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# IPOs are back as companies eye a window of opportunity

Tech, healthcare and ESG-related companies could have the best chances of getting a market listing away

A surge in companies coming to the stock market would suggest there is a considerable improvement in investor confidence since the brutal sell-off in equities earlier this year.

It also helps that investors have been happy to back companies during the pandemic. It makes sense for other companies to now join the market and capitalise on investor appetite for share placings, as well as the recovery in markets generally.

Ultimately, the sudden influx of IPOs (initial public offerings) implies that companies and their advisers believe economic conditions are going to improve and that there is investor appetite to back good businesses.

There also seems to be a window of opportunity to complete listings before the US presidential election potentially troubles markets and Brexit trade talks become a major focal point.

## THE BENEFIT OF NEW LISTINGS

The arrival of more companies to the market brings new ideas to investors and sometimes helps to broaden a pool of similar stocks, making it easier to do peer group comparisons on business activity and valuations.

For example, **Calisen (CLSN)** floated in February and is a rival to **Smart Metering Systems (SMS:AIM)** which has been on AIM since 2011. There is talk that **Hipgnosis Songs Fund (SONG)** could soon get a quoted rival in Round Hill Music, thereby providing investors with two different ways to invest in music royalties.

The forthcoming high-profile stock market listings of Ant Group, Palantir and Airbnb have all been on the cards for a long time. Their listings were simply delayed



by the pandemic rather than the companies now suddenly deciding they want to be on the public markets.

## TECH, HEALTHCARE AND ESG

While the volume of IPOs is picking up, it wouldn't be a surprise if investors are still picky as to which ones they are going to back. The market has for several years shown a preference for high quality growth companies, rather than speculative blue-sky stories. Technology, healthcare and anything related to ESG issues are likely to fare better than 'jam tomorrow'-type businesses, when it comes to getting a stock market listing away.

Among the names headed to the London market soon are Umuthi Healthcare, a distributor of pharmaceuticals and provider of medical facilities in remote areas, and investment trust Triple Point Energy Efficiency Infrastructure.

## IPO PRICING

Many investors like to get involved at the offer price as history suggests IPOs are priced at a 10% to 20% discount to their intrinsic value, in order to incentivise people to back the company as it comes to market. Outside of investment trusts, IPO offers tend to be restricted to institutional investors and so retail investors often miss out if there is 'pop' in the share price as it starts trading for the first time.

Interestingly, the New York Stock Exchange has secured regulatory approval for a new way of listing stocks. Companies would issue new shares to the public via something called 'primary direct floor listing', using an opening auction that matches buy and sell orders to set the offer price on the day it lists.

That could potentially see stocks lose their IPO discount valuation as the auction could lead to more 'appropriate' pricing, says the Securities and Exchange Commission.



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# Tools of the Trade

## How the unique structure of investment trusts can benefit investors

**By Claire Dwyer**  
**Associate Director, Fidelity Investment Trusts**

BY ANY MEASURE this has been an extraordinary year and the investment companies' sector has not been immune to broader developments. Challenges and opportunities alike have arisen, among them the vexed questions for boards of directors of whether or not to buy-back shares and whether or not to maintain dividends in an environment plagued by dividend cuts in underlying companies.

Share buy-backs tend to be an effective way of returning capital to shareholders, boosting share-prices and thereby limiting the discount at which shares in the trust are trading. A number of investment companies target a specific discount level - Fidelity China Special Situations PLC, Fidelity European Values PLC, Fidelity Japan Trust PLC and Fidelity Special Values PLC, for instance, commit to defending a discount within single figures. Many others will take remedial action without publicly specifying an exact target. In the first half of 2020, the broker Numis estimates that share buy-backs totalled £806m, up 30% on the same period in 2019, but down on the second half of 2019<sup>1</sup>. Most encouragingly, we saw a number of trusts repurchase shares before going on to trade at a premium and issue new shares.

Inevitably dividends have been in the spotlight, with a small number of investment companies forced to reduce or suspend their dividends as a direct result of the pandemic. The trusts most vulnerable to dividend cuts tend to be those in the most illiquid areas of the market, like property or aircraft leasing, where there is an especially close link between cash flows and an ability to sustain pay-outs to shareholders. Open-ended funds must pay out income roughly equivalent to that which they receive from their investments. Investment



trusts however, only have to pay out 85% of income and can transfer up to 15% into a revenue reserve to smooth payments in more difficult years. This will doubtless be a facility upon which boards will draw in the months and years ahead.

Among the stand-out asset classes in absolute performance terms year-to-date are gold and Chinese equities, with the CSI 300 index (designed to replicate the performance of the top 300 stocks traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange) hitting a record high in July.<sup>2</sup>

Colleagues on the ground in Shanghai, Beijing and Hong Kong tell me that the pandemic has served to accelerate many of the broad trends which had already taken hold, most notably demand for services such as online education and e-commerce. A very significant proportion of the holdings in Fidelity China Special Situations PLC should benefit from this trend and the inevitable structural growth in healthcare and life insurance should further boost the portfolio. The ability to invest in unlisted stocks - another useful structural benefit of many investment trusts - may also prove invaluable in capitalising on the most promising themes.

1. Numis Securities Limited, 20th July 2020 2. Bloomberg, 1st August 2020

### Important information

Past performance is not a reliable indicator of future returns. The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. The shares in investment trusts are listed on the London Stock Exchange and their price is affected by supply and demand. The investment trusts can gain additional exposure to the market, known as gearing, potentially increasing volatility. The information provided is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser.

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# Beauty website owner prepares for biggest London listing of 2020

Flotation could land founder a giant windfall but investors should tread carefully

**O**nline retail firm **The Hut Group**, the Manchester-based owner of the *Lookfantastic* website, is to raise £920 million in a stock market listing, valuing the business at £4.5 billion.

The planned share offering would be the biggest this year on the London market and the first since the coronavirus pandemic, though in our view, there are several red flags around this offering.

Hut Group, whose other brands include sports nutrition firm Myprotein, owns its own websites, warehouses and delivery network, and licenses its Ingenuity e-commerce fulfilment technology to multinational consumer giants such as Johnson & Johnson, Nestle and Procter & Gamble.

Since 2004 the firm has accumulated around a dozen prestige lifestyle brands, marketing them through its global network of 200 websites. It also owns a members-only health spa in Cheshire and three Manchester hotels.

Despite generating sales of £1.1 billion in 2019, like most platform businesses Hut Group invests heavily in order to grow and net losses for the year were £48 million.

Cumulative net losses from the start of 2017 to June 2020 were £113 million and the prospectus warns the company 'may continue to incur significant losses in future periods'.

The founder, Matthew Moulding, owns 25.7% of the shares while private equity behemoth KKR owns 14.4% and investment trust **Merian Chrysalis (MER)** holds an 8.8% stake.

Under the terms of the placing, Moulding is entitled to a £700 million payout if the company's market value reaches £7.25 billion in two years' time.

Basing executive compensation on the



firm's market value is risky as it can encourage management to make value-destructive acquisitions to meet its targets.

Also, Moulding has a founder share which allows him to veto unwanted takeover approaches, but which also blocks the stock from joining the FTSE indices.

In addition, the free float is too small for admission to the Main Market, meaning the shares will be consigned to the Standard Listing backwaters where governance and liquidity are reduced.

Spending on marketing, including search engine optimisation and social media campaigns, is significant in order to generate traffic to the firm's websites, hence it makes a loss. Spending on raw materials is also significant and subject to price fluctuations.

Finally, given it made an EBITDA (earnings before interest, tax, depreciation and amortisation) margin of roughly 10% last year – about the same as building products group **Grafton (GFTU)** – the implied valuation of £4.5 billion looks demanding and seems to be based on the potential future value of the Ingenuity business, which contributed less than 10% of revenues last year and which grew its turnover by less than 1% in the first half of this year.

Savvy investors may want to see more evidence of consistent execution as a public company before risking their money. Avoid for now.

# US markets flash warning signs with echoes of past corrections

Technical indicators, a lack of shorts and the rise of holding companies hark back to previous corrections

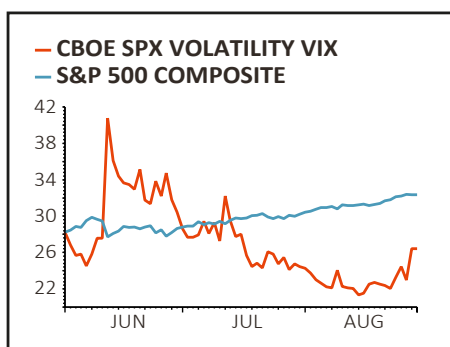
**T**echnical analysis and other market developments suggest investors should be on their guard.

Both the S&P 500 and Nasdaq 100 indices are rising at the same time as implied volatility is rising – a phenomenon known as positive correlation – which is not only highly unusual but typically presages a sharp correction in prices.

Put simply, implied volatility usually rises when markets fall as investors see a risk of prices falling further. Last week both the S&P 500 and the CBOE VIX volatility index moved up in tandem, as did the Nasdaq 100 index and the VXN volatility index.

Normally when stocks fall, demand for sell or 'put' options spikes as investors try to buy downside protection and the volatility or 'fear' gauges go up.

**A put option enables an investor to sell an asset at an agreed price on or before a particular date. A call option is the same apart from the investor agrees to buy the asset.**



This time it may be that investors, caught in an upside panic by the continuing rise of both indices, are instead buying 'call' options which is pushing up the volatility gauges.

However, the last time this positive correlation happened in late 2018, stocks not just in the US but around the world fell more than 20% over the following three months. The same also happened in 2015 and 2007.

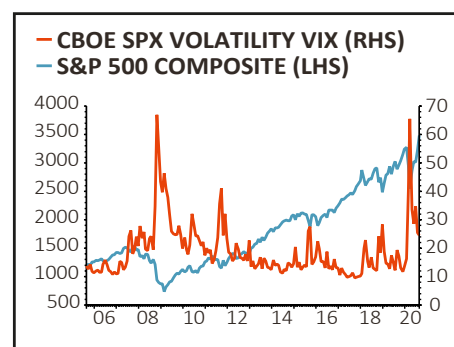
Another worrying factor is the record low in short positions as this year's 50%-plus rally in the S&P from its March lows has left bears nursing heavy losses. According to Goldman Sachs, short interest as a proportion of market value for the median S&P 500 stock is just 1.8%, the lowest since the bank began tracking the data in 2004.

At the same time, speculative buying of stocks and ETFs has exploded among inexperienced

millennial and 'generation Y' traders with the advent of unlimited, commission-free trading via apps such as Robinhood which offer real-time pricing and fractional investing.

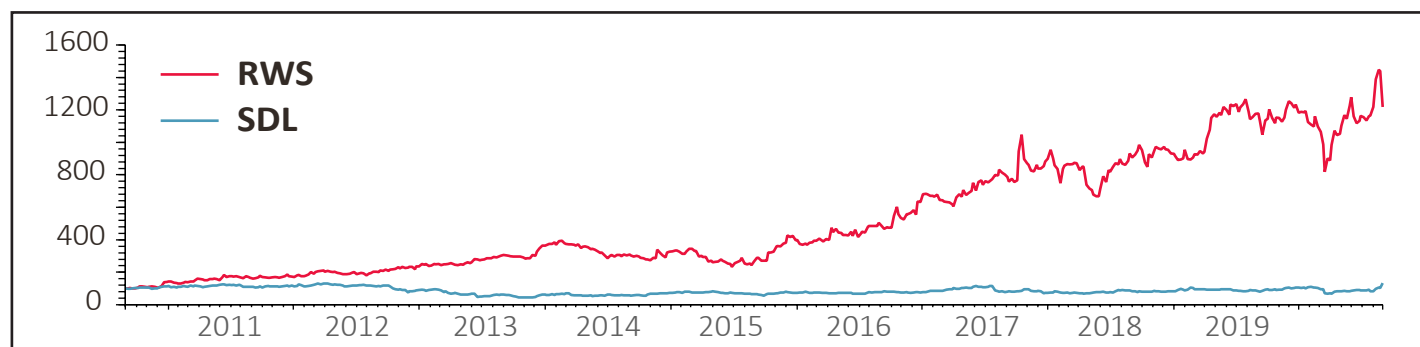
These traders don't 'come into the market hampered by the heavy armour of tradition, but with a vision for the future and boundless hope and optimism' to quote economist John Kenneth Galbraith.

Similarly, the proliferation of special purpose acquisition companies (Spacs) – of which more have listed already this year than in the whole of last year – is reminiscent of the investment companies which sprung up on Wall Street in the 1920s before the crash in 1929, and long before that in the coffee shops of London in the final stages of the South Sea Bubble. Students of history, and investors everywhere, should take note.



# SDL's tie-up with RWS offers a compelling story

The combined company would be a value-creation machine in any language



**I**nvestors in language translation software developer **SDL (SDL)** have a decision to make after the company agreed an all-share takeover by **RWS (RWS:AIM)**.

RWS is a provider of language localisation and intellectual property (IP) support services. It is the seventh largest company listed on the AIM junior market, with a £1.76 billion market value.

Under the terms of the deal, SDL shareholders will be entitled to 1.2246 new RWS shares, valuing the total market capitalisation of SDL at £854 million, a rough 52% premium to the firm's value the day before the tie-up was unveiled.

The takeover looks likely to receive widespread backing, with investors representing 38.2% of SDL already on board. It also looks meaningful that negotiations have begun with SDL's chief executive Adolfo Hernandez and chief finance officer Xenia Walters regarding their departures.

SDL shareholders must decide between selling in the market now and banking the cash or sticking with what should be a value-creating business in the future. We suggest SDL shareholders vote in favour of the deal and keep their RWS shares. The full offer document is expected before the end of September.

Higher margins, complementary client bases and significant cost synergies worth an estimated £15 million a year are seen by RWS management and analysts and these are compelling reasons for

the tie-up. SDL has also invested substantial sums over the years into its own technology platform.

Beyond the £15 million estimate, RWS expects further margin improvements and revenue synergies by using SDL's technology and cross-selling, according to Peel Hunt analysts.

The combined company, which will remain on AIM, will have in excess of 6,800 staff and is expected to generate £131 million of earnings before interest, tax, depreciation and amortisation (EBITDA) before synergies, on roughly £732 million of run-rate revenues. It will also be debt-free with considerable borrowing capacity to invest in the business both organically and through further acquisitions.

'It will have broader capabilities across a range of language services, language and content software and IP services, combining RWS's technical translation and localisation capabilities with SDL's software, machine translation and AI capabilities,' says Amir Fattahi, an analyst at technology website Megabyte.

Despite the strong share price run for SDL this year, RWS has delivered significantly more shareholder value over the past 10 years.

Under the guidance of executive chairman and 32.8% shareholder Andrew Brode, RWS shares have produced an average annual total return of 29% for shareholders. SDL's equivalent return of just 3.1% is below the 5.25% of the FTSE 100, according to Morningstar data.



# US Federal Reserve tweaks monetary policy goals

Has the US Federal Reserve just signalled it won't raise interest rates for the next five years?

**US** Federal Reserve chair Jerome Powell delivered what many Fed watchers had been expecting at the annual Jackson Hole speech on 27 August, when he signalled a change to monetary policy goals.

In future the central bank will target average inflation, which means accepting periods of overshooting and undershooting the 2% target. Importantly the bank said it wasn't tying itself to any formula, moving it away from a data driven approach.

Powell acknowledged that the historical trade-off between wage growth and inflation had weakened



which means the Fed would be less likely to hike interest rates when the economy is operating at or close to full employment capacity.

The news pushed longer dated bond yields up (and prices down) as these are more sensitive to higher inflation, steepening the yield curve. This in turn gave a green light to the banking sector which jumped over 2%. Banks make a higher interest rate margin when the yield curve steepens.

As for the stock market, some strategists continued to push the argument that lower rates for longer was good news for stocks, and growth stocks in particular. However, this logic seems flawed to value investors who point out that a steepening yield curve and higher inflation are exactly what they need to perform.

**The yield curve plots the yields or interest rates of bonds which mature at different points**

## Shock resignation of Japan PM hits Nikkei

Successor is expected to keep 'Abenomics' as the country looks to avoid a return to deflation

NEWS OF JAPAN'S prime minister Shinzo Abe stepping down due to ill-health has shocked financial markets.

In a flash indication for what it means for Japanese stocks, the country's benchmark Nikkei 225 index plunged 1.41% in afternoon trading on 28 August shortly before the news was confirmed following widespread speculation.

Known for stimulating the country's growth with his aggressive

economic policy known as 'Abenomics', the abrupt resignation of Japan's longest serving PM has also shaken the yen and Japan's bond market with both asset classes falling.

But many in the market don't think there will be much change despite Abe's departure. **AVI Japan Opportunity (AJOT)** manager Joe Bauernfreund says Japanese companies see the merits in Abe's economic reforms and have no

desire to reverse course, and will continue to put a greater focus than they did before the reforms on shareholder returns and capital efficiency.

Whoever takes over from Abe is expected to keep existing economic policies in place, particularly given the current pandemic, as the country looks to avoid falling back into the deflationary spiral which caused its 'lost decade' in the 1990s.

# Saga white knight welcomed by investors

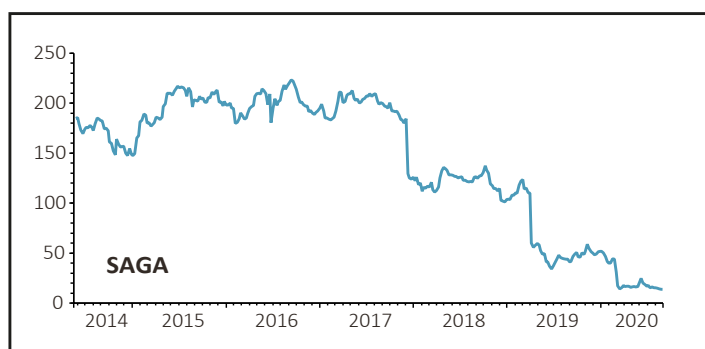
There are hopes that new funding will shore up the balance sheet and support turnaround but the company still faces many headwinds

**O**ver-50s travel and insurance specialist **Saga (SAGA)** is set to raise £150 million in a bid to shore up its balance sheet, improve liquidity and help execute its turnaround plan.

Shares in the company have soared this week after the news, initially jumping 41% to around 19p, as it was also revealed that former owner and chief executive Roger De Haan will stump up £100 million of the cash, including £60.6 million at 27p per share, representing a 98% premium to the shares' closing price on 28 August.

Saga will give existing shareholders a chance to participate in raising the other £50 million, for which the issue price would be a maximum of 15p per share.

The involvement of De Haan, son of Saga founder Sidney De Haan and former boss before selling the business in 2004, appears to have pleased the market with investors seemingly viewing him as a 'white knight' rescue figure for the embattled company.



However, the share price rally this week needs to be put in context of how the bombed-out shares have performed since Saga's initial public offering (IPO) in May 2014, when the company's shares closed at 185p on their first day of trading.

Since reaching a high of 225p in September 2016, Saga shares have been on a steady downward spiral, which accelerated first in December 2017 after it warned on profits for the following two



years after troubles in its insurance division, followed by another big fall in April 2019 when it cut its dividend and changed the strategy for the insurance arm.

Saga has faced a number of headwinds in the past few years, particularly in insurance as a decline in reserve releases and insurance margins, renewal pricing changes, and investment in new products all hit its profitability.

Its cruises arm has also fared badly, even before the coronavirus pandemic, with travel and tour bookings weak following Brexit concerns.

Saga also invested heavily in new cruise ships, the timing of which couldn't be worse now with the industry having ground to a halt amid the pandemic.

The £150 million fundraise, while clearly needed, won't solve all of Saga's problems or wipe away its debt, with net borrowings as at 30 January 2020 standing at £361.7 million.

But Saga says the cash will also help it execute its turnaround plan as well as improve its finances, as it looks to return to sustainable growth and try to provide 'restoration of significant shareholder value' for beleaguered investors.

# The trust helping to protect and grow investors' wealth

*Shares* explains why the time is right to invest in all-weather investment vehicle Ruffer

**I**nvestors nervous about economic and market uncertainties in the wake of the coronavirus pandemic should look at **Ruffer Investment Company (RICA)**, whose shares trade at 2.4% discount to net asset value.

Managed by Hamish Baillie and Duncan MacInnes, Ruffer aims to preserve shareholder capital regardless of financial market conditions by investing in shares, equity-related securities such as convertibles, and corporate and government bonds, among other assets.

Its portfolio includes US and UK inflation-linked government bonds, gold, cash and shares such as Kinross Gold, American Express and General Motors.

'In a raging bull-market we lag, but we come into our own when markets are falling,' explains Baillie, adding 'our main preoccupation is not losing money for people.'

Since Ruffer started in 2004, its investment process has produced returns ahead of equity markets, but with much lower volatility and risk.

Baillie concedes there will be times when the trust 'looks a bit dull', but investors can take comfort that Ruffer should hopefully avoid capital losses that can take years to claw back.

## RUFFER INVESTMENT COMPANY

BUY  
(RICA) 241.97p

Net asset value: 247.99p

However, there is no guarantee that it will not lose money.

Since launch 16 years ago and up to 31 July 2020, Ruffer has delivered a positive net asset value total return in all but two years (2015 and 2018). Gold and gold mining shares, credit protections and index-linked bonds have driven the positive year-to-date performance with a helping hand from shares in **Ocado (OCDO)**.



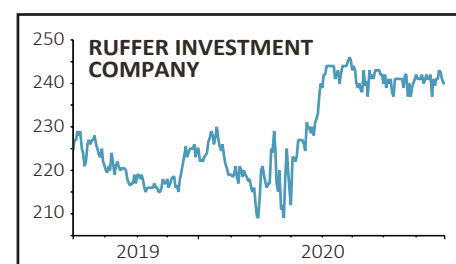
The trust is currently interested in cyclical, unloved businesses geared into economic recovery such as Walt Disney and French toll roads operator Vinci.

Ruffer's cautious managers argue that if GDP does pick up, the premium ascribed to growth stocks investors have

chased higher would become unwarranted, and if GDP growth fails to pick up, then equities as an asset class would suffer because the economy remains mired in a slump. This is where the portfolio protections that the trust has been increasing of late would come into play.

'Actions by government and central banks have ignited a rally in global equities, and this rising tide has raised most boats,' says Investec analyst Alan Brierley. 'However, given the lack of visibility on the depth and duration of the global recession, the apparent failure to control the pandemic, the ongoing spike in the US and with no sign of a vaccine, we believe greater challenges lie ahead.'

'In this environment, we would not be averse to locking-in some of the recent profits from equities. Meanwhile, those companies that can successfully preserve capital regardless of market conditions may have significant value.'





# VALUE ADDED.

2 3 4 5 6 7 8

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# We spy an attractive growth story at Inspecs

Myopia could affect 4.7 billion people by 2050, with long-sightedness hitting 4.1 billion



**B**ath-based eye wear frame specialist **Inspecs (SPEC:AIM)** has compelling growth credentials which have been masked by disruption to Asian supply chains and closing of opticians during lockdown.

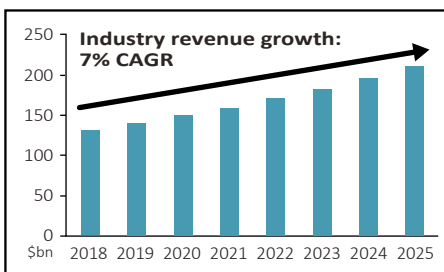
We believe this has created a great opportunity to buy the shares at a decent price. On 2021 earnings the shares trade on a price-to-earnings (PE) ratio of 14.8 according to estimates from broker Peel Hunt.

There is a degree of pent-up demand from customers who want or need to have their eyes tested and are more likely than before to follow through with a purchase of new frames, given the extra effort required to book appointments.

Peel Hunt believes revenue has rebounded faster than it expected earlier in the year while the business has remained cash flow positive, an encouraging sign given the operational gearing in the business.

**INSPECS**  
 **BUY**  
 (SPEC: AIM) 229.6p

Market Cap: **£170 million**



Source: Statista

To meet demand, Inspecs has recently expanded its Vietnamese manufacturing capacity, which increased fixed costs and held back profitability in the short-term. There is material scope over the medium-term to increase margins faster than revenue.

The global eye wear market is thought to be worth \$141 billion at retail value and is expected to grow around 7% per year out to 2025 according to consultancy Statista. One of the key drivers of growth are the 2.6 billion people who currently need eye correction but not currently served, representing 57% of a total market of 4.6 billion.

Increasing prosperity and awareness of the damage caused by sunlight and blue light from computer screens are also key factors driving growth.

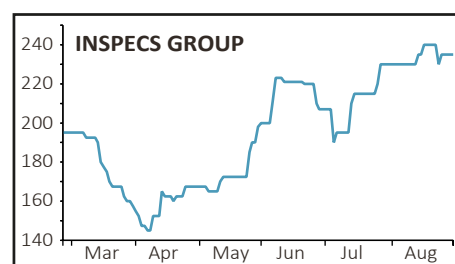
## CLEAR ADVANTAGES

Inspecs operates a vertically integrated business model which means it is one of the few companies in the sector to offer one-stop-shop services to its customers. It designs, manufactures and distributes both private label frames and branded products, which it sells under licence for long standing customers such as Superdry and Caterpillar.

Unusually for a small business, the company has built a broad global distribution platform with over 30,000 points of sale, selling to key customers like Specsavers and Grand Vision as well as thousands of independents and opticians.

This is a very valuable part of the business that will provide an important source of growth as the business adds new customers and brands while building scale and increasing profitability.

In our view Inspecs represents a great opportunity to get exposure to a secular growth theme. Its balance sheet position looks robust with Peel Hunt forecasting net cash of \$9.4 million by the end of 2020.



## MOTORPOINT

(MOTR) 270p

**Gain to date: 42.1%**

**Original entry point:**

**Buy at 190p, 14 May 2020**

WE ARE encouraged by fresh evidence of strong post-lockdown trading at car dealership **Motorpoint (MOTR)**.

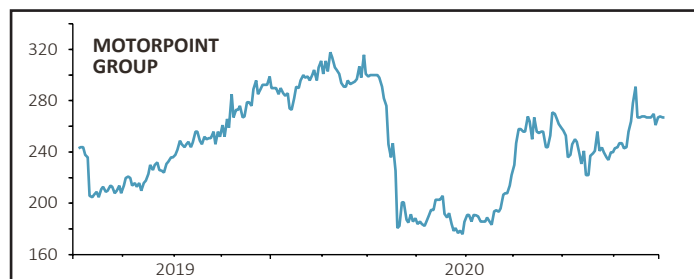
A positive update on trading accompanied the company's AGM on 24 August, with key operational and trading metrics over the last 11 weeks 'comfortably ahead' year-on-year according to the group.

News that chief financial officer James Gilmour is leaving the company is a modest blow – broker Shore Capital describing him as 'well-regarded' – but not a reason to change our view on the stock. Particularly as Gilmour is sticking around for a while to ensure an orderly transition.

As Shore analyst Darren Shirley notes, caution remains on the sustainability of any recovery in consumer confidence due to the lasting impact of Covid-19, and how trading will evolve as we move into the autumn and beyond.

'How much of current trading still reflects pent-up demand from lockdown? How much is the group's disruptive model driving share gains?' he asks.

We should get some answers with a first-half trading update on 8 October with Shore Capital planning to reinstate earnings forecasts at that point.



### SHARES SAYS: ↗

Still a buy for now, we will keep a close eye on October's trading statement and updated forecasts.

## TARGET HEALTHCARE REIT

(THRL) 112.8p

**Gain to date: 5.6%**

**Original entry point:**

**Buy at 106.8p, 16 July 2020**

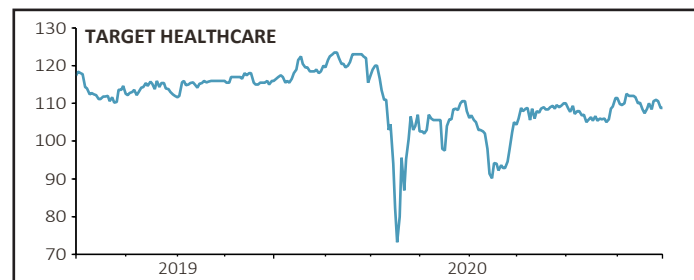
CARE HOME investor **Target Healthcare (THRL)** is off to a decent start as one of our *Great Ideas*.

The shares have risen modestly, supported by a positive recent update (5 Aug) which revealed a slight increase in its net asset value per share from 108p at the end of March to 108.1p as at the end of June and robust rent collection.

Given we flagged the company's income appeal in our initial article it was also pleasing to see the quarterly dividend nudged up by 1.5% to 1.67p per share.

On an annualised basis that would equate to a payout of 6.68p and a yield of 5.9% at the current share price.

Stockbroker Numis commented: 'Target Healthcare's continued robust performance reflects the defensive characteristics of the portfolio despite the care home sector featuring heavily in the news during the midst of the Covid-19 pandemic. The board has been able to maintain the dividend at the targeted level on the back of strong rent collection figures (96% for Q3 as at 6 July).'



### SHARES SAYS: ↗

We continue to see Target Healthcare as a relatively lower risk way of accessing a generous stream of income.

**FLUTTER**

(FLTR) £124.20

**Gain to date: 14.2%****Original entry point:****Buy at £108.75, 2 July 2020**

BETFAIR AND Paddy Power owner **Flutter (FLTR)** revealed half-year results on 27 August, the first time investors got a glimpse of what the business looks like after the tie-up with Canadian sports betting group Stars Group.

Pro-forma revenue was up 21% to £2.4 billion and adjusted operating profits up a very impressive 35% to £567 million. Pro-forma numbers reflect the combined businesses as if they were one entity for the full reporting period.

Our enthusiasm for the shares is related to the momentum the group is building in the US market, which could be a game-changer. The signs remain positive with the company claiming sports and gaming market leadership during the first-half with

44% of the online sports book and 27% of online gaming.

Investment in Michigan and Illinois has been brought forward, moving the company towards its goal of offering FanDuel's online sportsbook to 21% of the US population by 2021.

Another key attraction for us is Flutter's focus on acquiring customers as they migrate from retail to online. Retail brands retain only 40% to 50% of migrating customers and the pandemic has accelerated the trend towards online. Given that 88% of the global gambling market is still offline, this represents significant future growth potential.

**SHARES SAYS: ↗****The fundamentals remain attractive.**

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# BAILLIE GIFFORD HIGH YIELD BOND FUND

## SEEKING RESILIENCE. TIME WELL SPENT.

**The value of an investment in the fund, and any income from it, can fall as well as rise and investors may not get back the amount invested.**

Global cinema operator, AMC Entertainment. Internet payment provider, Wirecard. Commodity trader, Noble Holdings. All have one common denominator: an inability to repay debt obligations to their lenders. Default. The result is a permanent loss of capital, materially denting returns. As the global health pandemic shatters exposed sectors across the world, default rates within the asset class are on the rise, on course to reach the highest level in a decade. Our approach, seeking out resilience, is unchanged. And in this mercurial new world we find ourselves in, it has never looked more fitting or more powerful.

We believe that, over the long term, an issuer's fundamental resilience will be reflected in the performance of its bonds. All our time, therefore, is focused on bottom-up, qualitative, forward-looking analysis into an issuer's resilience.

Resilience, for us, requires a durable competitive position, a good approach to governance and sustainability (G&S, synonymous with ESG) and an appropriate capital structure. We lend to around 70 companies, who we believe have the right combination of these attributes. Each new issuer in the fund is different to what went before it, building a diverse collection of some of the world's most resilient high yield companies. We stress test our companies through 'pre-mortem' scenarios to appropriately position the holding, reflecting the risks and opportunities of lending to the issuer. Valuation is secondary to building a strong understanding of an issuer's resilience. Our assessment of the valuation opportunity is not based on a quantitative financial model, but on a qualitative understanding of the company's future resilience.

We believe this approach limits the downside, exposing us to fewer value-destructive credits. We are proud of the High Yield Bond Fund's history of incurring less than half the default rate of the market since its inception. Equally

important, our approach maximises the upside the asset class has to offer, investing in more bonds of higher quality than peers and doing so with greater conviction.

Client focus on G&S factors has never been greater and is only accelerating with time – and rightly so. We believe our early decision to integrate G&S into our investment process has enhanced our ability to source dependable income streams, whilst making a positive contribution to the world. We believe the fund is well positioned to deliver resilient, long-term income, building on its top quartile performance since inception. This 18-year track record is offered for the most competitive fees in the industry, with total charges for the fund of 0.37 per cent per annum, with no entry or exit fee.

We believe our approach delivers on Baillie Gifford's principal goal – to add value to clients, support companies and benefit society through thoughtful long-term investment.

ANNUAL PAST PERFORMANCE TO 30 JUNE EACH YEAR (%)					
	2016	2017	2018	2019	2020
Baillie Gifford High Yield Bond Fund (B Inc Shares)	0.9	12.6	1.7	6.7	-0.6
Investment Association Sterling High Yield TR	0.7	10.4	1.0	5.2	-2.3

Past performance is not a guide to future returns

Source: FE. Single pricing basis, total returns. Sterling.  
The manager believes this is an appropriate comparison for this fund given the investment policy of the fund and the approach taken by the manager when investing.

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# SHARES

Lucy Isles  
Investment Manager

Baillie Gifford High Yield Bond





# NICE AND SIMPLE PORTFOLIO

## Seven ETFs are all you need



By Yoosof Farah Reporter

We've put together a group of products which should serve investors well over time

Investing doesn't need to be hard, complicated or even require a lot of time, and you certainly don't need dozens of all different kinds of investments in your portfolio.

In fact, seven funds could be enough. And they needn't be active funds either.

Picking the right fund and fund manager is always a tricky task, particularly trying to find ones that have proven they can outperform the wider stock market over the long term, and to such an extent that you don't feel the impact of the fees they charge.

So here we've created a portfolio of seven exchange-traded funds (ETFs), which give you exposure to major asset classes across the world, but with a slight bias to the more familiar territory of the UK.

### WHO WOULD THIS SUIT?

This portfolio is a good option for a wide range of people:

- Those who are starting out with investing and want a cost-efficient way to access the markets
- Those who want to invest but are too busy or simply don't want the hassle of managing their investments on a regular basis
- Those who are just disillusioned with the value, or lack of it, generated by active fund managers and therefore want to go down the passive route

The portfolio is designed to behave fairly conservatively and provides exposure to a wide range of quoted stocks and bonds globally.

Research shows that people tend to feel the pain of a decline twice as hard as the joy experienced when things are on the rise.

In the good times when markets are rising, the portfolio's returns may not reach the same height as some active funds, but in the bad times when markets fall in theory the losses shouldn't be as severe as many active funds.

Particularly for a novice investor who's just getting started with the markets, a conservative portfolio could be a good option. Behavioural science has shown that, psychologically, losses hurt more than gains. In fact, research shows that people tend to feel the pain of a decline twice as hard as the joy experienced when things are on the rise.

With that in mind, this portfolio of seven ETFs is split 70% stocks and 30% bonds.

Admittedly someone in their 20s, 30s or 40s may prefer to have a lower weighting to bonds, as they have time on their side to ride the ups and downs of the stock market and stocks have historically produced better returns than bonds.

#### OUR PORTFOLIO: ASSET ALLOCATION

Global stocks	40%
Corporate bonds	20%
FTSE 100	15%
FTSE 250	10%
Emerging market stocks	5%
UK gilts	5%
Emerging market bonds	5%

However, we think a 70:30 split has merit in the current market environment. Bonds tend to outperform stocks when a recession is on the horizon, while stocks tend to rally when an economic expansion is on the cards. It's really hard to time the market so by holding stocks and bonds in this proportion you don't need to be prescient.

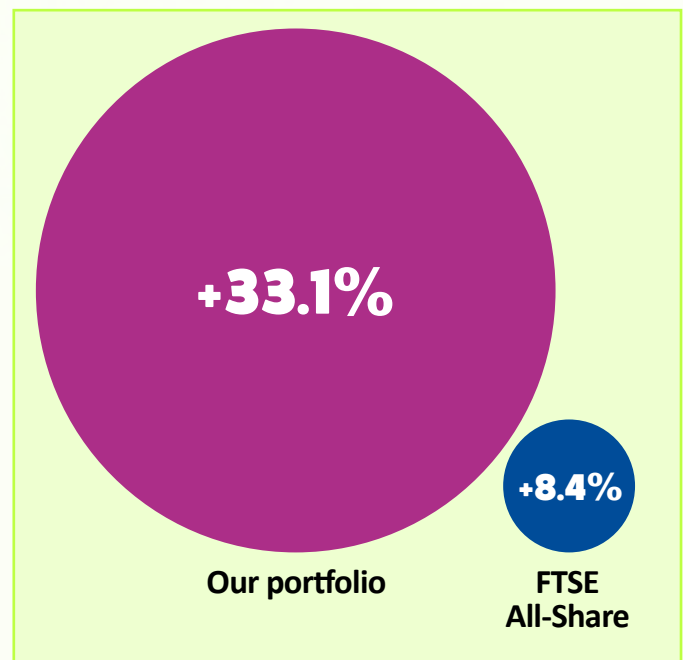
It's easy to change the weightings to more equities if you're happy to stomach extra risks.

#### BUILDING THE PORTFOLIO

We've got 15% of the portfolio in the FTSE 100, giving exposure to all the well-known blue-chips listed on the London market; and 10% is in the FTSE 250, which is more orientated to mid-caps and provides greater exposure to the domestic economy than the exporter-heavy FTSE 100. We've got 5% in large and relatively safe gilts (UK government bonds) and 20% is in sterling-denominated bonds issued by companies, called corporate bonds.

That leaves 50% for overseas financial markets, with the biggest share going into developed market stocks (40% of the portfolio) and 5% in emerging market stocks, with another 5% allocated for emerging market bonds.

#### FIVE YEAR RETURNS TRACK RECORD



Taking into account the major market sell-off this year as a result of the coronavirus pandemic, in the past five years this portfolio has delivered a total return of 33.1% compared to 8.4% for the FTSE All-Share index, according to calculations by FE Fundinfo.

All the ETFs in the portfolio have been chosen because they represent the cheapest and most liquid way to access the aforementioned markets, with the lowest total cost of ownership when combining the fees they charge and price difference between buying and selling the ETF, known as the bid-ask, or bid-offer, spread.

Read on to discover the seven ETFs you need for a simple, low cost portfolio.



# THE STOCKS PART OF THE PORTFOLIO



## iSHARES CORE FTSE 100 ETF (ISF)

Even those who are new to investing should have heard of the FTSE 100. It frequently appears on TV news bulletins and in the newspapers, with its direction up or down giving the public a steer as to how the stock market is performing.

The index, a representation of the UK's 100 largest companies by market value, is packed full of names well-known to the public, like **BT (BT.A)**, **Barclays (BARC)**, **Royal Dutch Shell (RDSB)** and **Vodafone (VOD)**.

For any investor, having some exposure to the UK's blue-chips is always a good idea, and many in the investment world currently think the UK stock market represents better value for money right now than the US, where the S&P 500 and Nasdaq have reached new all-time highs despite ongoing weakness in the economy and risks of further shocks ahead.

The FTSE 100 is currently trading on a 12-month forward price-to-earnings (PE) ratio of 17.1 times, according to Stockopedia, compared to a PE of 20.5 for the S&P 500 and 18.3 for the Nasdaq Composite.

**iShares Core FTSE 100 (ISF)** is the most popular ETF which tracks the FTSE 100 index, and with a total cost of 0.07% a year is a very cost effective method of gaining exposure to the largest companies listed on the UK market.

## VANGUARD FTSE 250 ETF (VMID)

While a lot of the country's well-known companies are in the FTSE 100, the mid cap FTSE 250 – which comprises the next biggest 250 companies in the UK by market value – also contains a number of recognisable names.

The index provides exposure to various sectors in the UK economy, and contains names like **EasyJet (EZJ)**, **TUI (TUI)**, **Games Workshop (GAW)**, **Greggs (GRG)**, **Wetherspoon (JDW)**, **William Hill (WMH)** and **WH Smith (SMWH)**.

The fortunes of the UK economy aren't considered great at the moment, particularly if unemployment spikes when the Government's job retention scheme ends, while there are also headwinds on the horizon if Brexit trade talks end without a deal.

But having the FTSE 250 in your portfolio means you will also get the benefit as and when the UK economy recovers. The index could well rally if the Government's coronavirus support schemes work as intended and the economic disruption isn't as severe as some in the market think, while a trade agreement between the UK and EU before the end of the year would also be a positive for both the economy and the FTSE 250.

A good ETF in this area is **Vanguard FTSE 250 (VMID)**, which has more assets under



management than any other ETF tracking this index, being responsible for £1.4 billion of investors' money – meaning it has a very tight bid-ask spread – and is also the lowest cost with an ongoing charge of just 0.1% a year.

### LYXOR CORE MSCI WORLD ETF (LCWL)

Providing exposure to 1,601 companies across 23 developed market countries, the MSCI World index is as about as broad and comprehensive an investment as you can get. As such, we make it the largest component in the portfolio accounting for 40% of assets.

With over two thirds of the index made up of businesses in the US, this is the part of your portfolio where you will feel the benefit of the well-documented rising US markets and technology stocks, though also still getting the benefits from diversification with access to other developed market economies like Japan and the Eurozone.

Besides Nestlé, the top 10 constituents of the MSCI World index are all American. The top five names in the index are Apple, Microsoft, Amazon, Facebook and Google owner Alphabet, while Johnson & Johnson, Proctor & Gamble and Visa are also in the top 10.

An exceptionally low cost way to track this index is **Lyxor Core MSCI WORLD (LCWL)**, which has a total expense ratio of 0.12% a year.

Given the sheer size of the MSCI World index, this ETF buys a carefully selected sample of the stocks in the index to mimic its risk and return profile, as well as maintain liquidity and keep transactions costs low, pushing its total cost of ownership lower than many other ETFs which also track the index.

It's worth noting the UK only accounts for around 4% of the MSCI World index, so not really adding much UK exposure on top of the FTSE 100 and FTSE 250 components of our portfolio.

### iSHARES CORE MSCI EM IMI ETF (EMIM)

Given they're part of some of the fastest growing economies on earth, having exposure to stocks in your portfolio from emerging market (EM) countries is a good idea.

### MSCI EM IMI TOP 10 CONSTITUENTS

Alibaba	6.8%
Tencent	5.7%
Taiwan Semiconductor	5.1%
Samsung	3.3%
Meituan Dianping	1.3%
Naspers	1.2%
Reliance Industries	1.1%
China Construction	1.0%
Ping An Insurance	0.9%
JD.com	0.8%

Source: MSCI Emerging Markets IMI factsheet, 31 July 2020

There are risks with these markets, considering they are still emerging and can frequently encounter teething problems as they develop, and so should only make up a small part of a portfolio for a beginner investor or someone who doesn't have the time to regularly monitor their investments. In our portfolio, EM stocks only make up 5% overall.

But EM companies are definitely still worth including, and a great way to do this is through **iShares Core MSCI EM IMI (EMIM)**, which tracks the MSCI Emerging Markets Investable Markets index and is the cheapest option to do so with an 0.18% a year ongoing charge. It's also one of the popular ETFs tracking this space globally with responsibility for over \$15 billion of investors' money.


This market cap weighted index covers approximately 99% of available shares in 24 emerging market countries, and also includes small cap stocks, which can provide some extra risk but also offers broader and more diversified EM exposure.

More than 10% of the ETF is made up of Chinese giants Alibaba and Tencent, and another 3.3% alone is allocated to South Korean conglomerate Samsung.

This ETF is a great way to play the China growth story, while also getting the benefit of diversification to other markets and the potential growth in countries like South Korea, India and Taiwan.



# THE BONDS PART OF THE PORTFOLIO



Government bonds, especially those issued by developed market governments like the UK, are seen as a safe haven in times of uncertainty

## iSHARES CORE UK GILTS ETF (IGLT)

UK government bonds, known as gilts, should always be part of any portfolio if an investor is in any way risk-averse.

Government bonds, especially those issued by developed market governments like the UK, are seen as a safe haven in times of uncertainty, something which could be particularly useful right now given the ongoing economic fallout from the pandemic.

Gilts can provide capital preservation in times of market stress. However, gilts become less attractive when there is an increase in inflation expectations or an actual rise in inflation.

Gilt yields are currently near record lows with demand for safe haven assets surging in recent months. Under such circumstances, we think it is prudent to only have a small allocation, at 5% of the portfolio.

The best way to invest in gilts is through an

ETF. The world of active fund management has practically given up on trying to add value through gilts, given that interest rates are as low as they are right now and don't look like going up anytime soon. Investing in gilts directly is possible, but this process can be complex and time-consuming.

A great ETF for gilts is **iShares Core UK Gilts (IGLT)**, which is one of the cheapest with a cost of 0.07% a year, is very liquid with £1.6 billion in assets and has generally exhibited a low level of volatility.

## iSHARES CORE £ CORPORATE BOND ETF (SLXX)

Slightly racier than gilts but often still a safer bet than company shares are corporate bonds. For our portfolio we've chosen bonds issued in sterling by big, high-quality companies with strong balance sheets.

## ISHARES CORE £ CORPORATE BOND ETF (SLXX) TOP FIVE ISSUERS

EDF  
HSBC  
GlaxoSmithKline  
AT&T  
Wells Fargo

Source: iShares Corporate Bond (SLXX) factsheet, 28 Aug 2020

Making up a fifth of our portfolio overall, corporate bonds offer a better return than UK government bonds, and are higher risk to go with the higher return. However, the risk is still relatively low compared to equities when getting exposure only to bonds issued by companies with an investment grade rating.

One of the best ways to add corporate bonds to your portfolio is through **iShares Core £ Corporate Bond (SLXX)**, the lowest cost option at 0.2% a year to track the Markit iBoxx GBP Liquid Corporate Large Cap index. This only includes bonds from companies with a high quality credit rating and which have a sufficiently large issuance size.

The ETF itself doesn't hold all the bond issuances in the index, but carefully selects a sample to mimic the index's risk profile while avoiding illiquidity issues, something which can plague the bond market generally.

## ISHARES JPMORGAN EM LOCAL GOVERNMENT BOND ETF (SEML)

Racier still than corporate bonds are emerging market bonds, which while having a safer profile than emerging market stocks also contain more risk than developed market bonds, and so only make up 5% of our portfolio.

But emerging market debt can also provide better returns than gilts and UK corporate bonds, particularly if it's in the local currency of the issuing country, and are worth including in a portfolio.

Most emerging market government debt is issued in US dollars, but analysts believe yields on local currency emerging market debt could be a bright spot in the global bond market going forward, given the downward pressure on the dollar.

While it is the most expensive ETF in the portfolio, an efficient way to play the local currency emerging market debt theme is through **iShares JP Morgan EM Local Government Bond ETF (SEML)**. Although it costs 0.5% a year, it is still one of the lowest ways to get access to this emerging asset class and is the most liquid ETF available to UK investors.

## CONSTRUCTING THE PORTFOLIO – HOW TO ALLOCATE £20,000

Lyxor Core MSCI World ETF	£8,000
iShares Core Corporate Bond ETF	£4,000
iShares Core FTSE 100 ETF	£3,000
Vanguard FTSE 250 ETF	£2,000
iShares Core UK Gilts ETF	£1,000
iShares JPMorgan EM Local Government Bond ETF	£1,000
iShares Core MSCI EM IMI ETF	£1,000
<b>TOTAL</b>	<b>£20,000</b>

**Disclaimer:** Editor Daniel Coatsworth owns shares in Vanguard FTSE 250 ETF and iShares Core MSCI EM IMI ETF referenced in this article



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# Buy remote IT connector TeamViewer for big growth potential

Shares in the German company are pricey but this looks like a quality business

**W**e recently looked at Europe and talked about some of the exciting growth companies on the Continent, and how they are often lost in the noise created by their US cousins. German technology company **TeamViewer (TMV:XETRA)** is exactly the type of fast-growing and profitable tech company that will have flown below the radar of most ordinary investors in recent months.

The German company has built a real-time remote connectivity platform that lets IT experts take control of devices (PCs, laptops, smartphones etc) to solve problems or to enable people to connect and collaborate from home, different office locations or anywhere, while the organisation maintains IT control.

During the lockdown this year, countless people around the world will have found themselves working from home and encountering IT problems. If you've ever had to call your work IT support team for help and had them take over your device virtually to find a fix, you may well have used TeamViewer, even if you didn't know it.



## 15-YEAR HISTORY

TeamViewer was founded in 2005 and today sells its products and services in 180 countries.

Private equity firm Permira brought the company to the Frankfurt Stock Exchange in September 2019 with a €5.25 billion price tag, selling 42% of its stake to investors at €26.25 per share. Permira has continued to release shares into the market over the past year, leaving it with a 39% stake.

Several big tracker funds own TeamViewer stock while UK active funds with decent sized stakes include **Rathbone Global Opportunities (B7FQLN1)**, **Man GLG Continental European Growth (B011948)**, and **BGF World Technology (B8KMZ39)**.

## COVID WAKE-UP CALL

TeamViewer made a slow start on the stock market, but the Covid-19 pandemic has made

investors suddenly appreciate the company's digital growth potential. Since the virus low point in March the stock has gone bananas, more than doubling to a record €53.62 in early July. The stock remains more than 80% up since March at €44.93.

This is a very competitive space, with the likes of Microsoft, Citrix, LogMeIn and others, but the growth potential for connected devices in the coming Internet of Things (IoT) world is enormous and getting bigger. A McKinsey report estimates that the size of the remote connectivity platform market will triple by 2023 from €10 billion in 2018.

Analysts at Berenberg believe TeamViewer's total addressable market will expand to €40 billion by 2023. This will be driven by the company widening its customer base, deepening its sales and marketing pool, and



adding new tools around areas like augmented reality, such as its recent acquisition of Ubimax.

In short, the analysts think TeamViewer leads the way as the high-quality, large bandwidth, all-in-one platform to connect, manage and interact.

A study by independent global quality assurance company Qualitest found TeamViewer compatible with significantly more device types than peers, and the internet bandwidth scale to send large raw data files at significantly faster speeds.

This is an easily scalable business model that should throw off lots of free cash flow and expand profit margins as it grows.

Earnings before interest, tax, depreciation and amortisation (EBITDA) margins last year were 48.6% according to Refinitiv data, and consensus forecasts predict expansion to 56.4% by 2022, while Berenberg is even more optimistic.

This year, second quarter billings jumped 45% to €105.9 million while EBITDA shot up 60% to €57.3 million, with 534,000 subscribers.

This should provide the



## TeamViewer's expanding margins

2018	2019	2020*	2021*	2022*
52.4%	56.0%	56.1%	57.1%	57.9%

Source: Berenberg. \*Forecast

free cash flow to pay down borrowings fast and open the door for selective acquisitions to bolster annual growth predictions of 20% to 25%.

Berenberg anticipates net debt of €473 million at the end of 2020 will more than halve in 2021 to about €210 million. By the end of 2022 TeamViewer is expected to have nearly €140 million of net cash. Berenberg believes the stock is worth €61.

## INVEST TO COMPETE

What could go wrong? For one, competition is thought to be particularly fierce, which could see churn rise.

There are also challenges from the big public cloud operators who package applications for clients. TeamViewer will need to keep investing to stay ahead of the pack.

And as cloud-based software

provider itself, investors cannot rule out the threat that the platform becomes exposed to abuse by cybercriminals, changes to data privacy regulation and other IT infrastructure faults.

Any of these factors could potentially slow TeamViewer's growth and potentially squeeze profit margins down the line. That could leave its highly rated stock exposed. The stock is trading on a 12-month forward price-to-earnings multiple twice the size of its software peer group at 52.5, according to Refinitiv data. But the PE drops quickly given an accelerating earnings profile.

## SHARES SAYS: ↗

TeamViewer has many positive attributes and could prove to be a good solid long-term investment. The only caveat is investors must recognise the competition risks and appreciate they must pay a premium to own the stock.

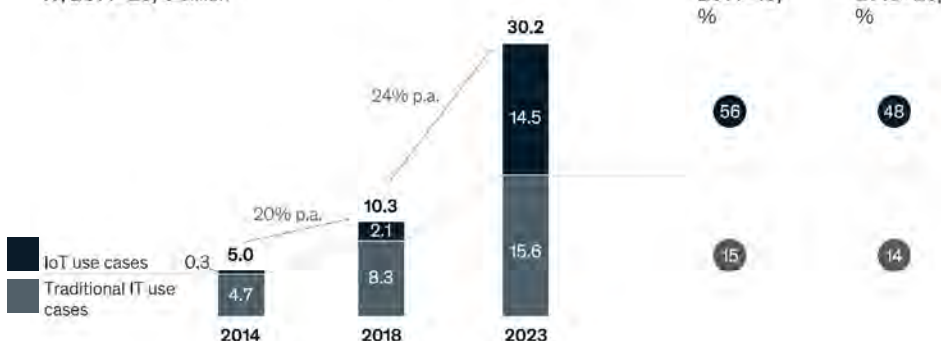
It look like a quality business, with return on capital employed forecast to go from 20% in 2019 to 32.7% in 2021 and 41.9% in 2022, according to the consensus analyst forecast. Buy the shares.



By Steven Frazer  
News Editor

## Revenue pools for connectivity platforms will continue to grow across use cases, regions and enterprise sizes

Revenue pool for device-enablement platforms for IoT and IT, 2014–23, € billion



Source: McKinsey & Company

# Schroders UK Public Private trust

ADVERTORIAL

## Schroders

Tim Creed is Schroders' head of European private equity and Ben Wicks is head of data insights and research innovation. The two discuss how they are reshaping the Schroders UK Public Private trust.



*By Tim Creed, head of European private equity and Ben Wicks, head of data insights and research innovation.*

Schroders took over the UK Public Private trust in December 2019. While the Covid-19 situation has brought challenges, we now believe the trust is now master of its own destiny. In the months since taking over the trust, our focus has been on portfolio management – rebalancing the portfolio, improving liquidity and working with the underlying companies. This is 'behind the scenes' work, but vitally important to create a more robust portfolio in the longer-term.

To our mind, the founding principle of the trust is sound: it seeks to back UK innovation, aiming to direct capital to exciting companies undertaking pioneering work across multiple fields. Our priority is to ensure these companies have the space to grow and fulfil their promise and that we are in a position to provide long-term reliable funding.

In the short time we have run the trust, we have seen this pioneering work in action. A number of the companies within the trust have been engaged in



the fight against Covid-19, for example. Benevolent has been using its Artificial Intelligence to help identify potential treatments for the virus. Oxford Nanopore's DNA sequencing equipment is being used to halt the spread of the virus.

This innovation is not limited to the Covid-19 outbreak. We see Rutherford Health driving change in cancer treatments, through its radiotherapy, chemotherapy and proton beam therapy. Autolus Therapeutics has developed revolutionary immuno-oncology treatment, the next frontier in cancer treatment.

In many cases, these are companies with a real purpose, doing vital work. Part of our motivation in taking over the trust was that we saw so many exciting opportunities. However, we also need to ensure disciplined portfolio management: that the holdings are the right size, that the portfolio is properly balanced and that we provide the right support to companies to help them grow. As such, while there have been a number of sales, our primary

focus in these early months has been on getting these three elements right

### **Supportive shareholders**

We always seek to invest with high quality management teams. In growing companies, management teams that take good decisions have a disproportionate impact. However, we have a broad network, which can be a source of sound advice and may support them in their decision-making. In recent months, we have worked with companies to strengthen their cash management, use government funding schemes and pivot towards their strongest lines of business.

This engagement has proved particularly important during the recent crisis. Many companies have had to reassess and adjust expectations in light of the new environment. We have helped companies to reappraise their prospects from here. We have been using a traffic light system to identify those companies that are vulnerable and likely to need more funding but have also

engaged with the boards to help them find solutions to manage the impact of the crisis.

In the longer-term, as part of our firm-wide engagement strategy, we believe companies cannot stand apart from society and their shareholders. We engage with our investee company boards to help their compliance with the UN-sponsored Sustainable Development Goals.

### Portfolio balance

Amid the Covid-19 crisis, the trust's focus on healthcare companies has been of real benefit. The world's attention is turned to healthcare companies and funding is being directed towards the sector. However, it is important that the need for diversification is not lost amid the excitement of a booming sector and that the portfolio is sufficiently liquid.

In the longer-term we want to move to a better balance of sectors and to invest with companies across various stages of development – early stage, later stage and public. Our aim, ultimately, is to re-balance the exposure between private and public companies in a manner commensurate with the risks posed, spread across around 40

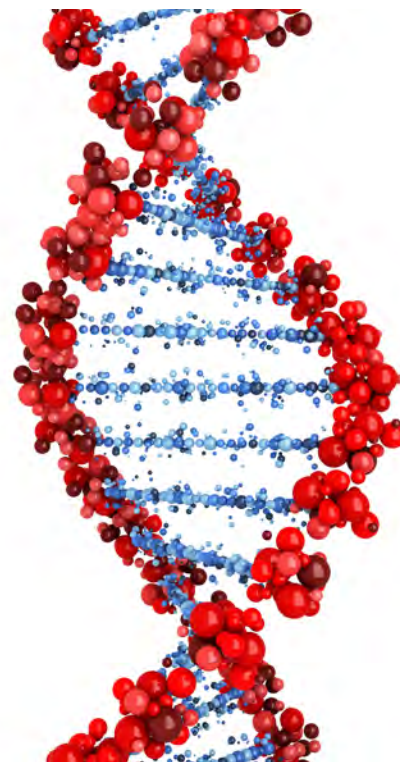
holdings. However, this will take time. In the meantime, we have made real progress in 'right-sizing' some of the positions in the portfolio, ensuring that no one position is dominant.

This has involved bringing in a number of high quality co-investors. This has helped us reduce our exposure to certain areas through partial sales. At the same time, the right co-investor can bring an additional layer of expertise and scrutiny to the companies in which we invest. This has been vitally important in re-establishing sound controls in the trust.

### Net asset value considerations

A final point on the trust's NAV: the trust has traded at a significant discount to its NAV due to widespread selling pressure. We hope that stronger discipline and liquidity will ultimately improve investor perception of the trust. However, we recognise that the lack of a reliable NAV has also been part of the problem. From here, we will move to a system of quarterly NAV reporting. All positions will be marked to market at that point. This should provide an accurate picture of the value of the trust's assets at that point.

It will take time to reshape the



trust to exactly how we would like it. However, in the five months we have been running the trust, we believe that we have made considerable progress and, most importantly, have put the trust firmly in charge of its own destiny.

For more information on Schroder Public Private Trust and the full range of investment trusts as Schrodgers, [subscribe to our newsletter here](#).

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# Exploring small cap stocks on single-digit multiples



Is it possible, or even advisable, to buy good small-cap companies on cheap ratings?

**W**ith markets and financial commentators seemingly obsessed with the notion of big companies getting bigger – Apple being a prime example, having doubled in value to a record-breaking \$2 trillion just in the last two years – investors shouldn't overlook the long-term attraction of smaller companies.

It's well established that small companies tend to grow faster than big companies. Partly this is down to the law of big numbers – it's much harder for firms with sales of £1 billion or £10 billion to increase their sales and earnings by 10% or more a year than it is for firms that turn over £100 million a year, for example.

However, another part of the equation is that successful small companies tend to be niche players, exploiting leading positions in narrow yet profitable fields.

## RISKS AND REWARDS

As their markets are typically fragmented ones – that is, with one or two leading players and a 'long tail' of smaller competitors – these firms often grow by acquisition as well as organically.

As well as consolidating their position as the 'go-to' provider



of goods and services, they can become the buyer of choice for companies where management are looking for a bigger partner or owners are looking to step down.

Yet investing in small companies doesn't come without risk. Typically small firms need to keep raising capital to grow and many can spend years building out their business before they generate any profits.

Evidence from the US suggests that during the pandemic, large companies were able to borrow money relatively easily while many smaller companies struggled to secure funding as banks tightened their lending

requirements.

Smaller companies are by their nature less liquid investments, meaning the shares can be difficult to buy or sell and they tend to be more volatile. Also, while they can offer higher growth, there are no guarantees.

## SEARCHING FOR IDEAS

When looking for small-cap ideas, they should be cheap enough to compensate you for the risk of owning them and should have fairly solid finances, ideally with little or no net debt.

With this in mind we screened the UK market on SharePad using two easy-to-understand metrics – the forward price-to-earnings

(PE) ratio for the next 12 months and the forecast net debt-to-earnings before interest, tax, depreciation and amortisation (EBITDA) for the next 12 months. This made it easier to see if there were any interesting, financially solid smaller cap companies which had been overlooked by mainstream investors.

We excluded investment trusts and companies forecast to make net or EBITDA losses over the next 12 months, leaving us with a list of over 700 stocks of all different sizes.

### HOT OR NOT

Unsurprisingly, with the pandemic having impacted consumer behaviour particularly hard, few travel, leisure or hospitality stocks passed muster.

Small biotech stocks – of which there are several dozen listed in London – were also thin on the ground as they tend to run losses.

At first glance, many of the cheapest stocks in the market on forecast PE multiples appear to come from the construction, industrial goods and services, metals and mining, or real estate sectors, which stands to reason as these aren't exactly 'glamour' businesses in hot demand among investors.

Many financial stocks looked cheap on a PE basis but failed to score on net debt-to-EBITDA as debt is accounted for differently within financial companies.

Conversely, the most expensive stocks – many trading on three-figure forward PE

multiples – tended to be in the 'hot' sectors of healthcare and technology, with the exception of a handful of consumer-facing businesses where earnings have been severely depressed but not quite wiped out by the pandemic.

When we added the screen looking at forecast net debt-to-EBITDA, a fair few of the industrial and real estate stocks fell through the net as their gearing was much too high for our liking.

We were left with around 35 stocks which were cheap – trading on a forward PE multiple of less than 10 times – and had fairly solid balance sheets – net debt-to-EBITDA of less than 1, or preferably net cash, assuming the analysts are correct.



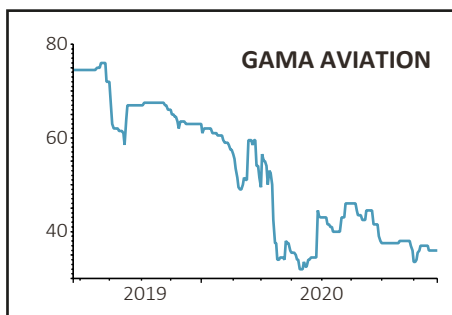
### EXAMPLES OF STOCKS ON SINGLE-DIGIT MULTIPLES

Name	Forward PE	Forecast Net debt (net cash) / EBITDA	Market Cap. £m	Share price %chg YTD
Gama Aviation	3.7	-0.1	22.9	-42.9
Countrywide	4.8	0.0	48.3	-57.3
Vertu Motors	4.9	0.2	93.0	-33.0
Hummingbird Resources	4.9	-0.2	112.0	48.2
T Clarke	5.7	-0.5	41.0	-30.4
Epwin	6.6	0.4	97.8	-34.2
Ramsdens Holdings	6.7	-1.1	44.3	-40.2
Brickability	7.4	0.0	105.3	-35.6
Inspired Energy	8.0	0.0	148.8	-15.1
RBG Holdings	8.3	-0.1	64.2	-18.5

Source: Sharepad, Shares. Data correct as of 24 August 2020

## CHEAP FOR A REASON

In many cases, the stocks are clearly cheap for a reason. For example, **Gama Aviation's (GMAA:AIM)** profit outlook for the next 12 months is about as depressed as it could be, explaining why the shares trade on less than four times prospective earnings.



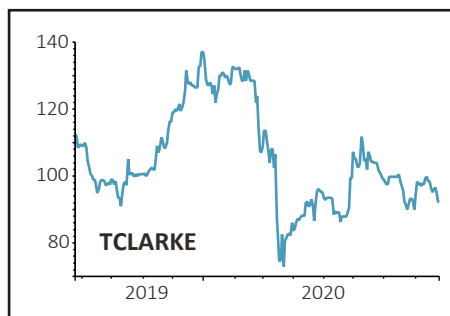
While private business jets may have been replaced for now by Teams and Zoom meetings, most of the firm's service contracts are with central and local government and the armed forces, and are long-term in nature, which suggests it should make it through the pandemic in one piece. It is also forecast to have a small net cash position in 12 months' time.

However, the shares have a very unappealing 25% bid/offer spread, highlighting the illiquid nature of the shares.

A near-9% bid/offer spread also dilutes the appeal of investing in **T Clarke (CTO)**, which is a shame as there is a lot to like about the business. It builds data centres and infrastructure projects, and played a frontline role in the pandemic fitting out the 200-bed Nightingale Hospital in Exeter in just six weeks.

It generated earnings and positive net cash during the first-half while increasing its order book to over £400 million and

bidding on a further £600 million of projects.

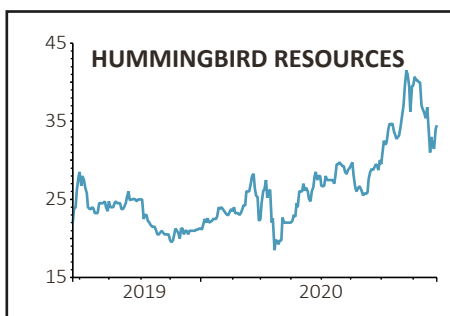


Costs have been trimmed and banking facilities have been renewed with no debt due before 2024.

As well as building data centres, where T Clarke is currently involved in three projects and could tender for a further dozen in the second-half, the firm offers an ESG-friendly 'smart building solution' which controls heating, lighting, air quality and security and which can be retrofitted into existing building as well as installed in new builds.

## THE STOCK TO BUY

### Hummingbird Resources (HUM:AIM)



Like most gold miners, Hummingbird has had a good 2020 as reflected in its share price, yet it still trades on less than five times forecast earnings.

Last week it revealed it had paid down a chunk of its debt and reiterated its commitment

to having no borrowings by July 2021, consistent with the consensus forecast on SharePad.

The firm's all-in sustaining cost of production is \$995 per ounce while gold is trading at nearly twice that level.



A key risk to the share price is that one of its mines is in Mali, where there has recently been unrest, but for gold investors political risk is not that unusual.

Quite a few analysts are excited by the company including Canaccord Genuity's Sam Catalano who likes the look of the Kouroussa gold project in Guinea that Hummingbird has just bought.

'We believe the acquisition and development of the Kouroussa project can be entirely funded through internal cash flow,' said Catalano, commenting before the deal completed on 1 September.

'Successful completion of the proposed Kouroussa acquisition should provide meaningful value accretion for existing holders (20p-30p/share) as well as broadening Hummingbird's appeal to a larger range of investors through operating life extension, doubling of output to more than 200,000 ounces per year, and becoming a multi-asset producer.'



By **Ian Conway**  
Senior Reporter



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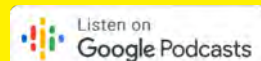
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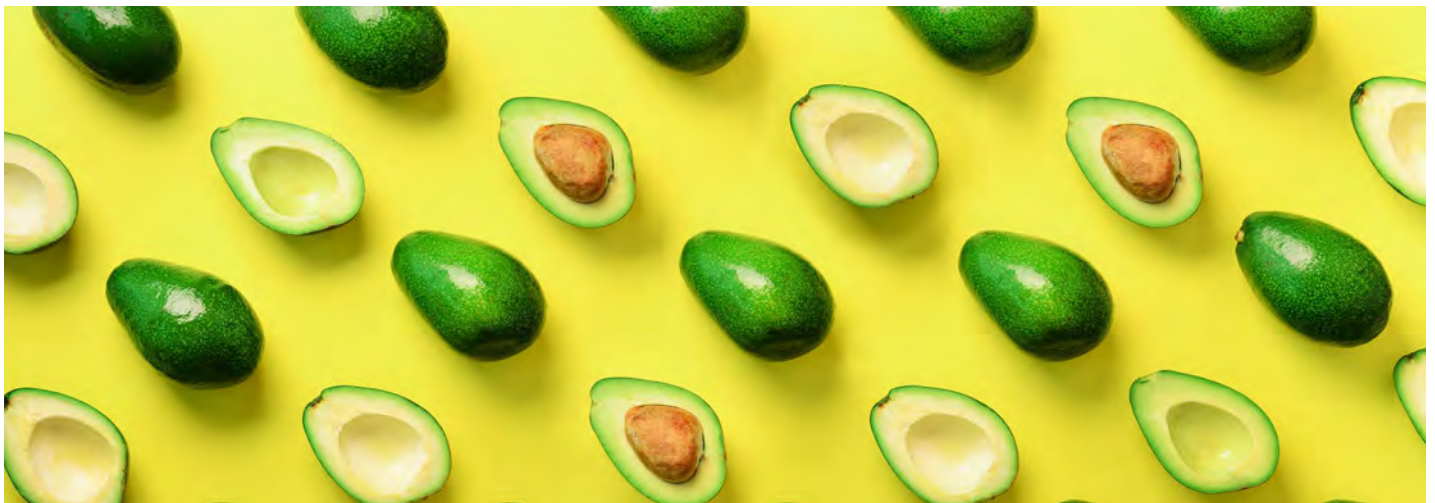
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# How benchmarks can help to evaluate performance and highlight risk

Decide on a sensible benchmark to monitor your portfolio's progress against your long-term goals



**I**magine setting off on a long journey to the other side of the world and not knowing how long it will take, except you want to complete it in under a year. By identifying staging posts before you set off, you will be better informed about how far along you are at given points in time.

In the same way, you probably have a long-term goal of retiring with a certain amount of money, but how do you know if (for example) the 15% investment return you achieved over the last two years puts you on the right path? Is that a decent return or a great return?

The fund management industry has come up with a variety of ways to answer that question by developing benchmarks. They are useful

tools because they categorise funds into buckets with similar objectives and mandates so that an apples-to-apples comparison can be made to assess performance, skill and the level of risk taking.

## INDEX BENCHMARKS

Index benchmarking is big business, with the biggest provider, London Stock Exchange (which owns FTSE), having over \$16 trillion of assets that use its various indices for benchmarking. Morgan Stanley with its MSCI series and Standard and Poor's, renowned for its S&P 500 index, are also widely used in the investment industry.

Mainstream actively-managed UK equity funds tend to use the FTSE All-Share index as a benchmark. It is the most

comprehensive, covering at least 98% of the capital value of all UK companies eligible for inclusion.

More specialist managers will tend to use sector-specific benchmarks which cover the narrower segment of the market where they are focused.

## RISK MANAGEMENT

You can't beat the FTSE ALL-Share by investing in all 780 stocks that make up the index, as it would be too costly and your results would be similar to the index itself. Active managers often choose a subset of 50 to 75 of the companies in the index, for example, hoping to avoid the losers and latch on to the winners.

Funds following this approach should see their performance diverge from the index. However,

less than 18% of active managers beat their benchmark over the last 20 years according to WM Company.

The divergence of a fund's holdings from the index can be measured statistically to see how much risk a manager is taking in their attempt to beat the index. This is called the tracking error and the higher the reading, the greater the risk. A similar measure that has come into vogue in recent times is called active share.

Benchmark indices also provide sector and industry breakdowns which fund managers can use to keep tabs on where they differ most from the benchmark and highlights their 'biggest bets' and where risk resides in the portfolio.

The whole idea behind benchmarks is to measure like-for-like performance and deconstruct the results to see if the best managers were 'lucky' or skilful and the worst ones were 'unlucky' or unskilful.

### PEER BENCHMARKS

Fund managers are just as

susceptible to herd behaviour as individual investors and some observers think this is exacerbated by the use of peer benchmarking. Here all managers with the same benchmark or fund objective are ranked. Top quartile ranking (the top 25%) tends to attract money.

Measuring how managers with the same benchmark perform relative to each other introduces a dynamic which increases the tendency to manage to the middle. The warmth and security of being in the middle of the bunch is very alluring, especially compared with being in the bottom quartile.

This practice has come under pressure in recent years as passive investing has become more popular and active managers have been accused of 'closet indexing' while still charging active fees.

### STYLE FOCUS

The last type of benchmarking which has developed over the last few years is the type offered by companies like data research firm Morningstar and

fund consultancies. These are constructed by summing up the quantitative characteristics of a portfolio.

Terms like Global Large-Cap Blend Equity are used to benchmark similar portfolios. Blend refers to the mix of growth-type shares and value shares, based on quantitative measures.

The driving force behind this development has been an attempt to measure so-called style drift whereby managers inadvertently change tack as market conditions move against them.

### KEEP IT SIMPLE

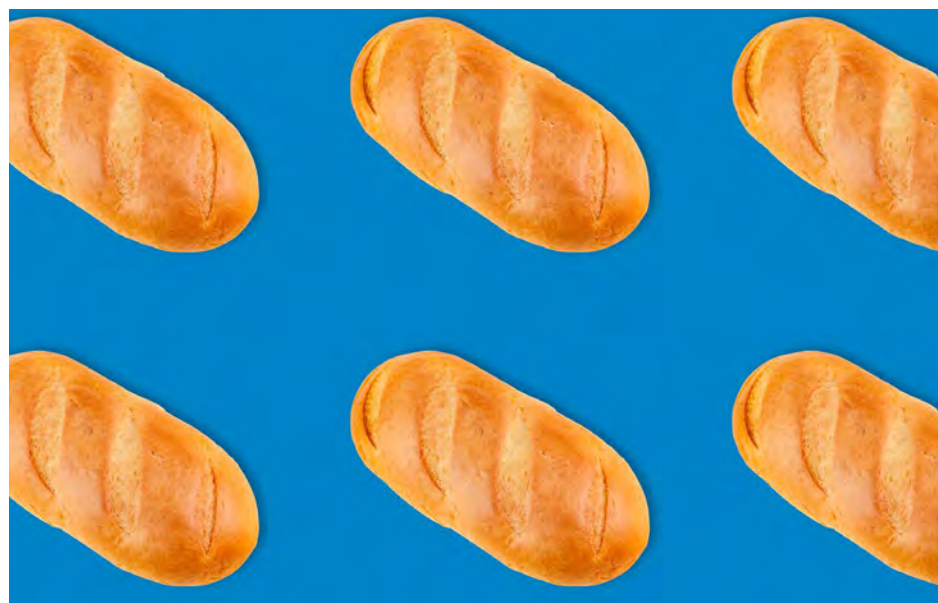
Knowing if you are on track to achieve your long-term investment goals is tricky to gauge over shorter time frames. Choosing a benchmark which has a good fit with your approach and the types of investment you focus upon will help you measure progress while also informing you of the amount of risk you are taking.

The FTSE All-Share is a good benchmark for UK-focused, all market cap-based investors, while for those with a global equity approach the MSCI World index might be a better benchmark.

Two final points worth emphasising are that measuring performance only makes sense over at least three or five year rolling periods and always take into account how much risk was taken to achieve the results.



By **Martin Gamble**  
Senior Reporter





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The value of your investments can go down as well as up and you may get back less than you originally invested.



# Would my children pay tax on inheriting my pension?

AJ Bell's Tom Selby explains the rules around passing on a pension at death

*I'm getting my affairs in order and am thinking about my SIPP, which is currently worth just over £200,000. I want to pass this on to my two children after I die. Are there any circumstances where there might be an income tax or IHT charge on that money?*

**Anonymous**



**Tom Selby**

AJ Bell

Senior Analyst says:

If someone dies before age 75, their nominated beneficiaries shouldn't have to pay any income tax on the money bequeathed to them.

If someone dies after 75, their beneficiaries will be taxed on the money in the same way as income upon withdrawal.

In most circumstances, as long as your provider has discretion over who your retirement pot is paid to, any funds left behind should be IHT-free. The only possible exception relates to what is known as the 'two-year rule'.

All pension transfers made in the two years before death must be reported to HMRC. Where the person making the transfer had limited life expectancy then this could be considered a lifetime transfer of death benefits and the remaining pot subject to an IHT tax charge.

However, such transfers are usually granted an exemption by HMRC as long as there was no

intention to provide a 'gratuitous benefit' to potential beneficiaries.

The extent to which this exemption can be applied has been shrouded in uncertainty as a result of a long-running legal battle between HMRC and the estate of Mrs Staveley.

The Staveley case centres on the extent to which the gratuitous benefit rules set out in the 1984 Inheritance Tax Act mean that pensions transferred in ill-health are subject to IHT.

Essentially, HMRC argued Mrs Staveley's decision to transfer her pension and bequeath the money to her children – rather than leave it in the existing scheme and allow her ex-husband to benefit – conferred a gratuitous benefit on them.

On 19 August this year the Supreme Court – the highest court in the UK – finally ruled the transfer should not result in an IHT tax charge.

In relation to transfers made in ill-health, the Supreme Court judgment says the IHT exemption set out in section

10 of the 1984 Act 'applies where the overall effect of the disposition is not intended...to confer a gratuitous benefit'.

So provided any transfer in ill-health isn't motivated to 'confer a gratuitous benefit' on any beneficiaries, the Supreme Court ruling suggests the estate should not be liable to IHT on the inherited pension. This should mean transfers made in ill-health for other reasons – such as to benefit from greater investment choice or lower charges – should not incur an IHT charge.

However, this conclusion comes with the caveat that the ruling doesn't prevent HMRC from attempting to levy IHT in these circumstances – it merely gives a legal interpretation of when the exemption should be applied (albeit from the UK's most senior court).

Where a transfer is made in ill-health for reasons other than to confer a gratuitous benefit, it would be wise to have this clearly documented in the event of HMRC's interest.

## DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to [editorial@sharesmagazine.co.uk](mailto: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*.

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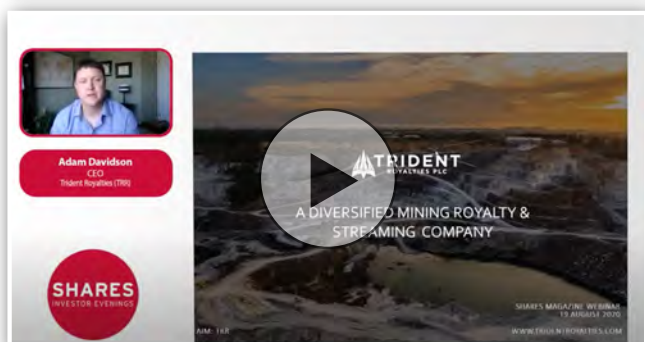
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# As redundancy soars, what are you entitled to and how do you claim?

We explain what money you might get and the benefits available once you leave your job



**O**ne unfortunate effect of the pandemic is that lots of people have lost their job, with thousands being made redundant in recent months.

The latest jobs figures show that 730,000 fewer people were on company payrolls compared to the start of the Covid-19 crisis. Despite this, the official unemployment rate stayed at 3.9% but it is expected to soar before the end of the year.

The Bank of England estimates that the unemployment rate will rise to 7.5% before Christmas, which would mean around 2.5 million people in the UK being unemployed. Already the news headlines are filled with

stories of companies laying off large numbers of staff, but it is expected that when the Government's furlough support scheme is withdrawn in October there will be a big spike in the jobless numbers.

It's worth understanding what you can do if you find yourself out of work, and the help available to you.

## WHAT DOES REDUNDANCY MEAN?

If you're made redundant it's because the company no longer has a need for that job role, and it should not be based on something you personally have done (as it would be if you'd been fired).

There are legal protections in place should you be made redundant. How much you're protected and what process the company takes depends on how long you've worked there and how many people the company is making redundant.

The basic rules are that certain criteria can't be used in the decision to make you redundant, such as your age, gender, membership to a trade union or being pregnant. But firms can decide to use other criteria, such as your performance, how long you've been with the company and whether you've had disciplinary action against you.

### WHAT BENEFITS CAN I CLAIM IF MADE REDUNDANT?

There are various Government calculators that can help you work out what benefits you're entitled to, based on your income, savings, your partner's income and your existing benefits and pensions. You can access them [here](#).

However, broadly speaking the main ones that might be most applicable are Jobseeker's Allowance or Universal Credit. For both you can apply online although you might need help completing some forms and the phone lines are currently very busy. Services like your local Citizens Advice Bureau can help you if you're struggling to know what to claim or how.

**UNIVERSAL CREDIT:** This replaced a whole host of different benefits and rolled them into one. Typically, you need to be over 18 but under state pension age, out of work and have less than £16,000 in savings between you and your partner.

It's paid monthly and for someone over the age of 25 and single is £409.89 a month. You could get more if you have children, have a disability, care for someone or need help with housing costs. However, one big flaw is that you usually must wait five weeks to get your first payment. Some people might be able to use savings or redundancy pay to tide them over, but if not, you can request an advance.

**JOBSEEKER'S ALLOWANCE:** This is for those who are between 18 and state pension age and not in full-time education. It is based on your Class 1 National Insurance contributions over the past two to three years. You'll get the new-style Jobseeker's Allowance for up to 182 days (which is about six months) and it equates to £74.35 a week for those aged 25 and over who are single.

If you're being made redundant your employer can't do it on the spot. They must give you some notice, but it varies depending how long you've been with the company. If you've worked there for less than two years you only need to be given a week's notice, while those who have been there more than two years get a week's notice per year worked up to a maximum of 12 weeks.

### HOW DOES REDUNDANCY PAY WORK?

Many employers will decide to offer enhanced redundancy pay, which can significantly increase your payout. But there are also legal minimums if you've worked for the company for two years or more.

The statutory amount is one week's pay for each full year you worked for your current employer between the ages

of 22 and 41. It's cut to half a week's pay for those years you worked when you were under the age of 22 and bumped up to a week-and-a-half pay for the years you worked over the age of 41.

Your weekly pay rate is normally based on the average amount you earned per week based on the previous 12 weeks, however this has been amended in Covid-19 times as many people have been on furlough and so earned less than usual.

If this is the case, then your weekly rate will be based on your normal (pre-furlough) earnings. However, this weekly pay is capped at £538 and the maximum statutory pay is £16,140.

For example, someone aged 30 who earns £25,000 a year and has worked for their employer for three years gets £1,442.31 in redundancy pay, while the same person who has worked there for seven years would get £3,365.39.

If they had only worked there for a year, they'd get nothing in statutory pay. The Government has a [calculator](#) where you can work out what your pay would be.

The good news is that any redundancy payment up to £30,000 is entirely tax-free. You should also get paid for any wages or holiday pay owed to you, and you should be paid through your notice period (or be paid in lieu of notice) but this will be subject to the usual tax and national insurance deductions.



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

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# What's the cheapest way to borrow money now?

For those who need to use credit cards and loans, watch out for tighter lending criteria across the market

**W**ith the pandemic putting people's finances under pressure, many of us are paying down debt to get into a more stable financial position. Data from UK Finance reveals the annual growth rate of outstanding credit card balances fell 12.6% during the final month of lockdown, as consumers rushed to reduce their liabilities.

But for those who still need to borrow, it is more important than ever to pay as little interest on that money as possible and, with the Bank of England base rate so low, there are good deals to be found.

## THE CREDIT CARD SHUFFLE

The credit card lending market is changing, with deals dwindling and lending criteria tightening.

In the past, with a limit of perhaps a few thousand pounds, you would have been able to get a credit card offering 0% interest



on purchases for a fixed period, and then transfer your balance to another card once the term ended, and then another after that, as long as you had a decent credit record.

Now though, this so-called 'credit card tarding' is not as easy to do. For one thing, there are

fewer available deals – the total number of credit cards on the market has fallen by 24 since the start of the year, according to Moneyfacts.

'There has been a lot of change because of Covid, and the credit card side of things has changed quite dramatically in the fact that a lot of providers have withdrawn a lot of their cards,' explains Katie Brain, banking expert at data specialist Defaqto.

'You can still get a 0% purchase offer or a 0% balance transfer offer but they're not as favourable as they used to be in terms of choice and the length of time you can get the offers for.'

Having a shorter time to clear your balance could store

## Average credit card APR and number of deals

	Average APR on all credit cards	Total number of credit card deals	Number of 0% purchase deals	Number of 0% balance transfer deals
01-Jan-20	24.9%	151	70	76
01-Apr-20	25.2%	147	64	70
01-Aug-20	25.3%	127	51	54

Source: Moneyfacts, as of 6 Aug 2020

up future problems. You don't want to get stuck with a balance outstanding on a credit card after the interest-free period ends, as rates are high at an average 25.3% APR.

Lending restrictions are tighter now because people are finding themselves in precarious situations with their jobs and incomes due to the pandemic. This means that both the rate you get and the amount you can borrow will be subject to status, meaning how creditworthy you are in the eyes of a lender.

Despite all this, Brain says credit cards are still many consumers' first port of call for cheap borrowing: 'I would say they're still the first option for people if they need to borrow money, especially if it's a big purchase or they've got a balance outstanding on a credit card.'

## LOANS FOR LARGER AMOUNTS

For larger amounts, say £7,500 to £15,000, many people look to personal loans. The average interest rate on a £5,000 loan is currently 7.6%, while a £10,000 loan will cost you 4.6% on average, according to Moneyfacts. However, the cheapest deals available are much more competitively priced, if you can get them.

'There are still decent options available for cheap borrowing via credit cards and loans,' says Claudia Nicholls, a money expert at comparison website Moneysupermarket. 'You can currently transfer existing credit card debts to a 0% balance transfer offer for up to 28 months with a 2.75% fee, or borrow £7,500 to £15,000

### Average personal loan rates

	Average £5,000 personal loan rate	Average £7,500 personal loan rate	Average £10,000 personal loan rate
01-Jan-20	7.1%	4.6%	4.5%
01-Apr-20	7.0%	4.3%	4.2%
01-Aug-20	7.6%	4.7%	4.6%

Source: Moneyfacts, as of 6 Aug 2020

at 2.8% representative APR. However, whether you can get the top products at the best rates is dependent on your credit profile.'

Check the best buy tables to find good deals and then, before applying for any credit, do an eligibility check to see whether you are likely to be approved without leaving a mark on your credit file.

'Applying this way means less chance of rejection as you have been pre-checked, and therefore less of an unnecessary hit on your credit file. Eligibility checkers are soft searches, meaning they don't show up when lenders are looking at your credit file. When you make a full application, even if you are rejected, they do (show up on your file),' says Nicholls.

'This is especially important in the current situation. Most card and loan providers have tightened their lending criteria, meaning the pool of who they give a card or loans to is smaller. The products are still out there, you just need to check the right ones to suit your situation.'

## CREDIT UNIONS

If you know you have a less-than-stellar credit history, you may still be able to borrow

without resorting to high-cost loans that could trap you in a debt spiral. Try your local credit union or see if there's one linked to your workplace.

Usually you will need to meet some criteria to become a member of these non-profit organisations, such as locality or occupation.

If you can join one, they offer small loans, often charging 12.7% APR, and they will consider your individual circumstances and ability to repay even if you have bad credit. They will also encourage you to build a savings habit to prevent the need for future borrowing – sometimes this is a condition of any loan.

If you're struggling with any existing borrowing, you could ask your lender for a payment holiday or temporary interest rate freeze. But be aware that, despite guidance to the contrary from the financial regulator, this could count against you if you apply for future credit such as a mortgage.



By Hannah Smith

# Important signals: why smart investors study director deals

Actions by people at the top can tell you how they view the prospects for a company

**Y**ou've opened your investment account, mastered the mechanics of buying stocks and familiarised yourself with the main catalysts that move share prices. Now the first-time investor needs to add additional weapons to their stock picking armoury.

Among the signals that indicate whether a company is thriving or diving are director dealings, where a company director either buys or sells shares in their own employer.

A chief executive, chairman or finance director should know everything that's going on in a business because they see the sales figures, monitor its costs and see various key performance indicators. Typically, they will be involved in strategy meetings and know if a company is achieving its objectives or not.

### SENDING POWERFUL SIGNALS

Business leaders know the state of their businesses better than anyone, or at least the good ones do, so when a chief executive invests their hard-earned cash into a company the first-time investor should certainly sit up and take notice.

Though non-executive directors aren't involved in the



day to day running of a business, they will certainly be involved in board meetings, meaning that they boast valuable insights into a company and their trades are also worth following.

Conversely, a significant share sale can indicate something is amiss, with a downswing in fortunes and the share price potentially on the cards, or that the director feels the share price is too high and riding for a fall.

However, share disposals can be less reliable indicator than share purchases, as we'll explain later in this article.

### DO YOUR DUE DILIGENCE

It is important to stress that director share buying and selling isn't a signal for other investors to blindly copy them. Instead you should consider their actions as part of deeper research into a business.





## HOW TO FIND THE DETAILS

Investors should scrutinise the daily stock market announcements that are headed 'Director/PDMR Shareholding', then scroll down to the 'Nature of the transaction' heading. Here you will find out whether the shares being acquired or disposed were via dealings in the open market or relate to the exercise of share options and subsequent sale of these shares.

Unfortunately, most directors do not disclose the reasons behind their share purchases or disposals apart from meeting tax liabilities.

The significance of share deals in relation to the number of shares held by a director is

always relevant. For example, a purchase of 20,000 shares by a chairman who owns more than a million shares may not be that important. However, the finance director doubling their holding of 20,000 shares is a very different matter. In a similar way, the sales director selling 20,000 shares out of a holding of 25,000 would not be a good sign.

And finally, be alert to whether directors are buying shares just to give the impression everything is fine when it might not be. Sometimes when companies are known to be in trouble, a cluster of directors buy a few shares to try to reassure the market that all is well.

First-time investors should also be aware that directors can only buy or sell at certain times of the year. They cannot deal in a closed period which is when financial accounts are being prepared. They also cannot buy or sell if there is undisclosed inside information, such as news of a possible takeover or a major contract win or loss.

Directors' buys and sells must be reported to the stock market, so it is easy to find out who is doing what.

## PUTTING MONEY WHERE THEIR MOUTH IS

A director buying stock after a big rally in the share price, or investing in the shares after joining the board, sends a strong signal to the market that the person is very confident about a

company's prospects.

For instance John Roberts, chief executive of online electricals retailer **AO World (AO.)**, in July 2020 increased his beneficial interest in the Bolton-headquartered retailer to 22.76% through a pair of trades (one a purchase by his wife) following the company's full-year results. The fact he bought after the shares had already seen a large rally would suggest he is very bullish about the company's prospects.

Equally someone selling after a slump in the share price doesn't show much faith in a company's position, although these situations are not always black and white.

Some directors buy stock for a perfectly logical reason. For example, a new chief executive

of a FTSE 100 company often has a clause in their employment contract that they must buy a certain value of shares to align their interests with shareholders.

Directors can sell stock for personal reasons which have no reflection on the state of their employer; they might need to free up funds for a divorce or raise money to pay for someone in their family to have medical care. You also quite often see directors sell some shares when they've received stock as part of a bonus payment, where they are selling to raise enough money to pay the associated tax bill.



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

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**SHANTA GOLD**

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& Eric Zurrin, CEO

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## HOW I INVEST:

# Aspiring to make a living from buying and selling stocks

Damian from Swindon is tapping into high growth sectors so he can ditch the 9-5 and focus on his investments

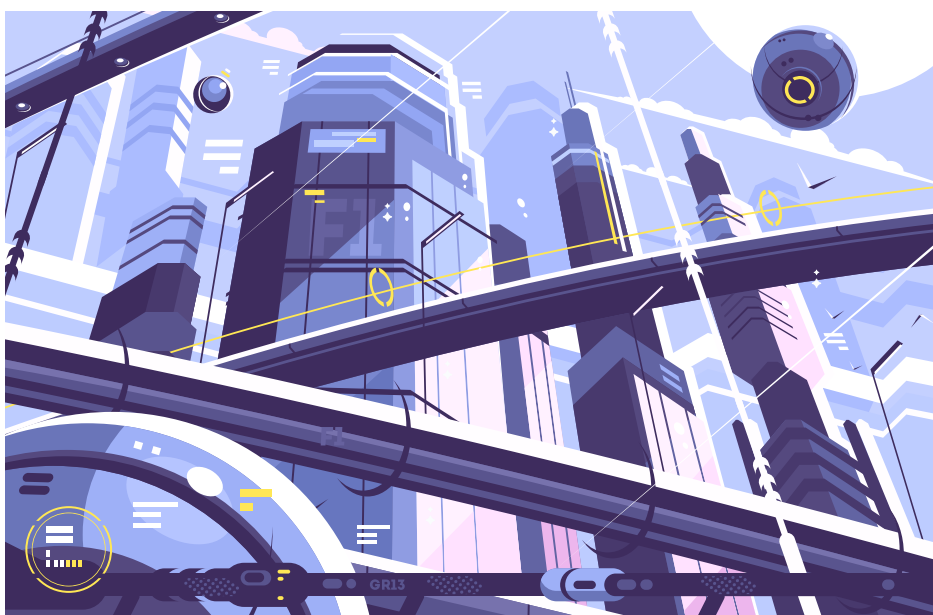
**T**here are many profound changes the world is currently going through. Digitalisation, growing artificial intelligence and virtual reality adoption, and shifting to renewable energy and a low carbon future are just a few of the trends which will see our world change dramatically in the coming years.

Seeing the growth opportunities on offer, Swindon-based Damian has been tapping into these themes to build up his investment portfolio. He plans to continue doing so with the aim of being able to retire from the regular 9-5 working hours in the next five years and look after his investments full-time.

Damian has been investing for several years and has built up a portfolio of around £235,000 across his SIPP, Stocks and Shares ISA, Lifetime ISA and other investment accounts. He plans to use his Lifetime ISA investments to help fund a property purchase if he sees an 'excellent opportunity'.

### EARNING MONEY TO INVEST

After graduating with a degree in civil engineering, Damian got into investing after moving to France to work as a design engineer on a high-speed railway project,



which he says allowed him to save around £1,000 each month.

'After my working hours, besides sightseeing beautiful places in Paris and Lyon, I was looking for options for what to do with my hard-earned money,' he says. 'Instead of putting the money into savings accounts, I decided to make money work for me, and I started learning about investing.'

'I enjoyed reading about it, discovering the reasons for stock price movements and looking at the macroeconomic aspects of investing.'

### INVESTMENT MISTAKES

At first Damian was making 'many mistakes', he concedes,

giving the examples of selling a company's shares as soon as its price went up 5% or replacing companies in his portfolio often. 'I did not have patience,' he adds.

Thanks to investing, Damian says he has learned to take risks, such as moving to the UK and deciding to give up his career in engineering to work in a completely different industry.

### TECH BIAS

The main part of his portfolio includes American technology companies as well as technology stocks from emerging markets, namely China and his native Poland.

'My research and my experience in investing taught



me to discover great companies with perspectives and stick to them,' he explains.

'And like Warren Buffett, I like to invest in companies whose products I use daily. I work using my Apple devices, and I use platforms of Alphabet (Google) and Facebook for the marketing of my online business. I do not watch TV, but YouTube, which is another service of Alphabet, is my primary source of information. It all shows how significant effect these companies have on my life.'

## GREATER RETURNS THAN HIS SALARY

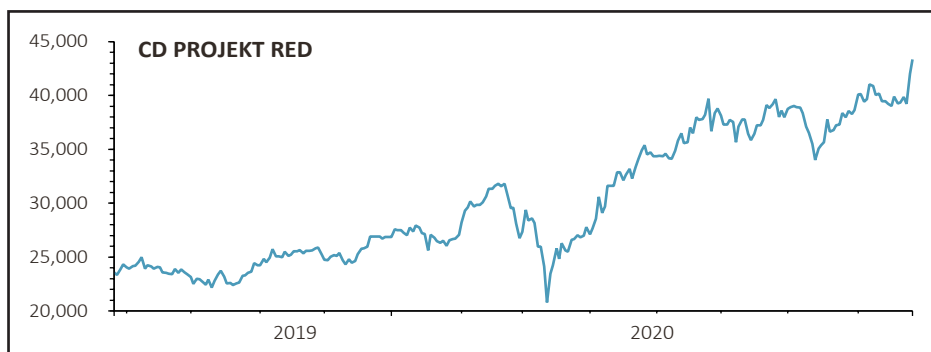
Damian claims the last one and a half years proved that he can generate more money from his investments than his regular job, 'thanks to a good selection of companies'.

He highlights CD Projekt RED, a Polish video game developer, as his best investment. 'What is funny, my best and my worst investment decision are related to this company,' he says, having bought his first shares of CD Projekt in November 2013 and selling them in April 2017.

The investment brought him a 385% return in less than three and a half years, but Damian says his worst investment decision was to sell the shares too early.

Since he sold out, CD Projekt's share price has skyrocketed an additional 210% in slightly more than two years. The company is now back in his portfolio.

'Now my approach is different. I buy high growth companies, and I do not sell until something fundamentally changes within their business. I do not try to time the market.'



Source: Refinitiv, as of 27 Aug 2020

Another 'excellent decision' he says, is investing in Tesla, having purchased shares in the company when the market suffered a sell-off earlier this year. Since hitting a year-to-date low of \$361.22 on 18 March, the electric vehicle maker's share price has soared to around \$2,238.

## PREFERENCE FOR STOCKS

Damian does not own any UK stocks but says this may change if he identifies a company which meets his criteria. He also doesn't invest in funds or exchange-traded funds (ETFs) because he prefers 'concentration on the best companies only' but believes funds and ETFs can be a good option for beginner investors.

While the market volatility

from the coronavirus pandemic has played havoc with people's portfolios, Damian says the current situation has given him conviction in his investment approach and choices.

'My investment thesis about the transition to the digital economy has materialised,' he says. 'My stock market portfolio is at an all-time high. My technology stocks recovered their losses quickly, and I hope that investors have realised that if the second wave of the lockdown of the economies happens, the technology stocks should not have a reason to drop.'



By Yoosof Farah  
Reporter

## WOULD YOU LIKE TO FEATURE AS A CASE STUDY IN SHARES?

We are looking for individuals or couples who can discuss their experience with investing and provide details about their portfolios.

Anyone interested should email [editorial@sharesmagazine.co.uk](mailto:editorial@sharesmagazine.co.uk) with 'case study' in the subject line.

**DISCLAIMER:** Please note, we do not provide financial advice in case study articles and we are unable to comment on the suitability of the subject's investments. Individuals who are unsure about the suitability of investments should consult a suitably qualified financial adviser. Past performance is not a guide to future performance and some investments need to be held for the long term.

# KEY

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- **AIM**
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- **Investment Trust**
- **ETF**
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# KEY ANNOUNCEMENTS OVER THE NEXT WEEK

## Full year results

**7 September:** SRT Marine Systems, Tungsten. **8 September:** Alumasc, CPL Resources, McBride. **9 September:** Frontier Developments. **10 September:** Go-Ahead.

## Half year results

**4 September:** Eurocell. **7 September:** Belvoir, Blackbird, Diaceutics, SigmaRoc. **8 September:** Arix Bioscience, Digitalbox, DP Eurasia, Fevertree Drinks, Flowtech Fluidpower, Gaming Realms, International Personal Finance, Luceco, Michelmersh, Midwich, Nucleus Financial, President Energy, The Property Franchise Group, STM, Surgical Innovations. **9 September:** Anpario, Aquis Exchange, Computacenter, Emis, Inspired Energy, Sanne, Tullow Oil. **10 September:** Cairn Homes, Epwin, International Public Partnerships, Jadestone Energy, Midatech Pharma, Mirriad Advertising, Secure Income REIT, Team17.

## Trading statements

**7 September:** Associated British Foods. **8 September:** Ashtead.

# WHO WE ARE

<b>EDITOR:</b> Daniel Coatsworth @Dan_Coatsworth	<b>DEPUTY EDITOR:</b> Tom Sieber @SharesMagTom	<b>NEWS EDITOR:</b> Steven Frazer @SharesMagSteve
<b>FUNDS AND INVESTMENT TRUSTS EDITOR:</b> James Crux @SharesMagJames	<b>SENIOR REPORTERS:</b> Martin Gamble @Chilligg Ian Conway @SharesMagIan	<b>REPORTER:</b> Yooosof Farah @YooosofShares  <b>CONTRIBUTORS</b> Russ Mould Tom Selby Hannah Smith Laura Suter

<b>ADVERTISING</b> Senior Sales Executive Nick Frankland 020 7378 4592 nick.frankland@sharesmagazine.co.uk	<b>PRODUCTION</b> Head of Design Darren Rapley Designer Rebecca Bodi
<b>CONTACT US:</b> support@sharesmagazine.co.uk	Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH. Company Registration No: 3733852. All Shares material is copyright. Reproduction in whole or part is not permitted without written permission from the editor.
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