandemic carries a potential impact on the carrying value of the firm's investments, chief investment officer Dan Topping believes it is 'unlikely to negatively influence the portfolio as a whole in a material fashion'.

ELECO (ELCO:AIM) 77P

Market cap: £63.6 million



We think **Eleco (ELCO:AIM)** could be in an interesting position as the wider construction industry embraces digitisation. Until recently known as Elecosoft, the company has been in business for more than 100 years but turned itself into a construction industry technology supplier when it sold its physical building operations in 2013.

Eleco: Compound annual growth rates between 2015 and 2020

Revenue	**13.5%**
Net profit	**23.5%**
EPS (normalised)	**33.2%**

Source: Stockopedia, Shares

These days it provides specialist software solutions that cover the core elements of a construction project, such as computer-aided design and visualisation, engineering resource planning, cost estimation/tracking, site operations/maintenance, plus building information management which acts as the glue connecting all the various modules.

It sells primarily in the UK, Sweden and Germany, with earnings also coming from the Benelux region and the US through reseller partners. The software is used by some big industry players, including international building firms Skanska and Mace and global wood flooring supplier Boen, and has been used on some landmark projects such as The Shard, the BBC Television Centre, Hong Kong International Airport and Berlin's Reichstag Dome.

Like many software businesses that have been around for a while, Eleco is gradually transitioning to the cloud and a software-as-a-service model of recurring annual subscription revenues. About two-thirds of last year's £25.4 million revenue was recurring, the rest is multi-year licences with servicing/maintenance on top.

This year won't have been easy for the business, although the fact that construction was one of the first industries to get back to work post-Covid has helped. Management sensibly cut costs early.

A recent trading update said first-half earnings held up well with adjusted pre-tax profit to 30 June up 14% despite a 4% decline in revenues. Analysts imply this to mean around £2.3 million profit on £12.2 million sales. Cash generation was strong, turning £1.1 million net cash at the start of the year into a £4.4 million net cash pile.

Analysts seen to think the underlying outlook is improving, which is encouraging given that the building industry is still operating under social distancing rules. This is partly thanks to the launch of new AI visualisation tools, but the real gains should come from the ongoing use of digital tools into the future.

Eleco last year generated 14.9% return on capital and 16.2% return on equity, which is a solid performance. Its operating margin was 15%.

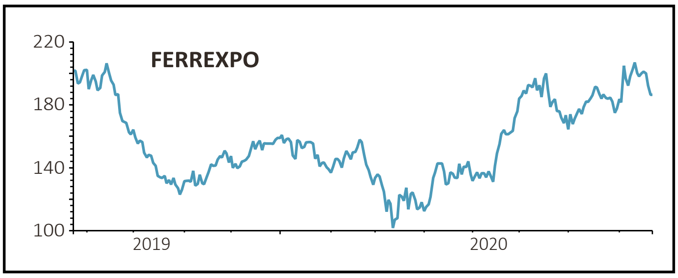
The shares look cheap on earnings growth basis with a PEG ratio of just under 1 using the last published forecasts. The two brokers covering the stock have temporarily withdrawn estimates which is something prospective investors need to consider. Estimates are likely to be reinstated when results are published in September.

Last month Equity Development analyst Paul Hill said Eleco (trading roughly at the same share price as now) was attractively priced, trading on 2.4 times 2019 enterprise value-to-sales compared to typical industry multiples (pre COVID-19) of 4 to 7-times. He added that Eleco's two closest rivals, Nemetschek and Autodesk, were priced at more than 10 times EV/turnover.

We note that Eleco was added earlier this year to **CFP SDL Free Spirit Fund's (BYYQC27)** portfolio. This fund is ranked top in the IA UK All Companies sector for the past three years' performance, implying that fund manager Andrew Vaughan knows his stuff when it comes to picking stocks.

FERREXPO (FXPO) 187.6P

Market cap: £1.1 billion



Ferrexpo: Key statistics	
Price to book*	**1.1**
Return on capital employed*	**30%**
Return on equity*	**31.7%**

Source: Stockopedia, Shares. *Trailing 12 months

FTSE 250 iron ore miner **Ferrexpo (FXPO)** is a quality, high yielding stock that appears to be significantly undervalued by the market.

A producer of high grade iron ore pellets, Ferrexpo has a strong track record of profitability and cash generation, and has proven itself to be a reliable income stock with the potential for growth.

The company, which is Swiss-headquarted but has its mining assets in Ukraine, has also weathered the current coronavirus crisis well, with only a modest hit to revenues, earnings and margins.

While others in its sector have increased their debt to cope with the pandemic fallout, in the six months to 30 June Ferrexpo cut its borrowings, with net debt to last 12 months' EBITDA down to 0.31, compared to 0.48-times as at 31 December 2019.

Being in a position of strength thanks to particularly buoyant iron ore pellet prices, in its half-year results Ferrexpo also declared a second interim dividend of 6.6 US cents, in addition to the 6.6 US cents interim dividend it declared in June.

Shore Capital calculates the two interim dividends as being equivalent to a yield of 5.6%, or a 'stupendous' 11.1% annualised (i.e. assuming similar further dividends for the second half of the year).

But still the company appears to be unappreciated by the market, principally because of corporate governance concerns.

It trades on a price-to-book value of 1.19-times – a better metric for miners compared to price-to-earnings – which is about average for its sector, but it has an enterprise value-to-EBITDA ratio of just 3.

According to Stockopedia, the company scores well on various quality measures, with return on capital employed, return on equity and operating margin all above 30%, making it a high quality company generally and particularly high quality when compared to its peers in the metals and mining sector.

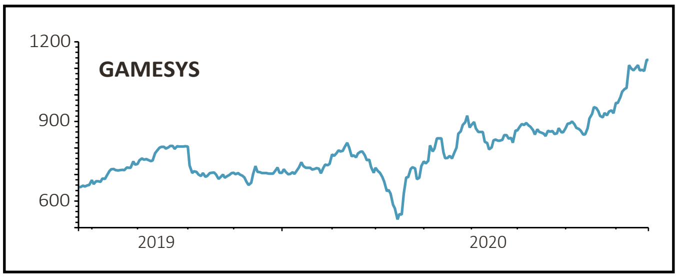
Ferrexpo has many potential catalysts for a re-rating. These include higher pellet premiums towards the end of the year if the global economy recovers, while increasing activity in the automotive and construction sectors in the EU and Asia should see steel demand rise, again benefiting Ferrexpo.

Longer term, Chinese pellet demand will be a big factor as pollution controls are implemented across Chinese cities, meaning Chinese steel mills transition from lower-grade, higher-impurity iron ores toward the higher-grade feedstocks Ferrexpo provides.

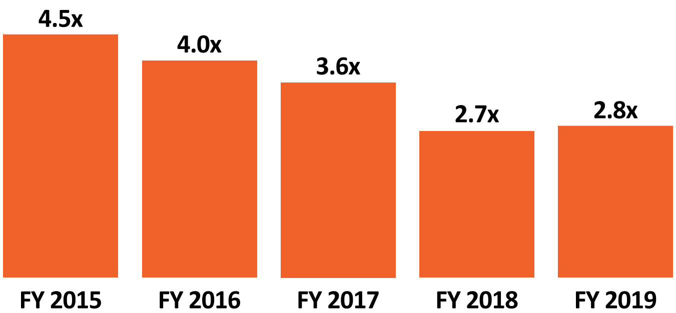
It will also be a similar situation for Ferrexpo in the EU as demand should rise thanks to tighter emissions controls and regulation.

GAMESYS (GYS) £10.90

Market Cap: £1.2 billion



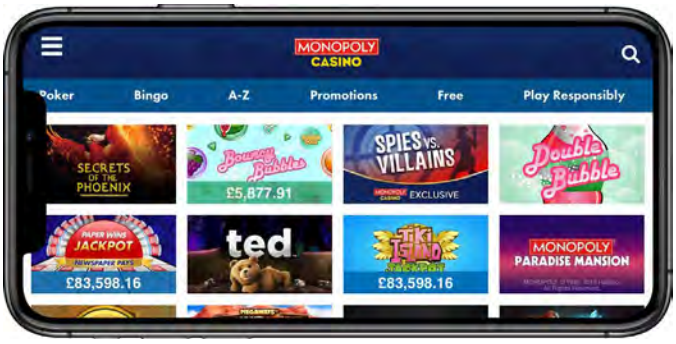
Adj. Net Leverage



Having built a diversified portfolio of well-established brands through acquisitions and developed a platform for international growth, casino and bingo-led **Gamesys (GYS)** offers investors the prospect of increasing shareholder returns through deleveraging and initiating a progressive dividend policy.

This is not reflected in the low 12-month forward price-to-earnings ratio of 8-times which is probably influenced by the historically high indebtedness of the company.

Companies with higher debts are forced to spend some of their cash flow on servicing their debts rather than paying shareholders in dividends or reinvesting in the business for growth.



For this reason, investors penalise highly leveraged firms and back in 2015 Gamesys had a net debt-to-earnings before interest, tax, depreciation and amortisation (EBITDA) of 4.5-times which compares with the current level of 2.2-times. Management have targeted a range of between one and two-times.

Theoretically as the debt is paid back, more of the operational cash flow is available to shareholders which should increase the earnings multiple that investors are prepared to pay for the shares.

Gamesys has announced a maiden dividend of 12p per share to be paid in October with an expected final dividend of 24p, providing a forecast yield of 3.3% covered three times by earnings.

As debts get repaid there is scope for the dividend to increase through time, providing further benefits for shareholders.

First-half results to 30 June showed impressive growth with year-on-year revenues up 27% to £340 million fuelling 17% growth in EBITDA to £95 million. Asia was stunning with growth of 92% while the UK chipped in a respectable 16%.

Europe saw revenues fall 4% impacted by challenging markets in the Nordics, offset by good growth in Spain and Germany, while the US was the standout performer in the rest of the world, generating 37% growth.

The firm has a 30-year trademark licensing agreement with Virgin and 160 worldwide licenses to operate Monopoly branded websites for an initial term until the end of 2025. The product is available across 114 countries in 47 languages and over 1 billion people have played Monopoly across the globe.

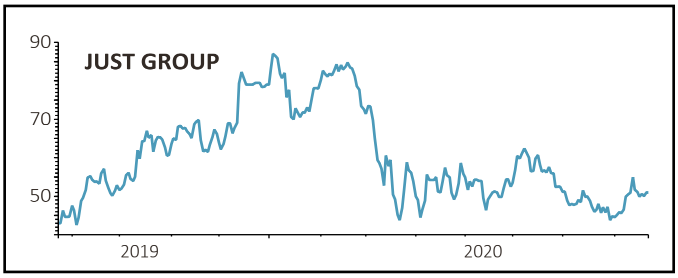
The scope to further internationalise the brands is considerable given that both have over 95% brand awareness worldwide.

In the UK the company enjoys a leading position in online bingo through the Jackpotjoy brand.

The journey towards a more shareholder-focused strategy is only in the early stages and should provide rewards over time.

JUST GROUP (JUST) 49.68P

Market cap: £515 million



Just Group: Key statistics	
PE ratio*	**3.4**
Return on equity*	**17.8%**
Operating margin**	**20.1%**

Source: Stockopedia, Shares. *12m Forecast rolling. **Trailing 12 months

Management action has put retirement solutions provider **Just Group (JUST)** on the front foot.

The specialist financial services firm, which is focused on the UK retirement income market, passed a major milestone earlier this month after it reported a move to a net positive cash generation position, delivering on its promise to build a more sustainable and resilient business model.

In early 2019 chief executive David Richardson took a tough decision to manage the firm's capital more tightly and raise its internal rate of return with a view to achieving 'capital neutrality' by 2022.

This meant raising prices on its guaranteed income for life products, at the expense of business volumes, cracking down on costs, selling loss-making operations like its US arm and a shift towards more capital-efficient assets.

The plan worked. As at the end of June this year the firm had turned from a net cash outflow of £36 million in 2019 to organic cash generation of £145 million thanks to 'reduced new business strain and improved in-force surplus generation' which were the direct result of management action.

'We have a clear strategy focused on improving the group's capital position and we are making good progress in adapting our business model to achieve our strategic goals. Despite operating in a tough environment, we took big strides in improving our organic capital generation and reducing balance sheet risks in 2019,' says Richardson.

The firm kept its 1,100 staff on full pay throughout the pandemic, with 98% working from home servicing clients as usual. Despite initial fears that people would put off making decisions about their financial future, in the event customers responded well to the situation as did the independent financial adviser sector.

Richardson believes business volumes should get back to 2019 levels by the fourth quarter of this year. Indeed, demand for defined benefit annuity products has 'never been stronger' says the chief executive.

Thanks to two major de-risking initiatives this year – one covering property risk and one for defined benefit deals above £250 million – the firm is writing larger transactions with a capital-light model. Writing bigger-ticket deals mainly using external capital opens a much bigger market for the firm.

It has also developed an innovative decumulation product for customers approaching retirement who want to gradually move their assets into guaranteed income for life, opening yet another market.

Meanwhile tangible net asset value continues to grow, reaching 204p per share in the first-half period against 181p at the end of December 2019, and a share price of just under 50p.

FINDING INCOME IN A DIVIDEND DROUGHT: A CONTRARIAN APPROACH

Whatever your stage of life, Covid-19 has caused huge changes. From unprecedented restrictions on personal movement to an accelerated shift to online working and shopping, no life has been untouched. For those in retirement, concerns about reliable income have been growing as the global economic outlook has worsened and dividend cuts abound.

Why income investors should look globally

The pandemic has had a major impact on corporate revenues, and it will take some time for companies to fully get back on their feet. To secure their long-term survival many businesses have boosted their cash reserves by reducing their dividends, with roughly half of the UK's FTSE 100 companies cancelling, cutting, or suspending payments.

For retirees reliant on equity portfolios for income, the scarcity of dividends is a headache. Historically, a relatively small number of UK stocks have provided the majority of income, but now investors with a UK bias are facing a potential shortage.

The obvious answer to concerns about the concentration of income risk in the UK is to diversify. Investing in a portfolio of global equities provides an income stream from a much broader pool of investments than is available from UK stocks alone.

A contrarian approach can pay dividends

The Scottish's high-conviction, bottom-up investment approach delivers an equity portfolio that is spread across multiple regions and sectors, providing diversification of risk. Although our contrarian investment style doesn't actively target companies that pay high dividends, the out of favour investments that we are attracted to tend to pay higher dividends over the course of an economic cycle. That rewards us, and our shareholders, while we wait for the improving business prospects that we foresee.

The Scottish currently has a dividend yield of around 3.1%, which is one of the highest in our AIC peer group. What's more, the Company recently announced that it will increase its regular dividend for the year, despite the dividend drought.

> “the out of favour investments that we are attracted to tend to pay higher dividends over the course of an economic cycle”

A dividend reserve – the benefit of long-term thinking

Over the years, The Scottish has prudently built a substantial revenue reserve in preparation for leaner times. As at 30 April 2020, this reserve was greater than 2.5 times last year's regular dividend, giving the Company the ability to keep paying its investors when dividends are temporarily in short supply.

The Scottish's intention to continue to grow the regular dividend over the longer term backs up our status as a 'dividend hero' (as recognised by the Association of Investment Companies). By adding to our unbroken run of 36 consecutive years of regular dividend growth we aim to keep income flowing, when other funds may be turning off the taps. ■

14 August 2020

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Energy storage theme offers growth and tasty dividends

Global primary energy demand has increased by 50% in the last two decades and is double the level forecast 40 years ago

Many investors are well versed in the attractions of renewable energy as an investment theme, and retail fund flows into green energy and environmental funds continued unabated even during the market sell-off caused by the pandemic.

The move to a zero-carbon future will increase the need for energy storage capacity, and one less well-researched area of the clean energy market is battery energy storage.

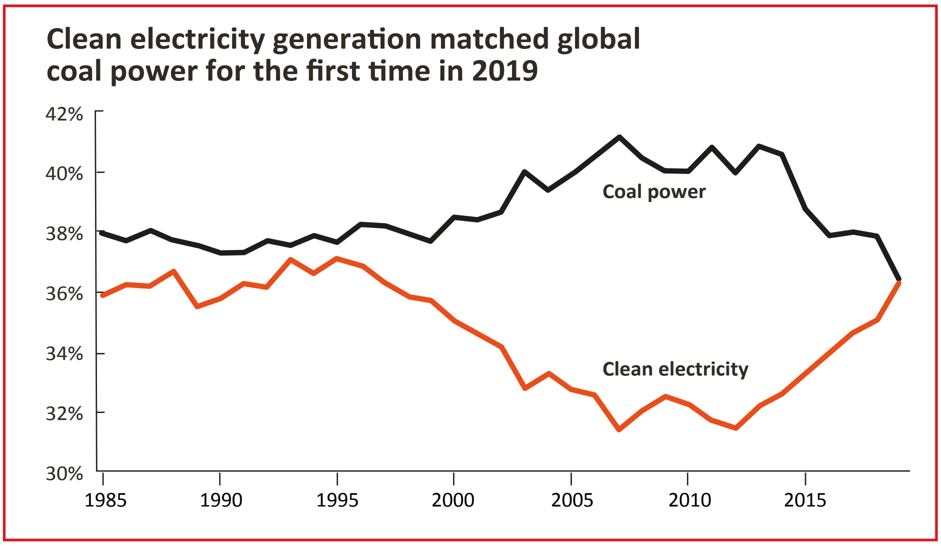
In this article we look at the role of grid battery storage and the potential for its usage to grow both in the UK and abroad, together with two ways for investors to play the theme and collect very attractive dividends.

ZERO-CARBON GOAL

Earlier this year, for the first time since the Industrial Revolution, the UK enjoyed two months without using any coal-fired power, and by the middle of the decade **National Grid (NG.)** expects to be able to operate for short periods without using natural gas either.

For renewables to fully replace fossil fuels on a permanent basis, solar and wind farms would need to be built on a mammoth scale. Unlike conventional power

SHARE OF GLOBAL ELECTRICITY GENERATION



Source: BP

plants, which run efficiently at a scale of 500 megawatts and above, wind and solar plants are far less compact and peak efficiency is typically in the low hundreds of megawatts, so we are going to need a lot more of them.

Also, as Bloomberg's New Energy Finance chief economist Seb Henbest points out, because it's not always sunny or windy, each megawatt of solar and wind capacity produces less electricity than the equivalent amount of coal, gas or nuclear.

'To replace 500 megawatts of coal power takes around 1,500 megawatts of wind capacity, and about 3,000 megawatts of solar,' says Henbest. 'Wind and solar capacity take up far more physical space than traditional power plants – 7.6 hectares per megawatt for wind and 1.7 hectares per megawatt for solar.'

Onshore wind and solar is meant to supply close to 50% of global electricity by 2050, but that would take up more than 423,000 square kilometres. If everyone switched to electric vehicles, and buildings also went electric in order to limit climate warming to 2 degrees Celsius in line with the Paris Climate Accord, the amount of land needed by 2050 would be roughly the size of Turkey.

> National Grid predicts installed capacity of energy storage will need to roughly double to 13 gigawatts by 2030

BACK-UP PLAN

Given that we can't build enough solar and wind farms to reach the 2050 targets, and given the unreliability of these sources of renewable energy, there needs to be a back-up system which can supply energy to the grid reliably, as and when it is needed, at low cost and with low emissions.

Grid-connected energy storage 'is a key enabler of the energy transition and clearly seen as a major tool to achieve the emissions targets linked to the Paris agreement', says Patrick Clerens, secretary general of the European Association for the Storage of Energy.

The European Union has already integrated energy storage into its clean energy for all Europeans package, as a way of decarbonising the electricity network as well as providing critical capacity. Consultant IHS Markit believes that annual global battery storage installations are set to rise five-fold from 2019 to 2025.

'The increasing competitiveness and critical role of battery energy storage assets in supporting the decarbonisation and resilience of the electricity system means that opportunities for energy storage continue to develop despite the turmoil caused by the COVID-19 pandemic,' says IHS Markit energy storage service research manager Julian Jansen.

GREEN STIMULUS

While the US is the biggest market for grid battery storage, Europe has invested heavily in the last few years and climate change is front and centre in economic decision-making.

As part of its ground-breaking recovery plan, the European Union set aside €500 billion in green stimulus funds to develop clean energy resources, make farming more sustainable, increase the market for electric vehicles and promote energy efficiency.

'Never before has so much of an EU budget been allocated to combating climate change,' said German environment minister Svenja Schulze.

Germany has earmarked a third of its €130 billion recovery budget for environmental issues such as public transport, electric vehicle subsidies and green hydrogen.

Moreover, the European Union is looking to take the lead in tackling climate change and is considering raising the bar for its 2030 emissions reduction target to up to 55% from the current target of 40%, a move which will require even greater spending on clean energy.

TIPPING POINT

Among the many other ramifications of the US elections in November, a Democrat victory could be the tipping point for green investment on a global scale.

The position of the two candidates couldn't be further apart, with Trump continuing to extol fossil fuels – unsurprisingly, given energy producers are his major financial backers – and Biden pledging to achieve net zero greenhouse gas emissions by 2035.

Biden's infrastructure plan includes installing 500 million solar panels, 60,000 wind turbines, 500,000 electric vehicle charging points and a green power grid including more battery energy storage plants.

The Democratic candidate would also commit the US to rejoining the Paris Climate Accord. According to Simon Webber, a fund manager at Schroders, 'a Biden presidency could see the US and Europe work together to put pressure on China to meet its climate commitments'.

He adds: 'The trade dispute with the US and the US's own flagging commitment to the climate agenda has provided a fig leaf for China to hide behind on the climate change issue. However, China is eager to be a global leader and would not want to be perceived as a laggard on such an important issue.'

HOW DOES ENERGY STORAGE WORK?

Energy storage batteries are like capacitors in that they can be repeatedly charged and can release their energy rapidly as a back-up supply either to the energy grid or to an industrial customer such as a manufacturing plant.

Lithium-ion batteries are a well-established technology. As manufacturing techniques have improved and more competitors have entered the market in recent years prices have fallen which is good for the operators.

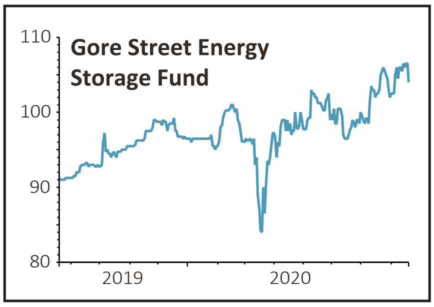
As well as balancing supply and demand, there are other revenue streams for energy storage projects such as frequency response services and capacity market services. In future there may be opportunities to arbitrage power supply.

The UK has committed to reducing greenhouse gas emissions by 80% by 2050, and National Grid predicts installed capacity of energy storage will need to roughly double to 13 gigawatts by 2030 as the greater use of 'intermittent renewables' increases the need for flexibility.

Two energy storage investment trusts

There are two pure-play UK investment trusts which invest in energy storage, being **Gore Street Energy Storage Fund (GSF)** and **Gresham House Energy Storage Fund (GRID).**

GORE STREET ENERGY STORAGE FUND (GSF)

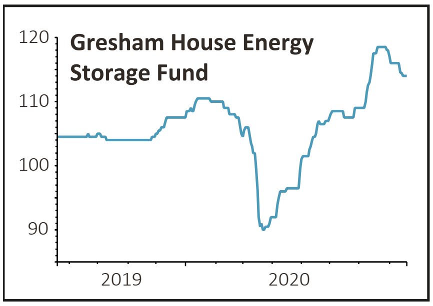


Gore Street Energy Storage Fund invests in a portfolio of utility-scale energy storage projects, primarily in the UK. As well as capital growth it aims to pay an annual dividend of 7% of net asset value supported by a projected internal rate of return (IRR) of between 10% and 12%.

As of the end of June the firm had 189 megawatts of installed storage with four of its sites producing income, up from two sites previously. It also has 160 megawatts of capacity being built in northern and southern Ireland which should come on stream next year, and a 50 megawatt project in Scotland, which is expected to come on stream in 2022.

The pipeline of future projects which meet its return profile is 900 megawatts, of which 151 megawatts is under exclusive negotiations and includes an operational portfolio of 81 megawatts in the UK.

GRESHAM HOUSE ENERGY STORAGE FUND (GRID)



Gresham House Energy Storage Fund is the UK's largest investor in energy storage assets. The fund earns revenues by buying excess energy supply when prices are low, storing it before selling back to the market at a higher price when demand is higher or when renewable supply is lower, or a mix of both.

The fund targets a total return of 8% a year once the fund is fully invested, before leverage and after fees, while providing investors with an attractive and sustainable dividend yield covered by operating income. It is currently yielding 6.1%, according to data from the Association of Investment Companies.

The demand for energy storage is expected to grow rapidly in response to an increasing supply-demand imbalance caused by the growing share of renewable energy at the expense of coal and gas.

The management team believe the market has reached a tipping point where every additional unit of power generation will cause an increasing oversupply at certain times while also reducing the market available for baseload, forcing carbon generation out of existence and creating a deeper trough in generation when renewables do not generate.

The amount of excess renewable power generation is estimated to reach 10 gigawatts within the next four years and could reach 30 gigawatts within the next decade.

Gresham House Energy Storage Fund operates the largest energy storage assets in the UK and is the number one player with around 30% market share. A recent change in the legislation allows larger projects of the sort that Gresham House Energy Storage Fund focuses on to gain planning permission without the need for government approval, speeding up the development time.

By **Martin Gamble**
Senior Reporter

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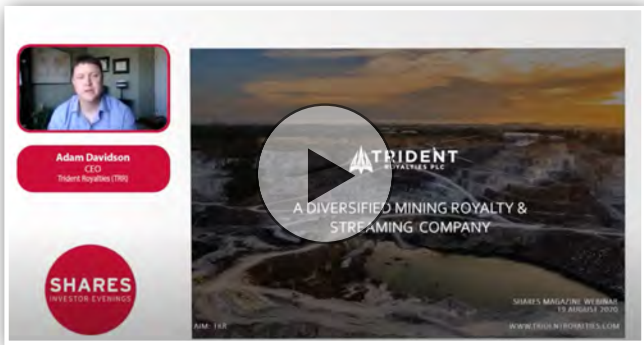

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The South Korean emerging markets debate

FTSE Russell classifies it as a developed market

Is South Korea an emerging market or not? It depends who you ask. Index provider MSCI classes it as such but FTSE Russell excludes the country from its own emerging market indices.

Writing in 2013 FTSE Russell said: 'FTSE's attention to the views of market practitioners was an important factor in the 2009 decision by its external governing committees to reclassify South Korea as a developed market.

'It remains a key reason for maintaining this classification today. FTSE believes that to include South Korea in an emerging market index creates distortions that fail to reflect the intentions of investors.'

The distinction is worth noting if you are investing in an emerging markets tracker fund as South Korea's inclusion or not could make a big difference to the returns profile.

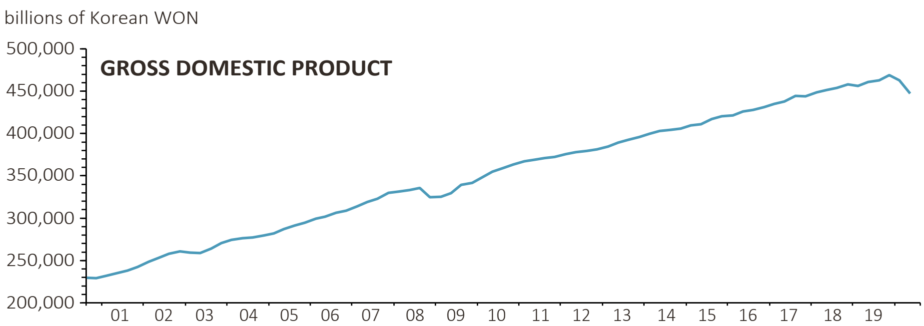
Emerging markets tend to have lower GDP per capita and less mature businesses but according to the OECD South Korean GDP per capita is $42,925 (higher than Spain) and it is home to a global heavyweight technology business in Samsung.

Given this, why does MSCI stick with an emerging markets status for South Korea? It seems to be less a question of the economy and more to do with the way its stock market operates.

In 2016 it noted that the 'investment frictions related to the lack of convertibility of the Korean Won and restrictions imposed by the local stock exchange on the use of exchange data for the creation of financial products remain unaddressed'.

With reforms being introduced in this area it may not be too long before South Korea's status is revisited.

SOUTH KOREAN GDP GROWTH



FRANKLIN TEMPLETON

This outlook is part of a series being sponsored by Templeton Emerging Markets Investment Trust. For more information on the trust, visit here

Emerging markets: Views from the experts

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

1. A collapse in economic activity amid the Covid-19 pandemic and expectations of slowing loan growth, falling margins and rising bad debts have hurt near-term earnings forecasts for **Brazilian financials**. While the pandemic has weighed on their businesses in the short term, we see a low probability of a systemic banking crisis in Brazil. The pandemic could, in fact, have the unintended effect of boosting bank penetration in Brazil. Credit penetration in the country is below many other markets, signaling room to head higher in the coming years. Brazil's central bank has also cut its policy interest rate to a record low, which reduces the cost of renegotiating or restructuring loans, and could be a catalyst for longer-term credit growth.

2. A rally in technology stocks and effective control of Covid-19 in the country drove Taiwan's equity benchmark to an all-time high in July. Known for its research and development strength, **Taiwan's semiconductor industry** is a global leader, with the island home to one of the world's largest independent integrated chip manufacturers. Taiwan's manufacturers are also at the forefront of the global push to move supply chains out of China, as rising tensions between the United States and China fuel demand for servers and chips not made on the mainland. The coronavirus pandemic is only expected to accelerate the shift to Taiwan, as more companies domestically and globally begin to re-evaluate China-dependent supply chains.

3. **South Korea** embodies much of emerging markets' new realities; namely institutional resilience, improved economic diversification and the emergence of world-leading emerging market companies. In addition to standing out as illustrative of the aforementioned factors, South Korea is also an example in terms of its handling of the Covid-19 pandemic. As a major oil importer, South Korea has disproportionately benefited from lower oil prices, while also seeing little economic impact from the collapse in international travel due to its lower dependency on tourism. An export powerhouse, a number of South Korean exporters are of global importance, supplying hardware that enables the modern economy to function.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Porfolio Managers

Chetan Sehgal
Singapore

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RUSS MOULD
AJ Bell Investment Director

What the race to the White House means for investors

Markets eye the looming battle between Biden and Trump in November

Milwaukee, Wisconsin and Jacksonville, Florida are home to two of America's National Football League's 32 teams, the Green Bay Packers and the Jacksonville Jaguars.

Owing to the pandemic, it is not clear at the moment whether gridiron fans will be allowed into their stadia at any stage this season to watch the games, which are due to begin in September.

But two other important events in these cities have already fallen foul of Covid-19. The recent Democratic Party convention, slated for Milwaukee, became a virtual affair as the majority of speakers stayed away, even while Joe Biden and Kamala Harris punched their ticket as the party's chosen pairing for the next US Presidential election, which is due on 3 November.

Meanwhile, the Republican incumbent in the White House, Donald Trump, had already cancelled his planned convention in Jacksonville, although a pared-down affair took place in Charlotte, North Carolina on 24 August as he and vice-president Mike Pence prepared to run for a second term in office.

The race is now on between the Trump/Pence and Biden/Harris teams, to give investors something else to mull over as they continue to wrestle with how the pandemic will affect the world's largest economy.

The political temperature will only rise from here, with three presidential television debates scheduled for 29 September, 15 October and 22 October and one vice-presidential contest on 7 October before Americans head to the ballot box.

VOTING PATTERNS

In admittedly very crude terms, you might expect

the US stock market to prefer a Republican president to a Democrat one, with the Grand Old Party generally seen as being in favour of small(er) government and less inclined to interfere in business matters and free markets than the Democrats.

However, it generally has not worked out like that, at least not in modern times. Over 18 presidencies since the election of Harry S. Truman in 1948, the Dow Jones Industrial Average index has, on average, done better under Democratic presidents than it has Republican ones.

Even more intriguingly with 2021 in mind, the Dow has done much better in the first year of a Democratic term than it has a Republican one, with an average gain on 13.1% compared to 2% from their rival incumbents.

A LONG TIME AGO

It therefore is not as simple as 'Republicans good, Democrats bad' when American politics is assessed through the very narrow prism of the US stock market.

This is particularly the case now when the Republicans were running up the sort of budget

RUSS MOULD
AJ Bell Investment Director

The Dow Jones has tended to perform better under Democratic presidents than Republican ones, especially during the first year of a term

		Dow Jones Industrials				
Inauguration	President	Year 1	Year 2	Year 3	Year 4	Term
20-Jan-49	Harry S. Truman	13.6%	21.3%	10.3%	5.8%	60.8%
20-Jan-53	Dwight D. Eisenhower	0.4%	35.9%	18.2%	2.8%	65.8%
20-Jan-57	Dwight D. Eisenhower	(6.3%)	33.2%	8.1%	(1.4%)	32.9%
20-Jan-61	John F. Kennedy *	10.5%	(4.0%)	14.9%	15.8%	41.1%
20-Jan-65	Lyndon B. Johnson	10.3%	(14.2%)	3.9%	5.8%	4.0%
20-Jan-69	Richard M. Nixon	(16.5%)	9.3%	7.1%	12.7%	10.2%
20-Jan-73	Richard M. Nixon **	(16.6%)	(24.3%)	46.7%	1.0%	(6.5%)
20-Jan-77	Jimmy Carter	(19.0%)	7.8%	3.5%	9.6%	(0.9%)
20-Jan-81	Ronald Reagan	(11.0%)	26.6%	17.6%	(2.5%)	29.1%
20-Jan-85	Ronald Reagan	24.6%	37.6%	(10.7%)	19.0%	82.1%
20-Jan-89	George H. W. Bush	19.8%	(1.2%)	22.9%	(0.4%)	45.0%
20-Jan-93	Bill Clinton	20.0%	(0.6%)	34.0%	32.0%	111.1%
20-Jan-97	Bill Clinton	15.0%	18.6%	21.6%	(6.7%)	54.7%
20-Jan-01	George W. Bush	(7.7%)	(12.1%)	22.6%	(0.5%)	(1.1%)
20-Jan-05	George W. Bush	1.9%	17.8%	(3.7%)	(34.3%)	(24.1%)
20-Jan-09	Barack Obama	33.4%	11.5%	7.6%	7.3%	71.7%
20-Jan-13	Barack Obama	20.6%	6.4%	(10.0%)	25.8%	45.3%
20-Jan-17	Donald J. Trump ***	31.5%	(5.2%)	18.8%	(5.1%)	40.4%
	Average	6.9%	9.1%	13.0%	4.8%	36.8%
	Average - Democrat	13.1%	5.8%	10.7%	11.9%	48.5%
	Average - Republican	2.0%	11.8%	14.8%	(0.9%)	27.4%

Refinitiv data. * John F. Kennedy assassinated in November 1963 and replaced by Lyndon B. Johnson. ** Richard M. Nixon resigned August 1974 and replaced by Gerald R. Ford.
*** Data for Donald J. Trump as of 17 August 2020

deficits that would make even the most ardently pro-spending Democrat blush, even before the pandemic forced an emergency fiscal response.

Moreover, if investors cast their minds back four years ago, the Democrats' Hillary Clinton was then seen as a bit of a shoo-in for the 2016 election, as the Republican's Trump had surprised everyone by winning the Grand Old Party's nomination.

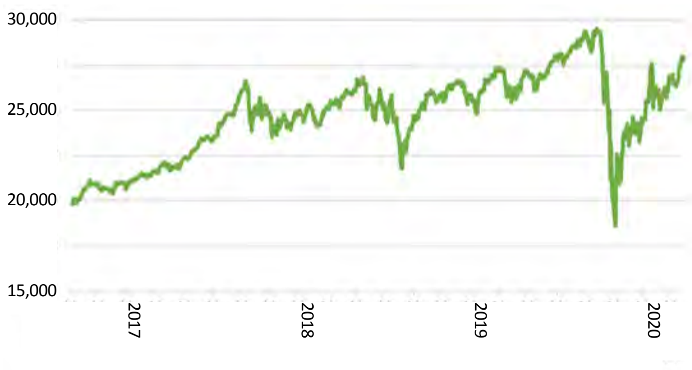
Trump was also widely perceived as a potentially negative result for markets, thanks to his sabre-rattling on issues such as diplomatic relations with China, Iran and Mexico and desire to rip up several trade agreements, including the North America Free Trade Agreement (NAFTA).

But that isn't how it turned out. The Dow Jones is up by some 40% since Trump's inauguration on 20 January 2017, thanks to what had been a steady economic expansion, tax cuts and an accommodative US Federal Reserve, which had pretty quickly backed away from raising interest rates and sterilising quantitative easing, even before Covid-19 swept around the globe.

This suggests that there is more than just politics at play when it comes to how a stock market performs, with monetary policy, economic performance and the possibility of exogenous shocks (such as a pandemic) all factors to be considered, among others, even before we get to the vexed issue of valuation.

That said, Trump has undeniably been influential, from his market-pumping tweets to his economy-pumping tax cuts. How much bearing November's winner has upon financial markets'

Dow Jones has powered higher during Trump Presidency



Source: Refinitiv

performance will to a degree depend upon which party wins the House of Representatives and the Senate, so investors will need to consider this too.

The tricky thing is sorting out the policies that are just electioneering and slogans from the plans that may actually be enacted. As the economist Robert Sowell once noted: 'Economists are often asked to predict what the economy is going to do – but economic projections require predictions what politicians are going to do and nothing is more unpredictable.'

Can I transfer my teacher's pension into a SIPP?

AJ Bell pensions expert Tom Selby explains the rules

I have been in the Teachers' Pension Scheme since the age of 22 and I am now 54. I know it is a very good defined benefit scheme but I would like to explore all options with it. Is there a facility for me just before I retire (likely at age 60+) to have it transferred over as a SIPP?
Mark

Tom Selby
AJ Bell
Senior Analyst says:

Because the benefits you have built up are in a public sector defined benefit pension (DB) scheme, unfortunately Government rules don't allow you to transfer out to a SIPP (or any other type of pension for that matter).

This is the case for all 'unfunded' public sector schemes, including those paying pensions to civil servants and NHS staff.

The decision to prevent members of unfunded DB pension schemes from transferring out was made in April 2015. The move coincided with the introduction of pension freedoms reforms which gave savers in defined contribution (DC) schemes such as SIPPs total flexibility over how they spend and invest their retirement pot from age 55.

While the Government never

specifically said why it came to this decision, it is likely the primary driver was concern about the impact a large volume of transfers out could have on the public purse. Because there are no assets backing up unfunded pension schemes, any pensions that are paid out come from Treasury coffers today.

So if lots of people had chosen to transfer out at the same time to take advantage of the pension freedoms, the Exchequer would have had to pay that money directly from funds earmarked for day-to-day spending.

The exception to this ban on transfers within the public sector are local authority pension schemes, which are funded. This just means that rather than pensions being paid out of general taxation, the schemes invest in assets – such as stocks, bonds and infrastructure – with the returns (in theory at least) from these assets paying members' guaranteed retirement incomes.

Members of private sector DB schemes who have not yet reached their scheme's normal pension age – the point at which they become entitled to their pension – are also entitled to receive a 'transfer value'. That is an offer of cash from their scheme to switch to a DC alternative and give up their guaranteed pension.

If you have a private DB pension worth £30,000 or more, Government rules require that you receive regulated financial advice before transferring.

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.

Managing your pension in your 60s

Key points to consider as you prepare to stop working or begin your golden years

While lots of people in their 60s will either have already retired or be planning to retire soon, this is by no means a given.

Brits are living longer, healthier lives than ever before and many choose to keep working – either full or part-time – well into their 60s, 70s and even 80s.

Whatever your intentions it makes sense to get your ducks in a row as soon as possible. And for most people, the first port of call will be their state pension.

STATE PENSION ESSENTIALS

The state pension age in the UK is currently rising to 66 (this will be completed in October 2020), with plans in place to increase it to 67 by 2028 and 68 by 2039.

Anyone who reaches 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.

IMPORTANT STEPS TO TAKE

If you're planning on accessing your pension in the next five or 10 years – as will be the case for many people in their 60s – you should start planning how you want to generate an income from your fund. Depending on the option you choose, this may have a big impact on how you invest your money.

A 65-year-old planning to stop working at 70 and use their entire fund to buy an annuity, for example, will likely want to reduce the amount of investment risk they are taking as they approach their chosen retirement date. The same could be said for those who plan to take their entire fund as cash.

Failing to do this would leave you a hostage to fortune because stock markets can be volatile, particularly over the short-term. The double-digit falls in market values we saw as a result of COVID-19 in March are a perfect example.

If you're planning to stay invested in retirement and take an income via drawdown, it is worth reviewing your investments as you approach your retirement date. However, this may not necessitate a big change as your investment time horizon will be longer than someone planning to buy an annuity or take their fund as cash in one go.

If you're planning to stay

invested in retirement and take an income, you can use a product like a SIPP (self-invested personal pension) where you can choose from thousands of funds, bonds and individual stocks at the touch of a button.

ACCESSING YOUR PENSION

If you're aged 55 or over then you have the option to access your defined contribution pension pot, with 25% available tax-free and the rest taxed in the same way as income.

In developing your retirement income strategy you should think about a wide range of things including your priorities, your income needs and how much risk you are comfortable taking.

If you are planning to keep your retirement pot invested and take an income, it is important you consider the sustainability of your withdrawal strategy.

The earlier you access your pension, the longer it will potentially have to last for in retirement – and if you draw too much, too soon you will risk running out of money early.

Other reasons to save for the future

It's worth noting that long-term saving isn't just about pensions. Younger people wanting to prioritise buying a first home may want to save their spare cash in a Lifetime ISA, for example (although you should aim to do this alongside your workplace pension if you can).

It's also sensible to build up a decent-sized 'rainy day' fund in an easy access cash account you can get at quickly in case of emergency. Aiming to have around three months' fixed expenses in this emergency account is a good place to start, and make sure you shop around for the best interest rate you can find.

CONSOLIDATING PENSIONS

As your chosen retirement date edges closer, you might want to consider tracking down any old pensions you have and consolidating them with a single provider. The Government's pension tracing service is a good place to start, while plans are also afoot to build pensions dashboards which in the future could allow you to see all your retirement pots in one place online.

There are many good reasons to do this. Firstly, it is an opportunity to lower your charges, something which can have a profoundly positive impact on your retirement, particularly over the longer term.

Secondly, it is a lot easier to manage a single pension versus lot of different pots with different providers. You may also be able to access greater choice and flexibility by transferring, both in terms of the investments available and the withdrawal options open to you.

However, there are also reasons to be careful before transferring your pensions. In particular, some older-style pensions have valuable

Pensions and death

When deciding which assets you want to spend first in retirement, a key consideration is often the tax treatment they receive on death. On this front, defined contribution pensions like SIPPs represent a very attractive option.

If you die before age 75, any funds left behind can be passed to your nominated beneficiary or beneficiaries tax-free. If you die after 75, the money you pass on will be taxed in the same way as income when your beneficiary or beneficiaries make a withdrawal.

Because of this, pensions can now be used not just as a retirement income vehicle but also to pass wealth down the generations.

Make sure you tell your pension provider who you want to receive your pension after you die, and keep these nominations updated regularly to take account of any change in your wishes or personal circumstances.

guarantees attached which will be lost if you switch to a different provider, so make sure you check your documentation and speak to your existing provider before making a transfer.

In addition, some older policies also have exit fees which can make it expensive to move your money.

> “some older policies also have exit fees which can make it expensive to move your money”

BEWARE LIFETIME ALLOWANCE

For a relatively small section of the population, one of the more complicated parts of the pension system – namely the lifetime allowance – could become a consideration as they approach retirement.

The lifetime allowance is a cap on the amount you can save in a pension over the course of your life and is currently set at £1,073,100.

If you go over the lifetime allowance when accessing your pension you will pay a tax charge designed to return the tax relief you have received. For a defined contribution pension, the tax charge will be 55% if you take the excess above the lifetime allowance as a lump sum and 25% if you take it as income.

If you keep the excess in the fund you will pay income tax on it as normal when you withdraw it. Note that some people who obtained lifetime allowance ‘protection’ previously may be able to protect more of their fund from the taxman.

By **Tom Selby**
AJ Bell
Senior Analyst

Invesco

THE UNSUNG HEROES OF THE STOCK MARKET

Ciaran Mallon
UK Equities Fund Manager
Invesco

We typically think of the Utilities sector as a classic defensive area of the equity market, one that is particularly attractive in the current environment. They are known for being stable businesses with a reliable dividend stream. During periods of market volatility, they tend to perform better than other areas of business more sensitive to the economic cycle.

People need water, gas and electricity regardless of where we are in the economic cycle, and the sector will be largely unaffected by a recession or indeed a pandemic. Together with government-backed revenue streams they have a reputation for providing steady, if unexciting, returns.

However, this is only half the story, and to not acknowledge the number of high performing businesses within the sector producing very decent returns, partly through capital growth, partly through the income they produce, would be to short-change a sector which has produced strong returns over a 20 year period.

Investors could also consider the impressive annual returns of individual utility companies on both a capital and total return basis. Some very respectable investments, in my view.

Another assumption relates to the fact that Utilities are highly regulated. It is sometimes viewed with cynicism that the Government (through the regulator) controls how much they can charge, how much profit they can make, and many other parts of the business besides. The regulator attracts its fair share of scrutiny too.

However, the regulator is dealing with monopolies, so in the absence of competition it limits how much companies can charge consumers through their energy bills via a 'price control' framework. It has a duty to determine that companies properly carry out their statutory functions, to set policy priorities and to make decisions on a wide range of regulatory matters, including price controls and enforcement. It also needs to ensure that there's enough investment in the industry and looks to get the balance right between shareholders and customers.

All regulators need to make sure that the

Invesco

companies are doing the right things. They also need to ensure that companies are capable of financing their operations. If companies can do well in terms of capital expenditure, operating expenditure, and financing costs, then they can do a good job for shareholders.

In my experience, regulators should like companies to do well. In that scenario, everyone wins - society benefits from more efficient businesses and shareholders also stand to gain. Regulators reward well run businesses with attractive levels of returns for shareholders. Part of this return to shareholders comes through a dividend. Since regulators set prices to take account of inflation, this often means that companies in this sector have dividend policies which aim to grow dividends at least in line with inflation.

Regulatory environment

Ofwat, the regulator of water companies, carries out its price review every five years. The water companies have just come out of this five-year process - the new charge control period started in April this year – and should now be heading into a period of regulatory stability.

In July, Ofgem (the regulator for gas and electricity markets) set out its latest price cap proposals, under which household energy bills would be cut by about £20 a year as part of its aim to create further efficiency and savings for consumers. While the new price controls, which will come into effect from April 2021, have attracted some negative headlines for the companies affected, it's important to remember that it's a five-year regulatory cycle.

The review is currently in the negotiation phase and I would expect the regulator and the companies to come to some level of agreement. The periodic review means that, although utility companies might occasionally be subject to other influences such as legislation, it marks the start of the business cycle and that on the whole they are less exposed to events outside of this regulatory scenario.

As part of having their returns controlled by the regulator, the upside is that utility companies get definite levels of revenue coming in to cover costs. This helps to keep earnings stable and underpins their ability to pay dividends.

As a long-term investor in the sector, I view regulatory change as an inevitable truth; it is not a case of if, but when and to what extent utility companies will be subject to new regulation. This is by no means a bad thing; by and large, the regulatory backdrop is well established, and changes tend to be incremental and carefully managed. The regulatory backdrop has evolved over time to reward the best performers and the utility companies' response has delivered both good outcomes to consumers as well as capital and income growth to shareholders.

Invesco Income Growth Trust plc exposure

Given that utility companies have very different considerations to most other businesses, I consider them to be very complementary in a portfolio of shares. However, I would happily enter a debate with anyone who calls them bond proxies. When there was a risk of a Jeremy Corbyn government last year and he threatened to nationalise utility companies, suddenly they didn't look like bonds then. Clearly, interest rates alone do not determine the share price performance of utilities.

An unsung sector, I consider many utility companies to be high performing businesses providing very respectable levels of return through both capital and income. Investing in utility companies is not without its risks of course. Regulatory settlement and politics can interfere, and with prices linked to inflation, a deflationary environment is also unhelpful.

While the water businesses I hold (Pennon Group, Severn Trent, United Utilities) are mostly solely water suppliers (Pennon Group has just sold its waste business), the electricity businesses (SSE, National Grid provide electricity and gas) have a more diverse income stream. The UK regulatory aspect only relates to half of National Grid's business, for example, the rest of its business is in the US.

For SSE, only about a third of the business is regulated, with wind farms, 'run of river' and pumped storage hydro assets (hydroelectric systems that harvest the energy from flowing water to generate electricity, responsible for fewer greenhouse gas emissions) making up much of the rest.

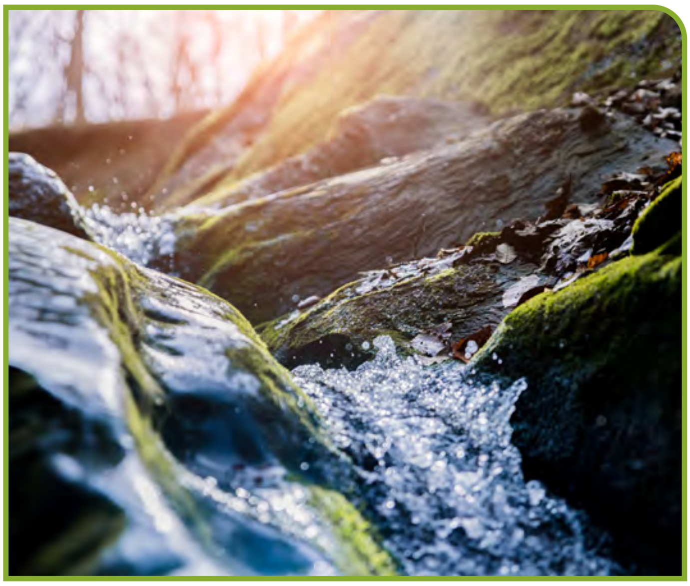
The 'green agenda' is another reason that I hold utility stocks in the portfolio. Electrical utilities increasingly deliver power from a variety of clean and renewable sources. A significant renewables player, SSE has the largest offshore wind development pipeline in the UK and Ireland.

National Grid also has strong ESG credentials: they have given themselves a target to become net zero by 2050; they are key to delivering the energy transition to low/zero carbon in their markets; they have a strong safety culture; and their track record of delivery to all stakeholders reflects strong governance.

Meanwhile, the water companies are key participants in lowering pollution, improving the quality of beaches and the wider environment, and in more efficient use of chemicals. They are on the leading edge of using green technology to provide and distribute water to households.

Therefore, instead of building a new water treatment site, for example, they are incentivised to be more efficient (and more resourceful), to go further upstream to look at where the water is coming from and to see if the water could be made cleaner at source. This might involve talking to the farmer whose land the water flows through and planting trees to improve water quality, for example.

Embracing the green agenda in the way they run their businesses is not necessarily about spending more capital on infrastructure but about working more efficiently, which is good for both customers and shareholders alike.



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 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.

Next steps for 18-year-olds as their child trust funds mature

A large number of young adults are about to get their hands on a cash reward, so what are their options?

This September marks the 18th anniversary of the first child trust funds being issued, which means that the first recipients will be able to get their hands on the money.

With lots of people unaware they even have one, let alone how to manage it, what should they be doing with the money?

Here we explain how they work and the action that might need to be taken.

WHAT IS A CHILD TRUST FUND?

Introduced by the Government for children born from 2002 onwards to help encourage saving for children, child trust funds were tax-efficient accounts for children that have since been replaced by Junior ISAs.

The Government contributed either £250 or £500 (depending on family income) and then topped that up with another £250 or £500 when the child turned seven to help jumpstart their savings.

Parents could make contributions each year to add to this amount, with varying limits depending on the year – the current limit is the same as the Junior ISA, so £9,000.

There's no tax to pay on the child trust fund income or any profit it makes.

The money is locked up until the child turned 18 and then it becomes theirs to spend, save or invest as they want to.

If you're not sure where a child trust fund is held, you can go to the Government website and fill out a form to find the provider. You'll need a Government Gateway user ID and password to do this, but if you do not have a user ID you can create one when you fill in the online form.

WHAT DO I DO IF I HAVE A CHILD TRUST FUND?

Anyone with a child trust fund can either switch it to a new child trust fund to get a better rate or transfer it into a Junior ISA if they want to, either a cash or stocks and shares version.

If you want to switch to a new child trust fund your options are fairly limited as not many providers are offering them to new customers. One that does is Skipton Building Society, which pays 2% interest.

You'll likely get a better rate on

a cash product if you switch to a Junior ISA instead. The current top Junior ISA rate that accepts transfers from child trust funds is 3.25% from NS&I, for example. Some local building societies might offer better rates to local customers though, so check with the names near to where you live.

Switching to a Stocks and Shares Junior ISA could lead to better returns and might be better if you have a longer time until the child reaches the age of 18 or plans to access the money. Even if you initially opted for an investment child trust fund, you could find switching to a Junior ISA is better as you'll have a greater spread of investment options and might find the charges are cheaper. Please note that you can lose money as well as make it with investment products.

WHAT IF MY CHILD TURNS 18 THIS YEAR?

If your child turns 18 this year, they will be able to access their child trust fund money and will have to make some decisions. They can either cash it in and spend the money, or they can choose to keep it saved and even add to it.

If they want to keep it saved it can keep its tax advantages, so they'll just need to decide what to do with it. They can either transfer it to a Cash ISA, Stocks and Shares ISA, Innovative Finance ISA or a Lifetime ISA.

Any transfers won't count towards their annual ISA subscription, so that means whatever is transferred, your child will still be able to put £20,000 into ISAs in total in the current tax year. However, if they move it into a Lifetime ISA it will count towards the £4,000 annual limit for this account.

If they don't do anything with the money it will retain its tax perks and there are two options.

The child trust fund provider could transfer it into a 'protected account', where it still won't incur income or capital gains tax and it will sit until the account holder does something with it.

The provider could also decide to transfer it into a Cash ISA or Stocks and Shares ISA, if they offer one. But still no part of the annual ISA subscription limit would be used up by this.

HOW MUCH WILL BE IN THE CHILD TRUST FUND?

This depends on three big factors: how much the Government put in, whether any more money was added to it and whether it was left in cash or invested.

Some children from low income families who got both Government contributions will have a total of £1,000 in their account, plus any further contributions made by parents.

If there were no contributions and the money earned an average of 2% interest a year the pot would be worth £1,336 by this September.

If the child only received two payments of £250 and earned 2% a year interest the pot would be worth £668 today. Alternatively, if some had got two payments of £250, added nothing more but it had been invested in the FTSE All-Share that entire time it would be worth £1,297 today.

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

INVESTING IN YOUR CHILDREN'S FUTURE

No parent would deny that the start of this academic year is very different from previously. On top of the significant costs of kitting out children for school, many will have been worried by the recently published exam grades, as well as the ongoing Covid-19 health concerns. The return to school should, however, bring back a sense of normality to education, which will remain a key element of their future achievements.

Most parents want to give children the best education they can afford, which can mean financially supporting them in school and through university – with the hope of improving their prospects in life. So, what steps can parents (or grandparents) take to meet the long-term costs associated with education, and to give their children the best start?

Time horizon is key

It cannot be stressed enough how important having a long-term financial plan is. The earlier you start putting money away, the more likely you are to build a substantial fund, as your investments have more time to accumulate. Regular investing, even if it's a relatively small sum, can also provide substantial returns. Although not guaranteed, equity markets have historically increased in value over the long-term. Conversely, they tend to be more volatile in the shorter term (often in line with the economic cycle). By regularly investing, you can smooth out these fluctuations – an effect that is often called pound cost averaging, particularly important with children's time horizons being long.

Long-term investing can also benefit from income compounding, when dividends are reinvested. Over time, both your original investment and the reinvested income can grow. For example, over 25 years to 31 May 2020, the share price of The Scottish increased by 225%. The share price plus dividends taken as cash would raise this return to 357% over the same period but, if those dividends had been reinvested, the total return would have been 497% (all before any dealing expenses).

> "It cannot be stressed enough how important having a long-term financial plan is."

The combined benefits of pound cost averaging and compounding are likely to increase the greater the time available to invest. That's why it's worth starting early, a timely start can make life a lot easier when educational expenses fall due.

Investing can be for everyone

Technological change has broken down many barriers, giving parents (and indeed all investors) information and opportunity that would have been out of reach previously. Investing is more accessible than ever thanks to the rise of online, often low-cost, share dealing platforms.

Whether you're looking to invest a small sum every month, or larger lump sums, there are numerous options available. The major share dealing platforms typically offer products appropriate for investing for a child's future. These may give access to shares that are traded on a stockmarket, including investment trusts.

Long-term investing with The Scottish

Here at The Scottish, our focus is on managing a global equity portfolio. We invest with an eye to long-term growth and aim to increase our dividend ahead of UK inflation, which we've accomplished in each of the last 36 years, qualifying as a 'Dividend Hero' according to the Association of Investment Companies.

Our approach – at a glance

- We're contrarian investors, and so take a different view from the crowd. This lets us curate a portfolio of unfashionable and undervalued stocks that are ripe for improvement.
- Our portfolio consists of our best ideas on a global basis, diversified by sector and region.
- Our independent, closed-ended structure aligns well with the long-term goals of our investors.
- Our Ongoing Charge Figure (OCF) is low relative to our peer group which is valuable as a small difference in OCF can affect an investor's return over the long-term.

Please always remember – if you're unsure about investing, or are worried about making any decision, you should always speak to a professional financial adviser. ■

24 August 2020

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When to sell a stock (and when not to sell)

Follow these simple steps to improve your portfolio management skills

Deciding when to sell a stock challenges even the best professional investors because there are so many variables to think about.

These are seven common reasons to sell:

1. Something has changed to the investment case since you bought the stock
2. The valuation has become too rich
3. You find a better investment idea
4. You are losing sleep because you regret investing in something
5. You need the money
6. To rebalance your portfolio
7. The share price has slumped and you're cutting your losses

Some investors are opportunistic, hunting for short-term trades where they believe they make good returns in anything from a few weeks to several months. They will typically set a target level, perhaps 30% or 40% above the buy price, at which point they will sell.

Having a target can be helpful, although it does take discipline. It can help control human emotions which sometimes cause people to become either too greedy or blind to their own mistakes and make more bad decisions.

Targets can work on the downside too, by using stop losses, a fixed point below your buy price at which a sell order is automatically triggered if things go wrong. But targets have limitations. Deciding to sell too quickly because you have hit a target price can cap your chance of earning higher returns for longer if you were more patient.

Equally, sometimes companies suffer short-term setbacks from which they can bounce back in time. Getting 'stopped out' will limit your exposure to even deeper losses, but it will also prevent you benefiting from any longer-run recovery.

WHEN DO LONG-TERM INVESTORS SELL?

Most ordinary investors follow the buy and hold approach, looking for stocks they can own for the long-term. Well-known investors like Terry Smith, Nick Train and Warren Buffett also follow this strategy.

They tend to look for high quality stocks, namely businesses with great products and services, trusted brands, sensible management and a good track record, capable of producing above-average returns for years to come.

But even these investors will offload stocks at some point, so what might make them push the sell button? It's normally because the company isn't progressing as they originally expected. Or the valuation has got too high, so they see an opportunity to lock in a profit while the going is good, before the price follows mean reversion and eventually adjusts to a more normal valuation.

GETTING A RISK-FREE RIDE

If you are fortunate, you might see one of your stocks increase in price a lot. That is bound to

CLASSIC MISTAKES MADE BY INVESTORS

1. **Being greedy**. Investors can get carried away when share prices are rising strongly as they assume the stock will go up for ever.
2. **Falling in love with an investment and becoming a fan rather than a hard-nosed investor.** Critically reassessing the investment regularly should help.
3. **Succumbing to fear**. Temporary short-term problems can often cause significant price falls if investors don't have long enough time horizons. With no patience, investors will sell because they think that the problems will mean the shares won't go up for a while. If enough investors do this, the shares are likely to decline much further which can cause a panic, as other investors assume the problems are worse than they realised. This is when rational long-term investors can invest for great long-term returns by buying during periods of fear with a contrarian mindset.
4. **Panicking when markets are falling.** We all hate to see screens of flashing red prices when stock markets crash. Investors need to keep their cool and ask if the investment case has changed for each company in their portfolio. If nothing has changed, do not panic sell.
5. **Action through boredom**. Investors can be tempted to trade too much, chasing the next hot stock or new idea. Trading incurs costs which can add up over time.

make you think about cashing in, yet many people will also want to stay invested, so they don't miss out if the price keeps going up. It's a nice problem to have, but a problem all the same.

One way to manage this situation is to take some of your profit and still retain some of your shares. How much profit you take is up to you but often people take enough profit to cover their original investment, which then gives them a completely risk-free ride on future share price gains.

For example, if you initially paid £500 for shares in a company and the stake is now worth £1,800, you'd sell £500 worth of stock, covering your costs and leaving you with a still-significant stake in future upside.

DON'T PANIC SELL

Stock markets go up and down which is completely normal as they reflect world events, politics, company performance and a million other things, but investors should never sell in a panic.

Investors should not fear occasional swings in the market, but spells of extremely volatile behaviour should be used to reassess your portfolio.

There is no bulletproof strategy on the right time to sell, but the key is having a disciplined policy on why you buy, how long you hold, and when you sell. If you can be disciplined over the long-term you can have a better chance of growing your investment pot down the line.

By **Steven Frazer**
News Editor

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KEY

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

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

2 September: Barratt Developments, Mattioli Woods. **3 September:** McBride, NCC.

Half year results

28 August: BBGI, Essentra. **1 September:** CentralNic, STV. **2 September:** Concurrent Technologies, Johnson Service, Woodbois. **3 September:** Alpha FX, Curtis Banks, Foresight Solar, Gulf Keystone, Headlam, Melrose Industries, Mpac, PPHE.

Trading statements

28 August: Benchmark.

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THIS WEEK: 13 PAGES OF BONUS CONTENT

SHARES SPOTLIGHT

Growth & Innovation

ONCIMMUNE

TRACKWISE

WAREHOUSE REIT

WESTMINSTER

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

AUGUST 2020

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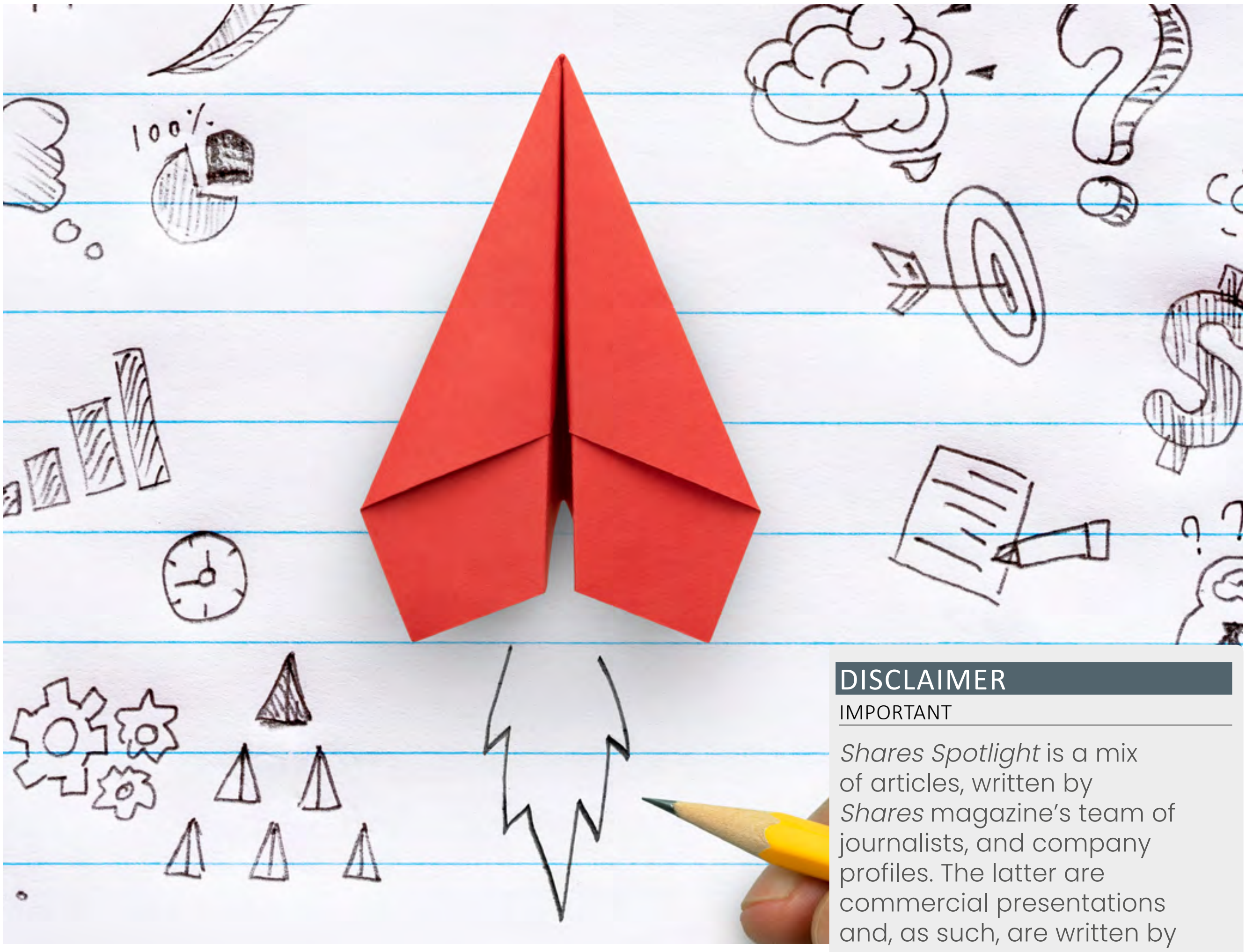

Introduction

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

It provides small caps with a platform to tell their stories in their own words.

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

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

These profiles are paid-for promotions and are not independent comment.

As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

Some of the firms profiled in *Spotlight* will appear at our investor evenings in London and other cities where you get to hear from management first hand.

[Click here for details of upcoming events and how to register for free tickets.]

[Previous issues of Spotlight are available on our website.]

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The AIM healthcare stocks paying dividends

We look at the sector's junior market names which pay cash rewards to shareholders

AIM-quoted companies in the healthcare sector are often at an early stage of their corporate development where they are taking drugs to trial or introducing new diagnostic products. As a result, precious few of them pay a dividend.

There are a few notable exceptions. Most of these stocks do not offer big yields but simply paying a dividend signifies some confidence in the outlook, a level of financial discipline and a level of maturity to generate the cash flow necessary to fund the payout.

There is also the prospect that the dividend could grow sustainably from current levels if the businesses are successful.

AIM Healthcare dividend payers

Company	Forecast yield (%)
CareTech	2.7
Alliance Pharma	2.3
Bioventix	2.1
Anpario	2.0
EKF Diagnostics	1.8
Tristel	1.4
Clinigen	1.1
Silence Therapeutics	0.7
Abcam	0.7
Advanced Medical Solutions	0.7

Source: SharePad, 20 August 2020

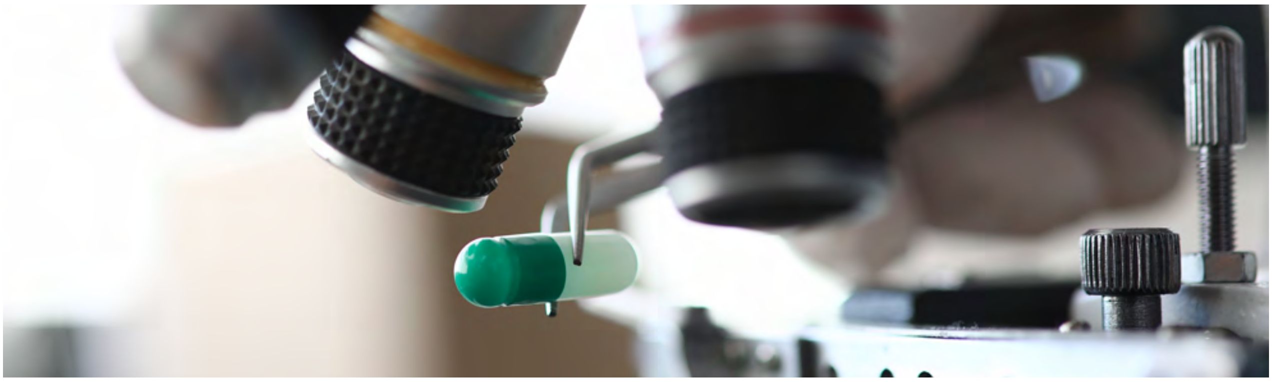
HIGHEST YIELDERS

The highest-yielding name on our table, compiled using data from SharePad, is **Caretech (CTH:AIM)**, which is in a different category from the others as a provider of social care and educations services for adults and children.

It reported a reassuring set of half-year results on 18 June which revealed a limited impact from Covid-19 disruption. The company increased its first-half dividend 7% to 4p and reaffirmed its wider dividend policy.

Second on the list is **Alliance Pharma (APH:AIM)**. The consumer health products specialist also demonstrated its resilience in the first-half, as revealed in a recent trading update (21 Jul).

Particularly notable was its cash flow performance, with free cash flow of £10.5 million enabling it to reduce net debt.



Writing in July, Numis analyst Paul Cuddon commented: 'Clearly as we move through Q3, visibility should improve, with upside to our forecasts if trading conditions continue to get better.'

Surrey-headquartered **Bioventix (BVXP:AIM)** has a 2.1% prospective yield but it has not updated the market since first-half results in March. These revealed strong revenue growth and a 20% hike in the dividend to 36p per share.

Bioventix develops antibodies used in a hospital setting for blood testing. Among its flagship products is a vitamin D antibody.

This is a very high margin activity and cash generative too, allowing the company to pay special dividends in recent years.

STRONG CASH BALANCE

A specialist in natural feed additives used by farmers, **Anpario (ANP:AIM)** reported in June that despite coronavirus it had delivered 'a strong sales performance and a corresponding improvement in our profit margins in the first-half as some customers increased stock levels and previous business development initiatives came to fruition'. It also flagged a cash balance of £13.9 million. The stock trades on a 2% prospective yield.

Offering a 1.8% yield, in-vitro diagnostics testing firm **EKF Diagnostics (EKF:AIM)** reported early in the pandemic that it had seen robust demand for its diabetes and haemoglobin tests.

The company said its outlook and current business prospects remain robust due to demand for the tests, which it believes to be driven in part by the fact patients who need these tests are also in the higher risk category for contracting coronavirus.

Subsequently EKF has received orders specifically related to testing for Covid-19 with the company guiding on 4 August for results to come in ahead of expectations.

INFECTION CONTROL

Another dividend-paying company which has secured coronavirus-related business is **Tristel (TSTL:AIM)** – unsurprisingly due to its focus on infection control products.

In a full-year trading update, the company revealed that the Covid-19 related reduction in revenues of £0.5 million was more than offset by an increase of £2 million in Cache Surface sales.

The company has invested heavily over the past three years to create a product portfolio for hospital surface disinfection, called the Cache collection. The Covid-19 experience has validated the Cache proposition and accelerated the rate of customer acquisition beyond the pre-pandemic business plan.

TRYING TO GET ON TOP OF DEBT

A July trading update from **Clinigen (CLIN:AIM)** – which supplies drugs for clinical trials as well as unlicensed medicines and niche treatments – revealed a Covid-19 hit and news of a generic alternative to one of its treatments. This put the shares under pressure, currently down more than 20% on its levels from early June at 703p.

Liberum analyst Graham Doyle commented: 'From our conversations with investors it's clear there is a degree of frustration with management following several disappointing and messy trading updates.'

Clinigen reports its results for the 12 months to 30 June on 17 September. It is currently in the process of paying down its borrowings with the aim of bringing its net debt-to-earnings before interest, tax, depreciation and amortisation ratio down from 2.3-times to between 1 and 2-times within the next 12 to 18 months which may compete with its commitment to the dividend.

Of the trio of firms offering a sub-1% yield, **Abcam (ABC:AIM)** is probably the most high profile and is certainly the largest with a market cap of £2.8 billion. The company is exploring the potential for a stock market listing in the US.

Oncimmune successfully executing on its growth strategy

Website: www.oncimmune.com

Oncimmune (ONC:AIM) is a UK-based revenue generating global leader in immunodiagnostics. It has established commercial reach into the sizeable global markets for early cancer detection and support to life-science organisations to optimise drug development and delivery.

Cancer is responsible for one in six deaths worldwide and increasing yearly. The World Health Organisation predicts there will be 16.4 million annual deaths from cancer globally by 2040, up from 9.6 million in 2018. This is equivalent to a quarter of the British population every year.

FINANCIALLY SOUND AND DELIVERING ITS STRATEGY

Oncimmune's commercial activities provide a platform for the delivery of its phased, three-year strategy, launched in October 2018, which is driving a focused offering across three growth pillars:

Oncimmune's immuno-diagnostic product, EarlyCDT, detects the elevated presence of autoantibodies generated by the body's immune system in defence against cancer cells. EarlyCDT Lung has the highest level of clinical evidence in trials for a blood biomarker in cancer detection, and over 200,000 tests have been undertaken by people at risk of lung cancer. The test is available in key commercial markets including the UK, US, China, Russia and Spain. EarlyCDT Liver is being prepared for the Chinese market and other tests for ovarian, breast, prostate, colorectal, gastro oesophageal and pancreatic cancers are in development.

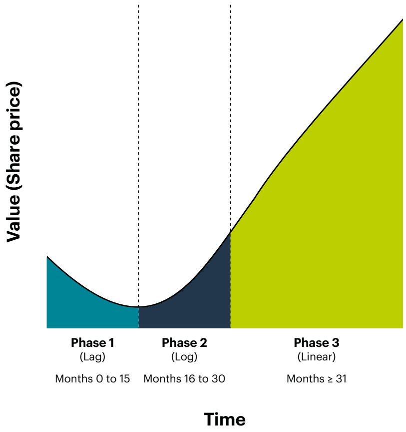
ImmunoINSIGHTS is Oncimmune's service to the life science industry, built off its proprietary autoantibody profiling technology. The service enables life-science organisations to optimise drug development and delivery, leading to more effective, targeted as well as safer treatments for patients. The company enjoys a number of high value partnerships regularly adding top tier life science companies to its portfolio.

Oncimmune has a strong

GIVING EXTRA TIME TO PATIENTS IS WHAT DRIVES ONCIMMUNE

Rebecca is now living cancer free, thanks to an EarlyCDT Lung test that diagnosed her lung cancer early enough for treatment to be successful.

'I had no symptoms when I was invited to take part in the trial; I had stopped smoking. I had a phone call to say the blood test was positive. If I'd had no blood test and just had a CT scan it would have come back negative and they would have told me to come back in two years, by which time it might well have been too late.'



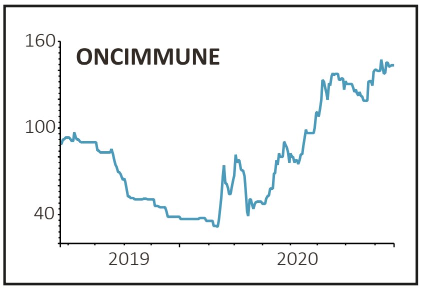
and differentiated pipeline of new business opportunities that harness the immune system to diagnose and combat cancers and autoimmune diseases. This technology is protected by over 200 patents in 47 territories.

SUSTAINABLE 'LINEAR' GROWTH AHEAD

2019 was the 'Lag' phase in Oncimmune's three-year strategy, laying the foundation for commercial success.

2020 is seeing the shoots of the 'Log' phase of growth, winning key competitive contracts and delivering against revenue expectations. The next 18 months are expected to accelerate this success as Oncimmune moves from 'Log' to 'Linear' growth, creating substantial revenues from both the product and services businesses against a stable cost base.

Investors are recognising Oncimmune's growth, as reflected in the recent share price trajectory.



ONCIMMUNE'S PROGRESS - HIGHLIGHTS

Phase 1 or 'Lag'

Organisational alignment, objective setting and proof-of-utility foundation to advancing into Phase 2 or 'Log' growth

December 2018
Senior Leadership Team built and organisational re-structure for functional alignment

March 2019
Protagen Diagnostics acquisition brings strategic growth platform with new service offering

September 2019
Re-capitalised with issuance of debt facility

September 2019
EarlyCDT Lung positive data headlined at World Conference on Lung Cancer

October 2019
Biodesix alliance commercialises EarlyCDT Lung in US; deal valued at $28 million

2019
High value distributor agreements in Russia, Spain, Brazil, Malaysia and Singapore providing minimum sales of £42 million

January 2020
Cost effectiveness study of EarlyCDT Lung published by Leeds University

Phase 2 or 'Log'

High-growth activities take Oncimmune into sustainable 'Linear' Phase 3 growth

March 2020
NICE endorses EarlyCDT Lung for early cancer detection and use in Indeterminate Pulmonary Nodules (IPNs)

February / May 2020
Immuno profiling collaboration agreement with Roche

May 2020
Contract with a world-leading pharmaceutical company to evaluate EarlyCDT Lung in screening

July 2020
Brazil marketing authorisation of EarlyCDT Lung

July 2020
Value of Roche immunotherapy contract increased

July 2020
Peer reviewed ECLS trial data published in European Respiratory Journal

Summer 2020
Active discussions with multiple potential commercial partners for use of EarlyCDT Lung in testing patients with IPNs as well as local lung cancer screening programmes

TRACKWISE
CONNECTING TECHNOLOGY

Trackwise has supercharged growth ambitions

Website: www.trackwise.co.uk

Gloucestershire-headquartered **Trackwise Designs (TWD:AIM)** is a UK manufacturer of innovative, specialist printed circuit products. For the past 30 years, Trackwise has earned a global reputation for delivery of high-quality technology.

Trackwise's products have a global reach, serving customers across Europe, North America, Asia and Australia. Following the acquisition of Stevenage Circuits in April 2020, Trackwise has just over 100 employees across two sites in Hertfordshire (Stevenage) and Gloucestershire (Tewkesbury).

EXTENSIVE INVOLVEMENT WITH PCB TECHNOLOGY

Founded in 1989, Trackwise has a strong track record manufacturing printed circuit board (PCB) technology. It has two principle divisions: Antenna and Radiofrequency (RF), and Improved Harness Technology (IHT).

Its RF products form part of the antennae on the mobile telephone base station towers you see regularly around the country. As mobile technology has developed to 2G, 3G, 4G and the evolving 5G, Trackwise has developed its own manufacturing technology to keep pace.

RF's product range now serves an array of communications technologies and bandwidths and is well positioned to gain from the expected roll-out of 5G, which will require the type of antenna developed in Trackwise's RF division. While there is undoubtedly competition within this market, and some slowdown in part due to the well-publicised issues surrounding Huawei, there is significant potential for Trackwise in the rollout of 5G, including massive MIMO (multiple-input and multiple-output).

IHT PROVIDING COST-SAVING BENEFITS TO A RANGE OF INDUSTRIES

While the RF division provides Trackwise with a solid and profitable foundation, it is the IHT division that is expected to be the higher margin growth engine in the business.

Trackwise's proprietary IHT replaces conventional wire harnesses with an innovative take on flexible printed circuit board technology. The potential benefits are huge – IHT can be deployed wherever wire is used. Flexible printed circuits (FPCs) were first developed as a weight and space saving alternative to conventional wire harness in the 1950s and since then have grown into multibillion-dollar global industry.

However, their application has historically been constrained by size, as only shorter product lengths (typically 610mm) were able to be manufactured. This meant that market take-up of FPCs has been limited to smaller devices and equipment, for example a mobile phone.

Trackwise's patented Improved Harness Technology has solved that problem, allowing the production of multilayer FPCs of any length to replace conventional wire harness in demanding applications such as aircraft, industrial, or automotive wiring, as well as medical devices, scientific instruments, and consumer products.

Improved Harness Technology is providing some of the world's leading organisations with lighter, smaller and more efficient interconnect technology to power their products and equipment.

INCREASING ADOPTION OF IHT ACROSS KEY GROWTH MARKETS

Electric vehicles have emerged as the primary scale up opportunity for IHT. In February 2020, Trackwise announced its first IHT production order from a multi-billion-dollar-valued, UK-based maker of electric vehicles to use the technology in its batteries. Against a backdrop of growing social and political pressure to move to more sustainable technologies, Trackwise continues to explore ways in which it can broaden and deepen its relationship with the electric vehicle manufacturer, while speaking to other key players in the space.

The medical instrumentation sector is another potential beneficiary of IHT, with increased use of robotics in surgery, rapid growth in medical wearables and the growth of applications for medical catheters. This has the potential to become a large product line for Trackwise. To date, two large US Medical OEMs have sought out Trackwise for the manufacture of long, thin, fine feature flex PCBs, and

conversations are continuing with other blue-chip companies in the field.

Aerospace is the market that gave rise to the initial IHT innovation some years ago and remains an important growth area for Trackwise. In August 2019, building upon four years of existing development work, the company signed a collaboration agreement with GKN Aerospace for the industrialisation of the GKN Aerospace Type 8 Ice Protection System.

This is a significant milestone in Trackwise's engagement, taking the company a step closer to aerospace production at scale. While aerospace qualification is a lengthy process, the size of the potential end markets means that the future revenue potential for the technology is significant.

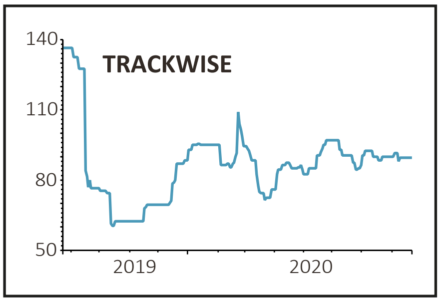
Aerospace is traditionally a conservative industry when it comes to adoption of new technology but there is no doubt the impact of Covid-19 has accelerated a move away from older, less efficient and sustainable aircraft, as evidenced by the recent trend of retiring older planes ahead of schedule. The industry is still in recovery, but Trackwise is optimistic that demand will increase and more aircraft need to be built to support it, acting as a pull-through for IHT.

THE NEXT STAGE OF GROWTH

In April 2020, Trackwise acquired Stevenage Circuits (SCL), a UK-based designer and manufacturer of short flex and rigid PCBs. In large part, RF production has now moved to SCL, freeing the original Tewkesbury site up so it can be solely dedicated to IHT production. As well as dramatically enhancing the company's manufacturing capabilities and capacity, SCL also brings with it over 50 customers to cross-sell into.

The past year has been transformative for Trackwise, with IHT gaining significant commercial traction and making tangible progress towards large scale production. As with all UK manufacturers, Trackwise remains cautious about the potential impact of the uncertain global economic outlook on performance.

However, Trackwise has laid strong foundations for future growth, and as more normal trading conditions return, its growing pipeline should steadily begin convert into increased sales. With the company's proven technology, the right operational infrastructure in place, and structural trends moving in its favour, the company believes its longer-term value proposition is stronger than ever.



Warehouse REIT benefits from 'last-mile' demand

Website: www.warehousereit.co.uk

Warehouse REIT (WHR:AIM) is an AIM-quoted UK Real Estate Investment Trust that invests in and manages e-commerce urban and 'last-mile' industrial warehouse assets in strategic locations across the UK.

Occupier demand for urban warehouse space is increasing as the structural growth in e-commerce has driven the rise in internet shopping and the consequential demand for and investment by retailers, logistic companies and others in the 'last mile' delivery sector, yet supply remains constrained giving rise to rental growth.

OCCUPIER DEMAND FOR URBAN WAREHOUSE SPACE IS INCREASING AS THE STRUCTURAL GROWTH IN E-COMMERCE HAS DRIVEN THE RISE IN INTERNET SHOPPING

UK WAREHOUSE MARKET

The UK warehouse market has three distinctive tiers; National 'Big Box' tier one, regional distribution or fulfilment centres tier two and 'last-mile' urban warehouses tier three.

WHR focuses on tier three last mile smaller warehouses usually less than 50,000 square feet and usually part of a larger multi-let estate (sometimes referred to a 'multi-box' or 'MLI' (multi-let industrial) property. The attraction of tier three buildings has been twofold. Firstly, there is a diversity of income from typically five to 10 different tenants on any single estate with a range of lease expiry dates.

It provides the opportunity to refurbish units, move tenants around and grow the rents, what is known as active asset management. The second strategic advantage remains the ability to acquire these modern purpose built estates (typically constructed during the last 30 years) at less than the cost of construction replacement costs.

The WHR property portfolio (valued independently by CBRE every six months) equated to £450.5 million at 31 March 2020 year end, a number which equated to just £73 per square feet (psf) capital value.

The same portfolio is valued at £103 psf for insurance building reinstatement purposes. The investment value is a function of the historic passing rent, but it means that the underlying land value is 'in for nothing' and with the cost of building new equivalent buildings being higher than the prevailing value, there is an 'economic moat' constraining supply.

The consensus research suggests current vacancy rates for UK warehouse space is circa 5% of national stock and falling.

**ANDREW BIRD
BSC HONS, MRICS
MANAGING DIRECTOR**

Usually, such constrained supply would lead to a development boom bringing more space to the market but this has only happened in tier one and two where economies of scale have significantly reduced construction costs to mid £40s per square foot which generates both a healthy land value and developer's profit, neither of which can be achieved when building smaller units.

Therefore, it is not surprising that a number of real estate consultancy firms refer to the most acute shortage of warehouse space being in the small box (less than 50,000 square ft) category and therefore rental growth performance is expected to outperform the wider market in this smaller warehouse sub-sector.

WAREHOUSE REIT HISTORY

WHR came to market by way of an oversubscribed IPO in September 2017 raising £150 million with management investing a further £16.8 million. The REIT was fully invested by March 2018 year end. Just over 12 months later, the business raised a further £76.5 million to fund a pipeline of accretive warehouse opportunities and again had fully deployed the capital and associated debt within six months.

More recently, the company raised a further £153 million at

a premium to the prevailing NAV (Net Asset Value), again to fund a further pipeline of opportunities.

With a market cap of circa £420 million, the business has made significant in-roads into achieving its ambition of being capitalised north of £0.5 billion within three to five years of its IPO.

Management has not sold a single share, in fact, combined with the board, their stake has now risen to north of 20 million shares ensuring there is real alignment of the external advisor (Tilstone Partners (TPL)) which has built a team of 18 to solely focus on WHR) with the wider shareholders. TPL is remunerated on the basis of 1.1% of NAV up to £500 million, dropping to 0.90% on any additional funds. There is no performance fee.

THE PORTFOLIO

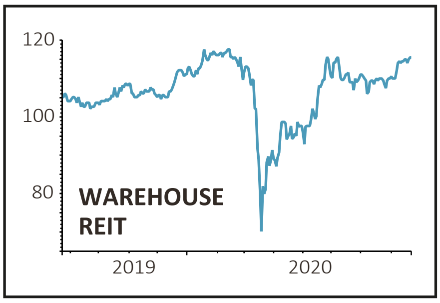
With the top 10 tenants including the likes of Amazon (three separate last mile units), John Lewis (to serve part of their on-line offer), Direct Wines (voted online wine retailer of the year; part of Laithwaite's), Iron Mountain (global document storage Co) and Howdens Joinery, there is a close affinity to the growth in online sales, rocketing to north of 30% of market share since the Covid-19 lockdown, to the demand for UK warehouse space and with effort ratios commonly below 5%, there is significant opportunity for rents to rise.

FINANCIAL PERFORMANCE

For the year end March 2020, the adjusted earnings of £15.6 million equated to 6.5p per share supporting a dividend distribution of 6.2p (paid quarterly). With gearing anticipated to settle circa 35% loan to value with debt coming from a new five year (plus one, plus one) £220 million club facility at 2% over Libor, there remains an attractive arbitrage from the 6.3% year end portfolio valuation NIY with a reversion of 6.9%. The company continues to target a 6.2p dividend for the year to March 2021.

FUTURE

The company remains focused on strong economically relevant locations and buying warehouses that provide space for companies that have thrived though the recent pandemic and beyond, such that it continues to be able to distribute a covered dividend.



Westminster is reaching critical mass

Website: www.wg-plc.com

Oxfordshire's **Westminster (WSG:AIM)** floated on the London Stock Exchange (AIM) in 2007 with a vision to build a global business with strong brand recognition delivering advanced security solutions and long-term managed services to high growth and emerging markets around the world, with a particular focus on long-term recurring revenue business enhancing shareholder value.

Westminster is delivering on that vision and today the group's global footprint has been developed both organically and through acquisition. The group has a UK headquarters and offices in France, Germany, Saudi Arabia, Ghana and Sierra Leone.

Westminster has reached critical mass and is now at an inflection point with the potential for significant growth.

GLOBAL HORIZONS

Having repositioned the company from a UK-centric enterprise to a global business, Westminster has built its international presence; developed its opportunity pipelines; and gained notable credibility delivering an ever-growing number of complex security contracts around the world. The Group boasts an impressive blue-chip client base which reinforces Westminster as a trusted brand in the security industry.

One of Westminster's USPs is its global network of influential agents and strategic partners in over 50 countries. It has taken years and considerable investment to establish and provides Westminster with a scalable and cost-effective global footprint.

The network assists with business development; identifying opportunities in their own emerging markets as well as providing guidance on local issues such as laws, language, cultural and religious sensitivities. Such a network is not easy to replicate and is a barrier to entry. Competition is therefore fragmented and diverse, and many of the projects Westminster are pursuing around the world have little competition.

As an international security organisation operating in a vast, growing market, the Westminster Group's business is driven by legislation, security and safety concerns.

BUSINESS MODEL

Westminster's business model involves multiple revenue streams from diverse sources in varying parts of the world, many of which generate long-term recurring revenue. These provide a degree of resilience to external events out of the group's control.

The group has several operating companies which function with shared resources and have a common view under Westminster's 'One Company – One Vision' ethos. The business is structured into two vertically integrated operating divisions, Services and Technology. Both operating divisions are focused on delivering products, services and solutions to three key market sectors – Land, Sea and Air.

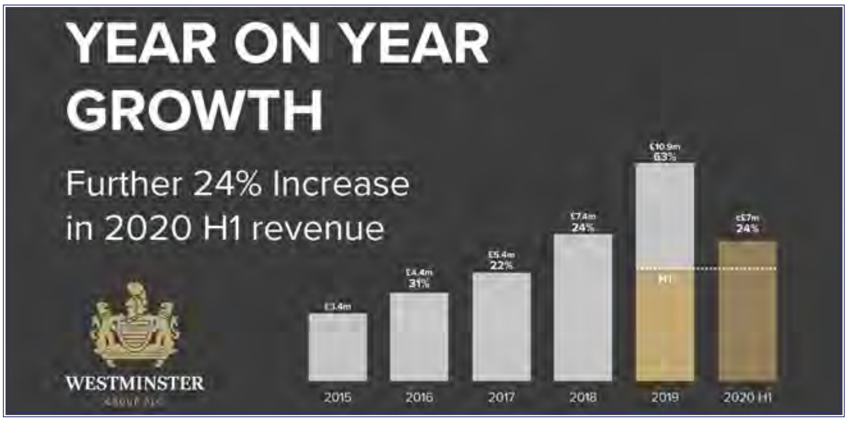
The Services Division is focused on generating recurring revenue from long-term managed services contracts, such as the management and operation of security solutions in airports and ports, together with the provision of maintenance, guarding, consultancy and training services.

The strategy of building long-term, recurring revenue from Westminster's managed services model has the potential of delivering step changes in revenues and profitability. The 15-year West African airport security contract, which runs to May 2027; and the five-year renewable contract at the new $1.5 billion Tema International Container Port in Ghana, secured in 2019, are an indication of the long-term revenue contracts the group can secure.

Numerous other large-scale project opportunities are in play, some with signed Memorandum of Understandings, and each one of which capable of delivering multi-million-pound annual revenues.

THE ROLE OF INNOVATION

The Technology Division concentrates on the provision of technology led security products and solutions encompassing a wide range of surveillance, detection, screening and interception technologies. The product portfolio continues to grow and there is aspiration to expand further, while still allowing companies to utilise Westminster's global supply network and portfolio to manage all their security and safety requirements.



Westminster's target customer base is predominantly governments and governmental agencies; critical infrastructure such as airports, ports, and borders; and large-scale commercial organisations worldwide.

In 2019 Westminster supplied products and services to 66 countries around the world delivering a 63% revenue increase to £10.9m, the fourth consecutive year of double-digit percentage revenue growth.

2020 commenced even stronger, with visibility over £8+m in recurring revenues from its managed services, maintenance and guarding contracts and record revenues from existing managed services contracts.

RECENT RESULTS

Despite the subsequent impact of Covid-19 on parts of its business, Westminster delivered another outstanding result for H1 2020 with a further 24% increase in revenues to c£7.0 million (2019: £5.6 million), being operationally cash positive and delivering an EBITDA (earnings before interest, tax, depreciation and amortisation) of £893,000 and a pre-tax profit of £236,000.

Key factors in Westminster's successful H1 performance during Covid-19 are its multiple revenue streams; its global business; and the agility and early action from the management team, including initiatives such as a TV marketing campaign, which led to a worldwide surge in demand for its products and services in order to help detect, mitigate and defeat the spread of the virus and assist companies in their return to work.

Westminster has a strong experienced management team, is a trusted brand with an established global footprint, and is well placed to deliver on its potential to create transformational growth.