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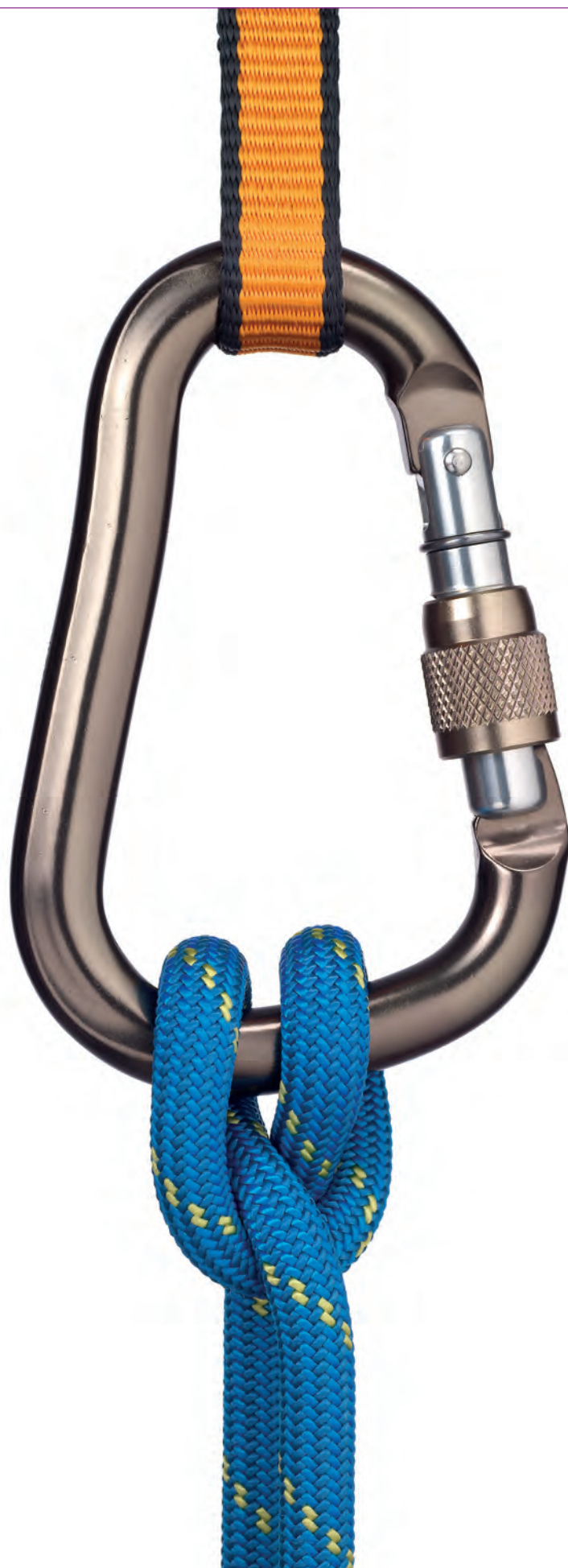
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Why you shouldn't give up on the UK despite miserable performance

The FTSE 100 has lagged other major indices since the Brexit vote

The recent and long-term performance of UK stocks is disappointing. Just look at how the FTSE 100 has performed against other global indices year-to-date and again since the Brexit vote.

It suggests that ever since the result of the 2016 EU referendum, political risk has deterred investors from putting money into UK stocks, not helped by the FTSE being over-exposed to so-called 'old-economy' businesses like oil and gas and mining, and under-exposed to the more buoyant tech space.

Figures from the ONS show inward flows of foreign direct investment dropped from £192 billion in 2016 (a figure inflated by large M&A deals as foreign predators took advantage of a collapse in sterling) to £80.6 billion in 2017 and £49.3 billion in 2018.

Lindsell Train fund manager Nick Train recently observed that luxury goods firm **Burberry's (BRBY)** shares were down more than 30% year-to-date while stock in its global peer Prada was essentially flat.

'Now, Prada is not Burberry, nor vice versa, but there are real similarities in the investment case; not least that both still have strategic issues to work through to become better businesses,' he wrote.

'It is hard to analyse the difference in share price performance between the two as being anything else than a punitive discount being placed by global investors on a company that is listed in London, rather than Hong Kong.

'Apparently global investors have an aversion to the UK stock market, but this is, in some cases, getting ridiculous.'

WHY IT MATTERS

This is a problem for ordinary investors. We all can and should have some global exposure in our portfolio, however it is only natural we will have a bias towards domestic stocks and funds.

After all, these are the businesses and products we are most familiar with and we don't have contend

with things like movements in global exchange rates when we buy them.

Should investors give up on the UK entirely? It's a topic that demands in-depth discussion and it's one we will return to. However, the answer to that question is no.

It might be the worst possible time to consider making such a move. Judging by the recent movements in the market investors are pricing in both a second wave from coronavirus and a hit from a disorderly end to the Brexit transition period at the end of 2020.

The global market barometer from data provider Morningstar suggests the UK market is trading at a 19% discount to its estimate of fair value – this compares with 6% for Germany, 11% for France and a 1% premium for the US.

Selling now would mean crystallising losses just when everything feels at its most bleak. Be patient, the UK market is not a lost cause.

MAJOR INDICES PERFORMANCE

INDEX YEAR-TO-DATE	
NASDAQ 100 (US)	25.2%
CSI 300 Index (China)	15.6%
S&P 500 (US)	2.8%
Nikkei 225 (Japan)	-1.3%
DAX Xetra (Germany)	-4.1%
FTSE 100	-22.8%
INDEX SINCE BREXIT VOTE	
NASDAQ 100 (US)	145.0%
S&P 500 (US)	57.1%
CSI 300 Index (China)	52.0%
Nikkei 225 (Japan)	43.9%
DAX Xetra (Germany)	23.9%
FTSE 100 (UK)	-8.2%

Source: SharePad, data as at 21 September 2020

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% Total Return

12 months ending August	2020	2019	2018	2017	2016
Fundsmith Emerging Equities Trust	-1.0	-9.7	+9.5	+3.6	+21.5
AIC Global Emerging Markets Sector	-11.2	+1.3	-1.2	+18.2	+25.8

Source: Financial Express Analytics

Sell off fears grow after new restrictions

Travel and leisure stocks in particular have been hit hard as the Government outlines new measures to curb the spread of coronavirus

Equity markets have taken a big fall as concerns grow we could see a repeat of the volatility seen in March amid rising coronavirus infections.

The market moves come as prime minister Boris Johnson announced new curbs in a bid to halt the spread of Covid-19, but stopped short of ordering a new national lockdown that had been reported as a possibility.

The stocks most sold off were mainly in the travel and leisure sectors, involving the companies most affected by the new restrictions and the U-turn in Government advice asking people to work from home again.

The hospitality sector will bear the brunt of curbs to our social lives in the next few weeks, with pubs and restaurants ordered to close at 10pm and use table service only.

This was reflected in the plummeting share prices of pub groups, with **JD Wetherspoon (JDW)** and **Marston's (MARS)** in particular suffering big falls. The former has announced 450 job cuts at its pubs in six airports amid the plunge in demand.

While **City Pub Group (CPC:AIM)**, which bounced back over 100% from its March lows as it boasted of trading profitably when its pubs reopened in July, has seen almost all of its recovery since then wiped out as it nears an all-time low.

Travel stocks were also badly hit with all six airlines on the London market seeing double-digit share price falls, with British Airways owner **International Consolidated Airlines (IAG)** the worst affected as it fell over 15% to around 94p.

Leisure and travel stocks have already had a tough year, so any further setbacks to their recovery will not please the market at all.

The sell-off could also cause a nasty shock to a number of fund managers. A survey this month of 186 investors and strategists by Absolute Strategy Research, working in teams responsible for \$7



Worst affected travel and leisure stocks

Stagecoach	-17.1%
The Restaurant Group	-15.7%
On The Beach	-14.4%
International Consolidated Airlines	-13.8%
Hostelworld	-13.6%
FirstGroup	-13.4%
Trainline	-13.0%
Marston's	-12.2%
Wizz Air	-11.9%
EasyJet	-11.6%

Source: SharePad, data from close on 18 September to 22 September

trillion of investors' money, showed the majority expected corporate earnings to be higher in the next 12 months. New lockdown measures would make this less likely.

In a further sign that the current sell-off is seeing the same pattern if not quite the same trajectory as six months ago, online grocer **Ocado (OCDO)** and takeaway app **Just Eat Takeaway (JET)** were at one point two rare gainers in the FTSE 100 on 21 September.

Both companies have seen benefits from the pandemic, with Just Eat reporting a 44% rise in revenue to €1 billion for the six months to 30 June, while in a recent trading update Ocado said retail revenue grew 52% to £587.3 million in the 13 weeks to 30 August, with order sizes remaining above pre-crisis levels.

Increased investor anxiety is leading to some big share price moves

Even the slightest disappointment can lead to big falls in the current environment

Increasing investor anxiety is leading to bigger share individual price moves on a daily and weekly basis and the last week was no exception with a number of large fallers.

Engineering group **Rolls-Royce (RR.)** was forced to release a statement after increasing speculation that the company was planning to raise new funds, leaving the shares down 24% between 14 September and 21 September and hitting a 16-year low of 157p.

Rolls said it was considering its options which included raising up to £2.5 billion through a rights issue and potentially other forms of equity issuance. It also didn't rule out issuing more debt. Matters were made worse when the government increased the Covid-19 alert threat which hit airline stocks.

One of the biggest casualties was digital payments group **Network International (NETW)** whose shares slumped 40% to £12.98 despite no new fundamental information coming to light.

Management rushed out a statement saying it 'is not aware of any reason to justify the (share price) move and is pleased to report that the trend of improving volumes in directly acquired domestic TPV – reported for July with our interim results - has continued in August and early September'.

The shares made some recovery following the purchase of shares by senior management, demonstrating their confidence in the business.

Banks were on the back foot yet again as leaked documents known as the 'FinCEN (The Financial Crimes Enforcement Network) files' highlighted over \$2 trillion of transactions that may have related to financial crimes.

Relating to the period between 2000 and 2017, the documents raised concerns about suspicious transactions at a number of banks including **HSBC (HSBA)** and **Standard Chartered (STAN)**, with HSBC hitting its own 25-year low.

Having been one of the biggest gainers in the prior week after launching a 'ground breaking' Covid-19 screening device, in conjunction with British start-up iAbra, electronics firm **TT Electronics (TTG)** went into reverse, falling 36% to 178p. Some digging by the *Financial Times* revealed the four-man start-up didn't have any orders with Heathrow airport after all.

Shares in oil giant **Royal Dutch Shell (RDSB)** traded at £9.84, the first time they have been below £10 in 20 years, underlining the challenges conditions that face oil companies in the face of rapid climate change.

One of the few winning shares over the last week was printed circuit technology firm **Trackwise (TWK:AIM)** which soared 46% to 173p after winning a three-year manufacturing agreement with a UK electrical vehicle maker, worth up to £38 million.

Biggest Weekly Fallers			Biggest Weekly Gainers		
Name	Market Cap (£m)	% Change	Name	Market Cap (£m)	% Change
Network International Holdings	1,300	-40.70%	Fussion Antibodies	50	132%
Safestyle UK	28	-38.70%	Trackwise Designs	38.5	61.90%
Caspian Sunrise	34	-38.60%	Thor Mining	22.3	36.60%
TT Electronics	279	-35.80%	Rotala	12.5	35.10%
Eve Sleep	12.5	-28.30%	Alba Mineral Resources	18.2	32.10%
Rolls Royce Holdings	3,103	-23.60%	Shield Therapeutics	162	27.10%

Source: Stockopedia, week to 21 September 2020

Recovery funds firmly out of fashion as leading manager exits

M&G veteran steps down after product deemed poor value for investors

Last week saw a changing of the guard at fund group **M&G (MNG)** with Tom Dobell, a 28-year veteran of the firm, stepping down from the **M&G Recovery Fund (3128921)** which he had managed since 2000.

As per its name the fund invests in 'value' stocks in the hope that they will recover. It had a good August 2020 thanks to gains in some of its healthcare stocks, but has lagged the FTSE All-Share index over every time period from one year to 10 years.

In a review of its products and pricing in July, M&G acknowledged that the £1.4 billion Recovery Fund offered poor value for money for investors. 'The fund has consistently fallen short of its performance target, and we have determined that action must be taken to ensure it is better placed to achieve its objective going forward.'

The M&G news comes on the heels of a change of manager at **Aberdeen Standard Investments' UK Recovery (B6S67S8)** after it incurred heavy losses in the first five months of the year, making it the worst performing fund in the Investment Association's UK All Companies sector.

Multi-asset managers at **Premier Miton Group (PMI)**, who held a stake in the UK Recovery fund, sold out citing 'disappointment' with the holding and calling the change of manager 'the straw that broke us.'

All of which raises the question, are recovery funds in decline across the board and if so what should investors do?

The good news is some special situations funds – which follow a similar 'recovery' approach, buying companies with short-term problems but solid long-term prospects – have a better track record than recovery funds.

According to FE Analytics, two of the top three performing funds between the start of June and

Annualised Trailing Returns for Recovery and Special Situations Funds (Accumulation class)

Fund	Year-to-date	Three years	Five years	10 years
M&G Recovery	-22.9%	-9.3%	-2.0%	0.6%
ASI UK Recovery	-45.0%	-24.2%	-7.2%	-0.9%
Artemis UK Special Situations	-22.4%	-4.0%	0.6%	5.0%
Jupiter UK Special Situations	-28.7%	n/a	n/a	n/a
Liontrust Special Situations	-10.3%	3.5%	7.8%	n/a
MFM Techinvest Special Situations	20.2%	1.9%	8.7%	12.6%
Marlborough Special Situations	-4.2%	2.5%	7.7%	12.6%

Source: Morningstar, data correct as of 21 September

the middle of this month – when the FTSE All Share was down 5.3%, so before 21 September's sharp fall – were **MFM Techinvest Special Situations (B0BB227)** and **Marlborough Special Situations (B907GH2)** with gains of 10% and 8.8% respectively.

Both invest in smaller companies, which have held up better than large companies of late – over the same period the FTSE Smaller Companies index gained 0.2% while the average fund in the IA Smaller Companies sector returned 3.1%.

Larger-cap funds with respectable long-term track records include **Artemis UK Special Situations (B2PLJQ0)**, **Jupiter UK Special Situations (B4KL9F8)** and **Liontrust Special Situations (B57H4F1)**.

Mining winners and losers from Tesla's Battery Day

The event was watched closely for clues on future commodities demand

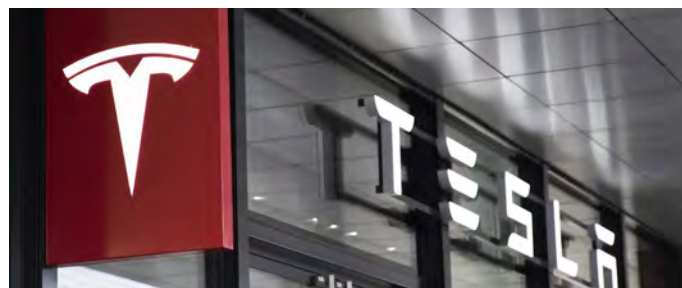
The mining industry watched with interest on 22 September as electric vehicle maker Tesla revealed a host of innovations at its highly anticipated 'Battery Day', giving clues to where future commodities demand could be.

One of the biggest takeaways from the event was Tesla's announcement that it can make a \$25,000 electric vehicle – around \$10,000 less than its existing cheapest model – by making its own EV batteries without needing to use cobalt.

Tesla CEO Elon Musk has long complained his company's vehicles are unaffordable for many, and said affordability of its vehicles is how Tesla can scale.

Cobalt is the most expensive material used in EV batteries, and up until now has been considered a key component in their manufacture.

The news could have big ramifications for FTSE 100 mining giant **Glencore (GLEN)**, which has



pushed heavily into mining cobalt ahead of the anticipated surge in demand for EVs.

But to compensate for the lack of cobalt, Musk said Tesla will need more nickel. Glencore has a big nickel operation which could help offset lower cobalt demand. The biggest winner looks set to be Brazilian mining giant Vale, the largest nickel producer in the world.

On the London market, **BHP (BHP)** and **Anglo American (AAL)** are also big nickel producers and could see an uptick in demand. While not yet in production, pure play nickel miner **Horizonte Minerals (HZM:AIM)** is another that might benefit in time.

Prolonged working from home is positive for Kingfisher

The Government's U-turn on returning to the office could drive DIY demand as people improve home working environments

THE UK GOVERNMENT'S U-turn on encouraging people going back to the office to work provides DIY retailer Kingfisher (KGF) with an opportunity to sustain its recent positive sales momentum. It could see more people think about doing up their property, particularly if they are going to be staying at home to work.

Kingfisher owns the B&Q and Screwfix brands in the UK,

Castorama in France, and Brico Depot in Spain. Having enjoyed a strong second quarter (ending 31 July), trading has remained upbeat so far in its third quarter.

Thanks to improved sourcing, which helps lower costs, a sizeable reduction in inventories and a lower level of working capital across the business as non-essential IT spending and range reviews were put on hold, free cash flow grew

more than four-fold to over £1 billion in its first-half period.

This has put the firm on a strong financial footing, with access to more than £3.7 billion and a net debt to EBITDA ratio of just one compared with a normal range of between two and three times. However, the interim dividend was withheld due to 'ongoing uncertainty' over the spread of Covid.

The shares, newly promoted to the FTSE 100 index, climbed over 8% on the news (22 Sep). Chief executive Thierry Garnier said there was 'more to do' but management was 'committed to returning Kingfisher to growth'.



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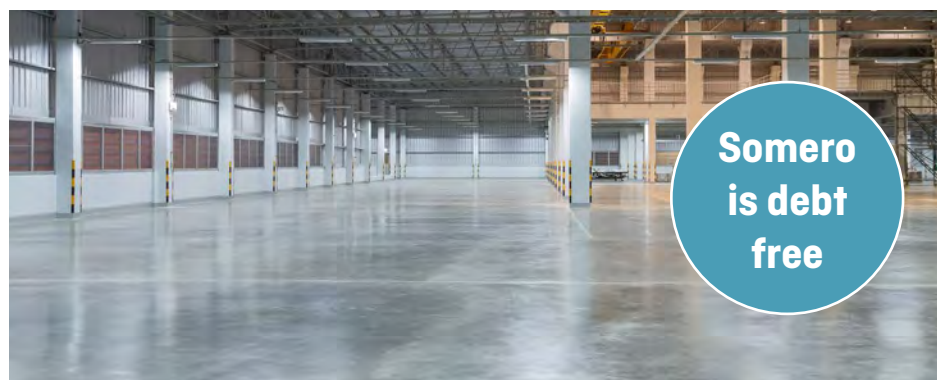
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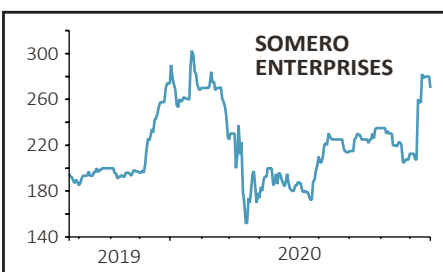
Those unfamiliar with the story may be surprised that this is the world number one when it comes to concrete levelling kit. Its success was to develop laser-guided technology over the last couple of decades that is accurate to within fractions of millimetres.

This is becoming increasingly important for major construction projects like building skyscrapers, but Somero has a digital economy slant too. Huge modern warehousing and fulfilment centres are increasingly embracing robotics and automation in a similar way that the car industry did years ago. For these robots to work they need to move swiftly and smoothly around the

SOMERO ENTERPRISES

BUY
(SOM:AIM) 260p

Market cap: **£147 million**



property, and that means level flooring to the nth degree.

Somero has developed something like 16 or 17 different levelling machines all based on its intellectual property-based laser technology, including three new models launched in the first half of this year despite lockdown restrictions. Demonstrations will likely become easier over the coming months which should underpin expressions of interest.

But importantly, it is not just the kit that makes Somero the best, it is the training, fast

turnaround servicing and general advice to buyers about how the get the best performance both operationally and from a capex prospective that really sets the company apart.

HIGH MARGINS PROTECTED

This is what protects its high margins in an industry where cheaper, reverse engineered copycat machines are an accepted irritation.

This has always been a cyclical business so periods where new business is harder to come by needs to be accepted by potential investors, such as the last couple of years, not helped by the pandemic shutdown.

That will mean revenue and profit this year will be down by about 17% and 34% respectively to around £75 million and £17.6 million pre-tax profit. But management are definitely becoming more upbeat, reintroducing guidance and reinstating shareholder dividends earlier this month.

This is positive as it indicates the company has excess funds even when accounting for the \$15 million of cash it always keeps in reserve. Plus there's no debt to worry about.

Even in the face of a trying environment quality metrics are set to stay impressively strong. Pre-tax profit margins of around 23% to 24% are forecast this year – they typically run at circa 30% – while return on capital employed is expected to be comfortably over 20% this year. It has been as high as 40% in the past.

The shares trade on 10.9 times earnings, despite a solid growth record and high returns on equity, and they are on track to yield 6.6% this year.

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How to invest in structural change on a global level

This dividend paying trust targets companies with attractive growth prospects

Randall Dishmon, manager of the **Invesco Global Focus Fund (BJ04HD6)**, doesn't believe in screening piles of data to find ideas. With every company he looks at, he asks three questions: does it have an advantage, is it attractively priced, and is management working for me?

If a stock can't tick all three boxes, he isn't interested. He doesn't own Tesla, not because he dislikes the valuation but because he doesn't believe founder Elon Musk has shareholders' best interests at heart, as demonstrated by some of his more unusual capital allocation decisions.

Yet Dishmon's fund – just one of many in his \$2 billion remit – was up 43% in the year to the end of August due to his laser-like focus on finding high-growth 'compounders' and his high level of conviction. The fund, which has ongoing charges of 0.9%, only holds between 30 and 40 stocks worldwide.

'We buy what we believe are great companies with attractive valuations', says Dishmon. Regarding the recent listing of US cloud company Snowflake, Dishmon had followed the firm's progress since it was founded but decided not to take part in

INVESCO GLOBAL FOCUS FUND



(BJ04HD6) 437p

Total assets: **£185.6 million**

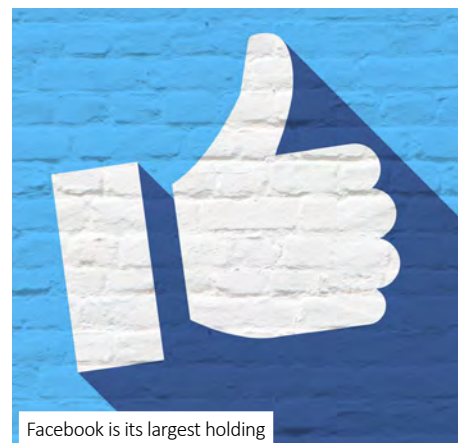
the float as he felt the valuation was too rich.

His biggest bet is on technology, with Facebook the largest holding at just under 8% of assets. Dishmon believes there is a structural shift underway in advertising, with a dollar spent on Facebook, Google and Instagram 'the best possible strategy'.

The mix of technology and healthcare in the portfolio should mean it is well positioned if we have another coronavirus-inspired correction given the pattern of trading seen in March 2020, while a focus on structural trends should underpin performance in the long term too.

The rise of e-commerce and digital payments is one obvious trend, as is cloud computing. Less obvious ones are biologics, medical products produced from living organisms, and digital customer service.

Hence his holdings in lesser-known but high-growth, high-



return businesses such as Alteryx, CrowdStrike, Illumina, ServiceNow, Twilio and Wuxi Biologics.

Once he and his team have identified a theme, Dishmon spends 'all my time trying to work out what's the one thing a company needs to do to win out'.

In cloud computing for example he believes it's being 'cloud native', in other words having no legacy business, which allows his companies to be agile.

Looking to Europe, one of his key holdings is Novo Nordisk, a stock which he believes he can own for the next ten years thanks to its dominant position in its markets.

His most recent purchase, also in Europe, is German-listed food delivery company HelloFresh, another firm he has known since inception and which he believes can continue to execute its growth strategy well while maintaining the positive economics of the business.



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LLOYDS

(LLOY) 24p

Loss to date: -62.4%**Original entry point:****Buy at 63.93p, 19 December 2019**

OUR POSITIVE call on high street lender **Lloyds (LLOY)** has gone horribly wrong and, while we couldn't have predicted the unprecedented events witnessed in 2020, we should have been quicker to respond to its poor performance.

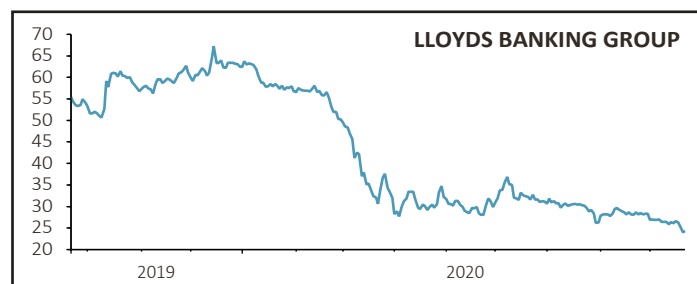
We originally hoped the definitive election result and resulting political stability would lead to a positive domestic picture, supporting Lloyds' share prices and underpinning its income appeal. Clearly December 2019 was a very different place from just a few months later when the Covid-19 pandemic hit.

The banking sector has been ravaged both by exposure to a rapidly deteriorating economic outlook in the UK – which has been served with a side dish of growing uncertainty over Brexit – and to falling interest rates as the Bank of England has sought to prop up the economy.

Lloyds' profit was wiped out in the second quarter as it chalked up bad debt provisions of £2.4 billion.

If that wasn't enough then the sector has effectively been prevented from paying investors the dividends they crave by the regulator.

The outlook remains weak and with talk of potential negative interest rates, it's time to cut our losses.

**SHARES SAYS: 📉**

While we are having to swallow a big loss, it is hard to make a case for the picture improving much in the final quarter of the year and we think it is worth sparing ourselves from any further pain. Sell.

WHITBREAD

(WTB) £20.70

Loss to date: -6.8%**Original entry point:****Buy at £22.20, 6 August 2020**

PREMIER INN owner **Whitbread (WTB)** remains an interesting investment story long term but it's time to cut losses for now as the outlook for the business becomes increasingly cloudy.

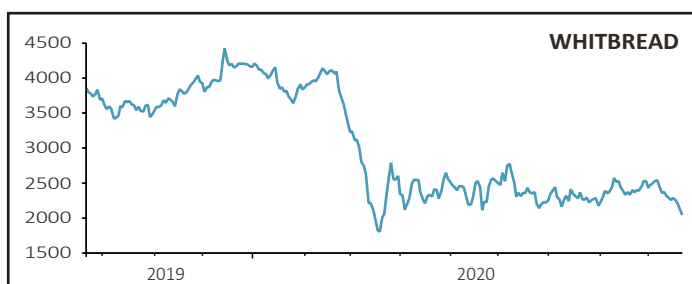
As the UK approaches winter with a second wave of coronavirus cases, the stronger lockdown measures put in place have led Whitbread to cut 6,000 jobs as it expects market demand to remain low over the medium-term.

Business travellers for example have always been a significant market for Premier Inn, particularly in September and October, and this is an area which looks like it won't recover for a long time.

It is a risk we flagged when we tipped the shares last month, but the situation since then has changed and looks more serious than previously thought.

We think now is the time to sell Whitbread and not risk a big loss, with investor sentiment likely to weigh on the stock significantly over the coming months.

But it is a stock still worth keeping an eye on, as the underlying investment case remains relatively intact. Rival Travelodge continues to struggle, which will benefit Premier Inn greatly when demand recovers, while the company has also been trading above the market in recent months and, despite the pandemic, is still looking to grow in Germany.

**SHARES SAYS: 📉**

The underlying story remains mostly intact, but investors could be in for losses over the coming months. Time to sell and revisit later.

HIPGNOSIS SONGS FUND

(SONG) 118.73p

Gain to date: 2.8%

Original entry point:

Buy at 115.5p, 18 June 2020

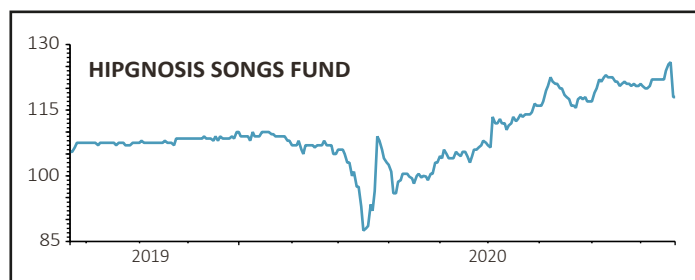
INVESTORS IN **Hipgnosis Songs Fund (SONG)** must get used to the investment trust coming back to the market on a regular basis to raise money as it has grand plans.

In the summer it said there was a £1 billion pipeline of potential acquisitions, namely music catalogues where it obtains the rights to certain songs and enjoys royalty payments when they are streamed, appear on the radio, featured in adverts, films or TV shows, or played in shops, restaurants or gyms.

It raised £236.4 million in July and eyes another £250 million by issuing new shares at 116p, a 7.9% discount to the market price before the fundraising was announced and a 3.6% premium to its

adjusted operative net asset value.

The new cash will buy more music catalogues, guided for a blended acquisition multiple of approximately 18 times historic annual income. That's much higher than the 14.3 times average multiple paid to date and perhaps indicative of how competition is growing in the royalty space and how artists are becoming wise to the opportunity.



SHARES SAYS: ↗

Hipgnosis is strengthening its asset base from which to generate income and we expect to see a sizeable increase in the company's net asset value when the revaluation of its library (likely using a lower discount rate) is announced in December.

GUINNESS

THIS IS AN ADVERTISEMENT

GLOBAL INNOVATORS FUND

*Simulated past performance. Performance prior to the launch of the Guinness Global Innovators Fund (31.10.14) reflects the Guinness Atkinson Global Innovators Fund (IWIRX), a US mutual fund with the same investment process since May 2003.

For 17 years, we have invested in areas where advances in technology or innovative thinking have been creating pioneering, profitable business models.

Many of these emerged from the explosion of the internet in the 1990s. We invested in the companies that were building the technology to facilitate this explosion, such as Microsoft and Apple, then later in the companies that supplanted entrenched ways of doing business: Amazon, Netflix, Facebook, Google. We also identified innovation outside of technology – in industries including advanced healthcare, robotics, and consumer goods.

We recognised that not all innovators are made equal – that many new entrants would fall by the wayside. We believed then, as we do now, that our particular approach – buying and holding a concentrated, equal-weighted portfolio of quality companies with innovation in their DNA – would prove fruitful.

The results have been considerable, as is reflected in our fund's performance against the IA Global Sector over multiple periods.

Our approach has enabled the fund to navigate the market turbulence created by COVID-19 successfully. Almost every company in the portfolio is poised to emerge from the current economic environment with its prospects enhanced, not hindered.

We have a proven track record of success behind our thinking around innovation. If you favour our approach, this fund will make a sound addition to the growth allocation of your equity portfolio.

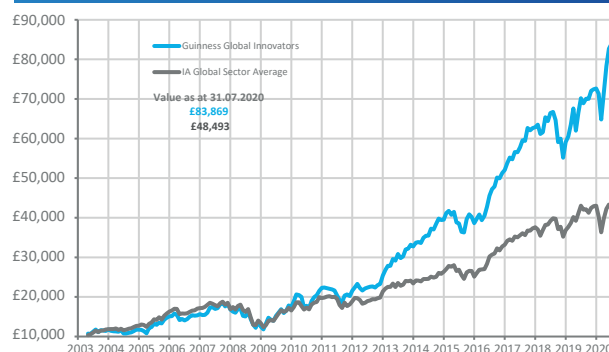
Risk: Past performance is not a guide to future returns. The value of your investments can fall as well as rise. You may not get back the amount you invested. Fund returns are for share classes with an Ongoing Charges Figure (OCF) of 0.99%; returns for share classes with a different OCF will vary accordingly.

GUINNESS

ASSET MANAGEMENT

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Total return* from £10,000 invested from launch of strategy 01.05.2003

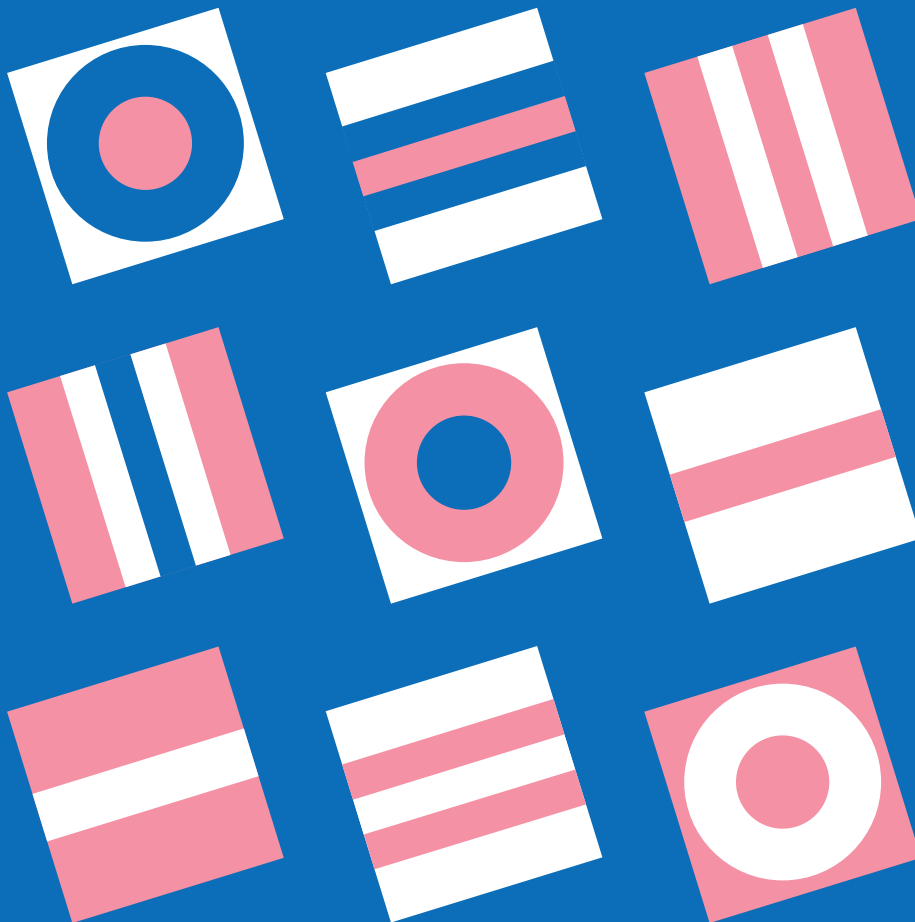


Source: Financial Express, 0.99% OCF

% Total return* vs IA Global Sector Average to 31.07.2020 in GBP

Period	Fund	Sector	Quartile
YTD	14.1	1.0	1st
1 Year	24.2	5.4	1st
3 Years	46.2	23.6	1st
5 Years	112.9	63.1	1st
10 Years*	378.2	157.7	1st
Launch of strategy	726.8	333.3	1st
12 month return	Fund	Sector	Quartile
June 20	24.2	5.4	1st
June 19	3.4	7.5	4th
June 18	13.9	9.1	1st
June 17	32.2	23.7	1st
June 16	10.2	6.7	3rd

Witan investment trust



It takes all sorts to achieve long term success.

Stock markets have proven to deliver over the long term. At Witan, we've been managing money successfully since 1909. We invest in stock markets worldwide by choosing expert fund managers. So you don't have to.

You can buy shares via your investment platform including, Hargreaves Lansdown, AJ Bell Youinvest, Interactive Investor, Fidelity FundsNetwork and Halifax Share Dealing Limited. Or contact your Financial Adviser.

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Witan Investment Trust plc is an equity investment. Past performance is not a guide to future performance. Your capital is at risk.

GROWTH INVESTING



HOW TO FIND **GOOD** COMPANIES AND AVOID **BAD** ONES

We show you how best to screen the market for opportunities and offer five investment ideas



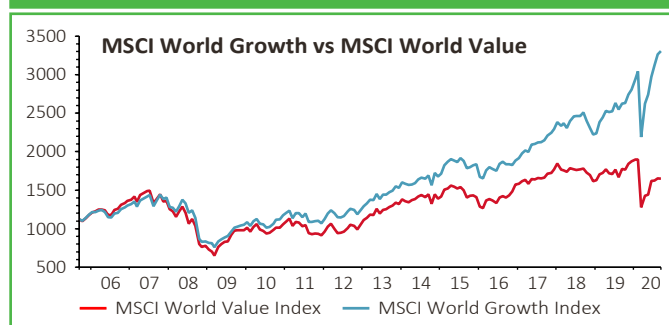
By **Tom Sieber** and the *Shares* team

The appeal of a growth company is easy to understand – when we put our money into a business which we expect to grow rapidly we can imagine the worth of our investment growing fast too.

Many of today's largest companies were once small or medium-sized operations which have expanded their business by targeting a buoyant market or identifying a particularly profitable niche.

And growth as an investment style or strategy has dominated for the last decade or more, putting other investment styles like value firmly in the shade.

GROWTH TRUMPS VALUE



Source: Refinitiv, data as at 18 September 2020.

This makes sense when you consider that growth proved scarce in the wake of the financial crisis and therefore those businesses which could deliver it have been highly prized. The same applies now, with companies able to keep growing through the pandemic being rewarded with a higher share price.

DEFINING GROWTH

A growth stock is a company whose earnings are expected to grow at an above-average rate either for its industry or the overall market.

A growth investor will often invest in such a business even if it appears to be expensive based on metrics such as the price to earnings (PE) ratio. A growth business is less likely to pay a generous dividend as it may prefer to reinvest cash flow into its business in hope of achieving even bigger growth.

Covid-19 has super-charged growth stocks, particularly in the tech space, as it accelerates trends which were already in motion – in particular, driving more of our daily activities online.

In previous economic cycles, growth stocks have performed well in the middle

and latter stages when genuine growth is harder to come by. It is currently difficult to judge where we are in the cycle given the unprecedented impact of coronavirus and the continuing support and stimulus on offer from governments and central banks.

But, as we discussed in our [recent article](#) on value investing, there is a case for value to make a comeback and looking for cheap stocks (assuming they have robust enough balance sheets) can be a successful approach when we emerge from a big downturn as they could bounce back from a lower base.

A SOLID LONG-TERM STRATEGY

If you are a genuine long-term investor, then looking for businesses which can deliver consistent growth is likely to prove a solid strategy in fair economic weather and foul.

As the late Philip Fisher, often tagged as the first technology investor, wrote in the 1950s: 'The greatest investment reward comes to those who by good luck or good sense find the occasional company that over the years can grow in sales and profits far more than industry as a whole.'

'It further shows that when we believe we have found such a company we had better stick with it for a long period of time.'

'It gives us a strong hint that such companies need not necessarily be young and small. Instead, regardless of size, what really counts is management having both a determination to attain further important growth and an ability to bring its plans to completion.'

In this article we will discuss what constitutes growth and where and how you can find it. We also offer a selection of growth-related investment ideas across stocks and funds.

"The greatest investment reward comes to those who by good luck or good sense find the occasional company that over the years can grow in sales and profits far more than industry as a whole."

Philip Fisher

DIFFERENT TYPES OF GROWTH



GROWTH STOCKS come in different flavours. At the higher risk end of the spectrum is blue sky growth. This might be a small pharmaceutical firm working on a new drug, a spin-out from a university with an untested technology or a resources firm exploring for metals, oil or gas.

While these types of investment can in theory generate strong returns in a short space of time, examples of them doing so are few and far between, and you need accept the risk of loss is high.

At the other end of the spectrum are the steady growers – with these businesses you need to accept the rate of growth will not necessarily be that high, maybe not much more than 5% or 6%, but it will be consistent and predictable. Perhaps because the company operates in a market which is driven by regulation, making its returns less likely to fluctuate in line with the economy.

To cater to different risk appetites, our investment ideas later in this article fall into four different categories: steady growth, small cap growth, growth at a reasonable price and blue-sky growth.

IDENTIFYING TRUE GROWTH

There are some key questions to ask when considering investing in any growth company:

■ IS THE GROWTH REAL?

Measures such as earnings per share can be flattered so in a lot of cases it will make more sense to look at the level of cash flow a firm is generating and whether this is growing.

It is somewhat of an extreme example but look at what happened with insurance business Quindell (now a very different animal called **Watchstone (WTG:AIM)**). Between 2011 and 2014 its pre-tax profit apparently increased from £4.1 million to £107 million while its operating cash flow fell from £4.4 million to £3.2 million. Profit and cash moving in different directions was a major red flag.

The shares rocketed from 2012 to 2014 and hit an all-time high valuation of £2.7 billion but in 2015 controversial founder Rob Terry was booted out and the accounts from 2011 onwards were restated. Watchstone now has a market cap of just £30 million.

Cash cannot be manipulated and is the lifeblood of any business. A firm which generates lots of cash should also be able to invest for future growth, such as building a new factory to sell more of its product in different markets.

■ WHERE IS THE GROWTH COMING FROM?

A business could grow rapidly by loading up on debt and buying lots of different businesses but,

while it might end up bigger at the end of it, it won't necessarily be better. Such a strategy is not really one that can be sustained in the long run and is unlikely to yield growth in profit and cash flow.

Large acquisitions destroy value more often than they create it so a business whose growth is reliant on buying other businesses could hit a wall eventually as business cultures clash, savings are overestimated and integration costs are underestimated.

The best approach is for a company to build a strong competitive position from which it can deliver sustainable long-term growth. Though that doesn't mean modest-sized acquisitions can't be used to augment this organic growth.

■ IS THE GROWTH SUSTAINABLE?

This involves making a judgement on the future. For example, does the company operate in a market prone to being disrupted by technology, shifting societal or consumer trends or regulation?

For example Carphone Warehouse was valued at £1.6 billion 20 years ago and eventually hit a market value several times that number before completing a multi-billion merger with Dixons in 2014 to create **Dixons Carphone (DC.)**.

However, Carphone Warehouse's business model was built on people frequently upgrading their phones and that trend has dissipated as the market has matured. In March this year Dixons announced the closure of all its standalone Carphone Warehouse stores.

COMBINING GROWTH AND VALUE

Growth investors don't necessarily throw valuation out of the window entirely. Some will actively talk about growth at a reasonable price or GARP.

Popularised by the late investor Jim Slater, GARP typically involves employing the price to earnings to growth ratio, which divides the price to earnings metric by the level of annual earnings per share growth.

Slater looked to find smaller, growth companies which were undervalued relative to their growth potential. He also looked for a track record of growth and strong cash generation alongside other factors.



SCREENING FOR GROWTH STOCKS

LEANING ON several different measures is a good starting point if you are looking to screen the market for growth opportunities.

As an illustration *Shares* employed data from Stockopedia and SharePad to identify stocks which had generated a compound annual growth rate of at least 15% in free cash flow over a five-year timeframe, thereby avoiding situations where earnings had been inflated by creative accounting.

We also looked for businesses which had delivered the growth consistently with unbroken earnings per share (EPS) growth over at least five years.

GROWTH INTERRUPTED

As these are both backward-looking measures we added an additional filter by examining forecast EPS growth for the current and next financial year. Given the unprecedented nature of Covid-19, ignoring stocks which might see growth interrupted in the short term would risk missing out on some interesting opportunities which might subsequently resume their growth trajectory.

We therefore identified businesses where forecasts suggested that over the two financial years earnings would either be higher overall or only marginally lower.

SHARES' GROWTH STOCKS SCREEN

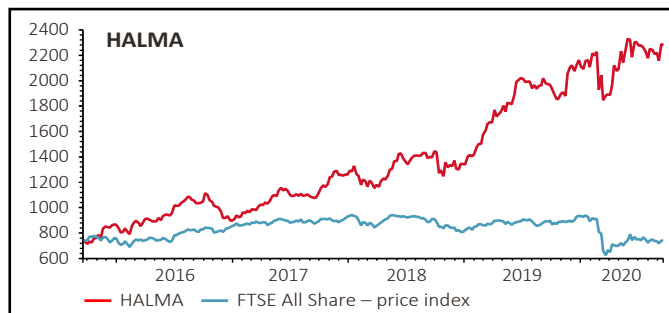
Company	Free cash flow five-year CAGR	EPS growth streak (years)	EPS growth current financial year	EPS growth next financial year
JD Sports Fashion	71.5%	7	-34.7%	58.9%
Gamma Communications	51.3%	8	20.1%	11.4%
Macfarlane	50.0%	7	-1.6%	23.0%
Games Workshop	48.9%	6	25.0%	5.0%
Arcontech	31.6%	6	-2.4%	12.2%
Impax Asset Management	28.7%	6	13.9%	27.5%
Bioventix	26.9%	9	11.3%	9.6%
Mortgage Advice Bureau	19.7%	8	-36.9%	72.0%
James Halstead	17.3%	6	-4.4%	6.9%
Integrated Diagnostics Holdings	16.3%	7	-9.9%	30.6%
Bunzl	15.8%	9	-1.4%	0.2%

Source: Stockopedia, Sharepad. Data as at 16 September 2020

While such screening exercises are useful, they are only a starting point. You also need to take a closer look underneath the bonnet of a company to truly understand its growth potential – something we have done with the four picks which follow.

FOUR GROWTH STOCKS TO BUY

**Buy for steady growth:
HALMA £22.49**



Health, safety and environmental electronics equipment designer **Halma (HLMA)** has an exceptional track record of consistent growth.

Up until Covid-19 struck the company would almost certainly have delivered an 18th consecutive year of growth in revenue and profit, not to mention the business has also delivered 40 years of dividend growth.

Against the backdrop of the pandemic, an expected 8% fall in pre-tax profit for the current financial year to 31 March 2021 is certainly worth keeping in perspective and for us represents growth interrupted rather than a sign the company's long-term story of expansion is running on empty.

The company's strategy has proved stunningly effective over time. It has exposure to trends around health and safety regulation and demand for healthcare and life-critical resources.

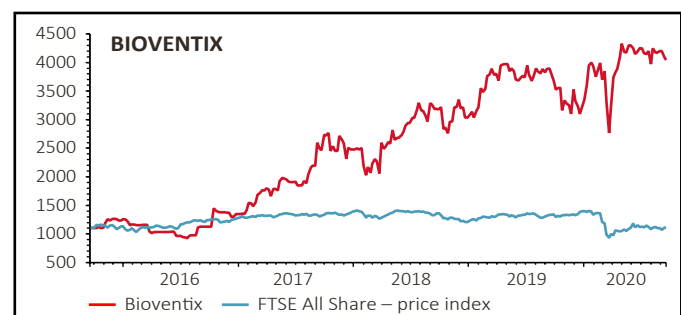
It makes and sells worldwide everything from hazard detectors to environmental protection kits and sensors.

Regulatory drivers make its growth highly resilient as its products aren't simply nice to have; businesses need them to meet safety standards. Robust organic growth is supplemented by bolt-on acquisitions.

The company's objective is simple. It aims to double its earnings every five years while still generating strong returns.

You need to pay up for this growth. It trades 40 times expected earnings for the current financial, falling to a PE in the high 30s times the year after. We think this is justified by the track record and continuing growth potential.

**Buy for small cap growth:
BIOVENTIX £38.97**





Farnham-based biotechnology company **Bioventix (BVXP:AIM)** packs a big punch for a small business and leads the field in the creation and production of high infinity sheep monoclonal antibodies. Its customers incorporate the antibodies into test packs for use on automated blood testing machines.

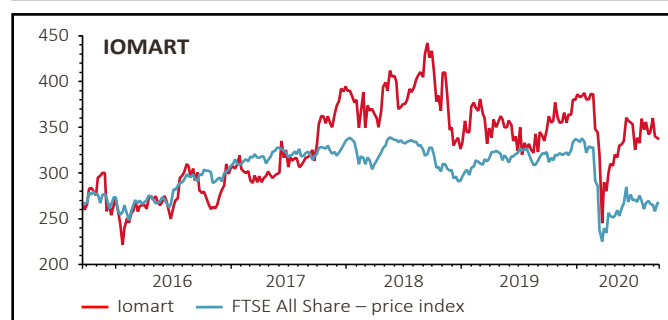
Sheep monoclonal antibodies can bind themselves to their target around 100 times stronger than traditional rodent antibodies. The £214 million company supplies antibodies to almost all the global multinational immunodiagnostics companies. It's the quality and effectiveness of the product which differentiates the business and gives it an edge.

The company has an in-built economic moat protecting high returns due to long lead times and loyal customers. It can take up to a year to develop a new antibody while the customers can spend two to four years making an assay or testing pack and getting the product approved.

The company has a strong track record, having achieved compound annual growth rates in revenues and operating profits of 21% and 25% respectively over the last five years. Returns on equity (the company has no debts) have averaged 50%, reflecting the high-quality nature of the business.

The shares aren't cheap on 30 times forecast earnings for the current financial year. However, we think they are still worth buying given the quality characteristics and the fact it has a strong pipeline of new products which supports the continuation of strong growth for years to come.

**Buy for growth at a reasonable price:
IOMART 315.16p**



Cloud IT hosting and managed services company **Iomart (IOM:AIM)** has been helping smaller and medium-sized enterprises (SMEs) for more than 20 years and has produced consistent growth throughout, far in excess of the UK market.

The stock has produced annualised total returns of 18.5% over the past decade (share price gains plus dividends reinvested), versus a 4.9% annualised total return for the FTSE 100, according to Morningstar data.

Highly acquisitive, Iomart has completed something like 20 bolt-on deals to supplement its typically mid-to-high single-digit organic growth. The Glasgow-based business now has eight UK data centres and employing around 400 staff domestically and in the US.

The imminent retirement of founder and long-run chief executive Angus MacSween may trigger some soul searching for Iomart around its next moves.

Last year saw some hefty investment in sales and marketing which should hopefully bring rewards in the future.

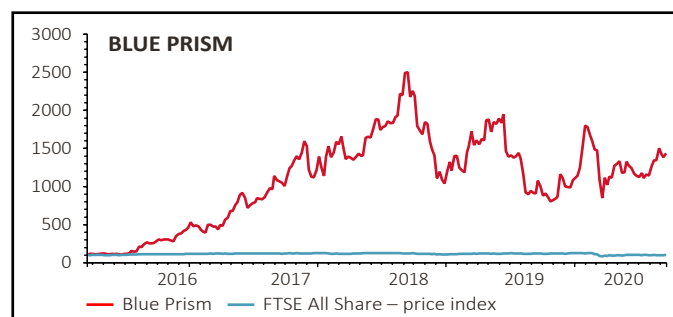
In June, the company reported its twelfth consecutive year of growth since the transition of the business to cloud services in 2008 with the acquisition of our first data centres.

Analysts forecast a slight dip in profit in the current year to March 2021 with Iomart recently flagged uncertainty over the timing of new projects due to Covid-19. However, analysts see pre-tax profit growing by approximately 10% in both 2022 and 2023.

The shares trade on 20 times earnings for 2021 which seems fair for a company of its stature, meaning investors can certainly buy growth at a reasonable price.

We wouldn't be surprised to see Iomart targeted as part of intense sector consolidation, having knocked back a private equity takeover at 340p per share in 2014, the same price at which the shares are trading today.

Buy for blue sky growth: BLUE PRISM £13.62



We have previously pondered the idea that **Blue Prism (PRSM:AIM)** may be the UK's most exciting growth company yet it continues to split opinion.

Sceptics argue the technology is unproven, its business model is yet to generate a profit and the shares trade at eye-watering valuations.

But fans believe the business is a virtual workforce disruptor which uses robotic process

automation (RPA) technology to run manual back-office administration.

This is a new digital way of automating labour-intensive and mundane tasks, cutting costs for clients, freeing the human workforce to do more value-adding and less boring stuff. It also improves customer service and speed and reduces the need to invest in new IT systems, all via a compliance-friendly platform.

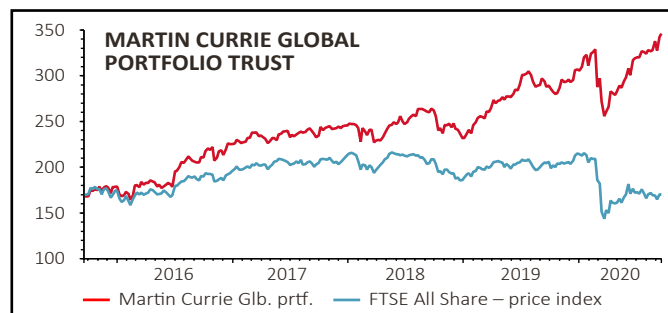
There is no doubt that the RPA industry is in its infancy and growing rapidly, and perhaps sceptics can't quite get the heads around the idea that a Warrington-based start-up has led the world in an area we might normally expect Silicon Valley or the Far East to dominate.

Yes, there is intense competition, not least from UiPath and Automation Anywhere, the private equity-backed US specialists, but this is also a market that could be worth billions in the future.

For the year to 31 October 2020 Blue Prism is forecast to generate £142 million revenue, soaring to £242 million in 2022. Cash break-even is targeted for next year, and if the company meet these ambitions, profits could come fast and meaningfully, justifying its 6.6-times enterprise value to sales ratio, based on next year's figures.

TWO GROWTH FUNDS TO BUY

MARTIN CURRIE GLOBAL PORTFOLIO TRUST (MNP) 338.2p



An investment trust with a 'quality growth' remit, **Martin Currie Global (MNP)** has thrived since fund manager Zehrid Osmani took the helm in October 2018.

The portfolio provides exposure to global growth businesses without having too much exposure to names like Amazon which have already been pushed to very high valuations. Research house Edison notes: 'It has performed well despite a lack of exposure to the high-profile, large-cap US technology stocks that have led the market.'



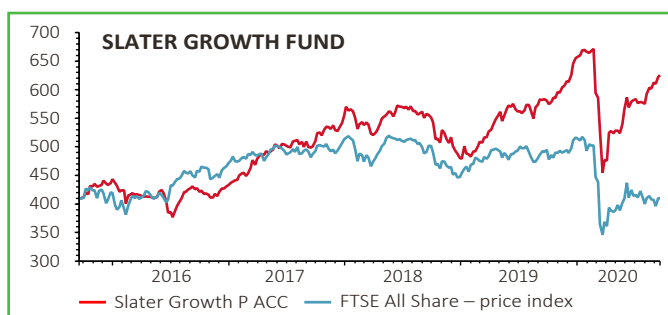
This is a highly concentrated portfolio with just 30 holdings. While well-known names like Microsoft, Visa and China's Tencent are present and correct, the top holding is lesser-known US medical technology play Masimo.

The strategy is to focus on areas of long-term growth including telecoms infrastructure, healthcare, robotics and automation, and cyber security.

The investment process starts by looking at a total universe of some 2,800 stocks. This is screened down to 500 with a pipeline of 90 stocks warranting further research thanks to their combination of quality, sustainable growth. The team behind the trust then run a systematic risk assessment looking at areas like governance and the risk of disruption.

The trust has a 0.63% ongoing charge.

SLATER GROWTH FUND (B7T0G90) 583.85p



Portfolio builders seeking a fund focused on growth stocks selling at a reasonable price should look at **Slater Growth (B7T0G90)**, the unit trust managed by respected stock picker Mark Slater which has generated benchmark beating 10-year annualised returns of 13.2%.

Son of the late Jim Slater, a famous financier and author of best-selling investment book *The Zulu Principle*, Mark Slater puts money to work with attractively priced companies exhibiting superior, sustainable growth potential and has a methodology to find growth companies using value filters.

Slater employs the 'PEG' valuation metric, which compares the price-to-earnings ratio with a company's earnings growth, as a starting point to find inexpensive shares with a proven record of earnings growth.

Once the PEG screen has pared back the investable universe, other measures are then overlaid such as cash flow screens.

Slater also looks for companies with a competitive advantage such as a large market share. He also prefers positive signs in recent trading updates as well as directors buying shares.

Top 10 holdings include media group **Future (FUTR)**, video games specialist **Codemasters (CDM:AIM)** and biopharmaceutical business **Hutchison China MediTech (HCM:AIM)**. The ongoing cost is 0.79%.

Opportunities among China's innovative private companies



By Dale Nicholls, Portfolio Manager of Fidelity China Special Situations PLC

China's diverse listed universe remains the primary vehicle for investors looking to access China's long-term growth story, there is an increasingly significant opportunity set among its vibrant and diverse unlisted companies.

With companies generally coming to market later, there's a huge amount of activity in the pre-initial public offering (IPO) stage in China.

The unlisted sector is less well-known, and therefore more mis-priced, offering greater potential upside for investments. Over the years, the unlisted space in China has deepened, and while still not as developed as in Western markets, it does offer plenty of interesting opportunities for the patient, long-term investor.

The Fidelity China Special Situations investment trust has been investing in China's unlisted companies since it was launched in 2010 and has the ability to invest up to 10% in this space. For example, we were early investors in online e-commerce company Alibaba, which we had held as an unlisted holding for nearly three years before its record-breaking US\$25 billion IPO in 2014.

When we analyse any company, we look at three main areas: its ability to generate consistent and high

returns over time, the potential for future growth and the strength of its management team. To help us find the best ideas, we have research teams on the ground in Shanghai and Hong Kong. This extensive research capability helps us to identify ideas which haven't been discovered or are not so well understood by the market.

Investing in the future of China

Our analysts focus on companies that are most likely to benefit from China's growth and changing economy. For example, China is home to the largest online community in the world, and its internet population is expected to grow to 1.14 billion by 2025 from around 883 million in 2019.¹

A key holding in the portfolio is ByteDance, an internet technology company with core domestic Chinese products being its content platform Toutiao and its video-sharing social networking service Douyin. It also currently owns the more globally popular social media app TikTok, although their domestic business remains the key driver of earnings growth. From a market capitalisation perspective, the company has the potential to become one of our biggest holdings. When it does come to the market, we expect ByteDance to be valued north of US\$100 billion.

The company has been able to successfully monetise its business with significant online advertising revenues

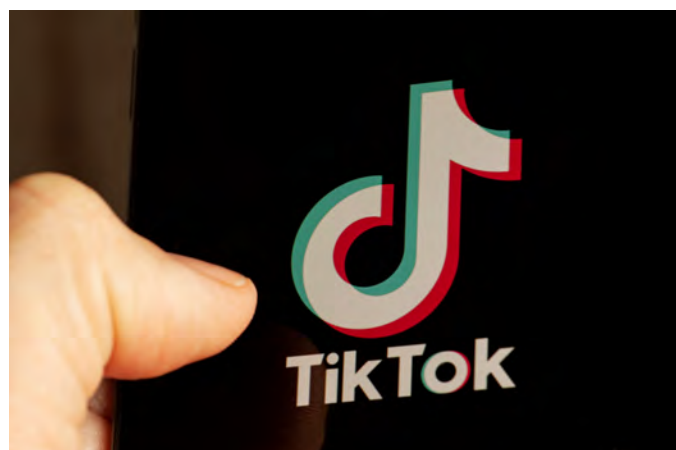
in China. The management has also done a remarkable job of growing the business and the brand globally.

With regard to news about Bytedance's sale of TikTok, reports suggest Oracle has reached a preliminary agreement to acquire the social media app's US business after President Trump ordered ByteDance to divest TikTok's US operations.

Other holdings include Didi, the ride hailing app, which after its takeover of Uber in China, has around 90% market share. While the company is benefitting from its market dominance, it is also profitable. Of course, there has been a significant drop in traffic due to the coronavirus pandemic, but business is coming back quite strongly as economic activity normalises. Indeed, across China, we continue to observe a slow and steady pick-up in overall activity which suggests that the world's second largest economy is benefiting from being "first in and first out" of the pandemic.

We also have a holding in DJI, the leading consumer drone manufacturer which accounts for approximately 70% of the world's drone market. With commercial use expected to rise significantly, the company is expected to see strong growth in areas such as agriculture, construction and even movie production.

Pony.ai, the autonomous vehicle start-up based in Silicon Valley and China is another investment. Earlier this year, Pony.ai and Toyota announced a pilot program to test self-driving cars on public roads in two Chinese cities – Beijing and Shanghai. While Toyota has invested US\$400 million into the company, the company also has a strategic relationship with Hyundai. Pony.ai has a stellar management team and is a technology leader. To put its business into perspective, there are five leading players globally in this nascent industry, with limited opportunity for newcomers given high capital requirements and advanced technological progress



already achieved by the incumbents. Having taken test rides in its cars several times, I can say they compare quite favourably versus human drivers.

Opportunities beyond tech

Besides the technology space, we see opportunities in the consumer space and healthcare where there is a huge amount of entrepreneurial activity, as well as significant research and development that has the potential to reap rewards in the future.

More generally, we remain firm believers in China's long-term structural growth story and are focused on identifying companies – across both public and private markets – that are best placed to benefit from a growing middle class and the shift towards a more consumption driven economy.

With our in-depth bottom up fundamental analysis, we are uniquely placed to identify – very early on – the many opportunities available among mis-priced companies that offer direct exposure to China's long-term growth story – in effect: tomorrow's winners.

1. Source: <https://www.statista.com/statistics/278417/number-of-internet-users-in-china/>

Important information

The value of investments and the income from them can go down as well as up, so you may get back less than you invest. Investors should note that the views expressed may no longer be current and may have already been acted upon. Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only. Overseas investments are subject to currency fluctuations. Fidelity China Special Situations PLC can use financial derivative instruments for investment purposes, which may expose it to a higher degree of risk and can cause investments to experience larger than average price fluctuations. This trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies and the securities are often less liquid. This Investment Trust invests in emerging markets which can be more volatile than other more developed markets. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. This information 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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Why bank stocks are getting bashed (again)

The sector is one of the worst performing over the last 12 months and past decade

Fresh allegations from the International Consortium of Investigative Journalists (ICIJ) about money laundering at **HSBC (HSBA)** and **Standard Chartered (STAN)**, among other leading global banks, may pertain to wrong-doing which is already covered by previously-paid regulatory fines, according to the lenders themselves.

But even if that is the case, the story gives investors another reason to wonder whether banks stocks are worth the bother, given their complex business models, the danger that loan books are harbouring a lot of debt that might be about to go sour if the economy turns down again and the threat posed by central banks' monetary policy.

This is not how central banks see it. They argue that cutting interest rates and quantitative easing (QE) lower borrowing costs, creating demand for loans and credit that keep economies going.

But equity investors are clearly not convinced. Within the FTSE 350, banks are the third-worst performing sector over the last 12 months (ahead of only Oil Equipment & Services and Oil & Gas Producers) and the second-worst over *ten years* (beating just Oil Equipment).

This is a serious matter for holders of the Big Five FTSE 100 banks' shares and those investors who get access to UK equities via passive, tracker funds – those same five banks represent 7% of the FTSE 100's market capitalisation and, according to consensus analysts' forecasts, are set to generate 12% of the index's 2021 profits and 14% of its dividends.

MANGLED MARGINS

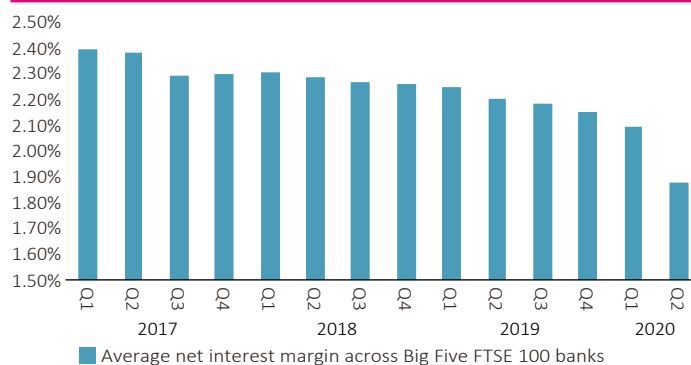
The problem, at least in the near term, is that low base rates drag down the interest rates that

banks can charge on loans. Quantitative easing is designed to flatten out borrowing costs, too, so that credit spreads (the premium in interest rate paid by a company to a government) are also relatively narrow.

The net result is that the net interest margin on banks' loan books is under fierce pressure, seriously undermining banks' profitability and their ability to earn decent returns on equity.

An average decline in the net interest margin across the Big Five FTSE 100 banks of 52 basis points (0.52 percentage points) since Q1 2017 might not sound a lot. But that represents a 22% drop in the lending margin and on their current aggregate loan books of £2.2 trillion. That is the equivalent of £10 billion in interest a year – profit which could have been used to make fresh loans, perhaps, buffer balance sheets or even pay dividends to shareholders.

Big Five FTSE 100 banks' lending margins are under pressure...

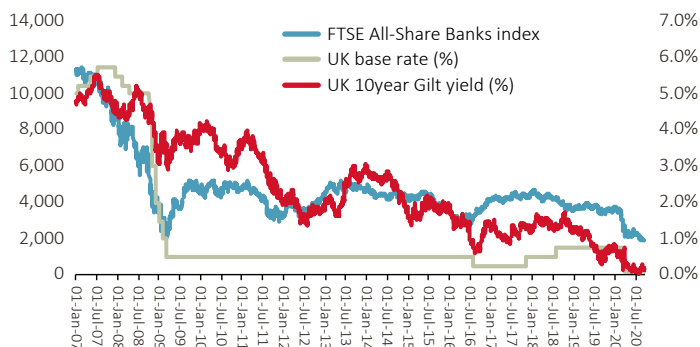


Source: Company accounts

Some investors could be forgiven that the Bank of England's monetary medicine is making banks feel worse, not better.



...and lower rates and lower bond yields could be a culprit

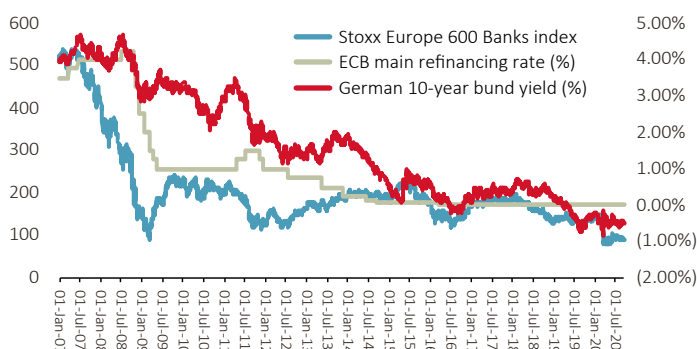


Source: Refinitiv data

GLOBAL TREND

In Europe, the European Central Bank has been tinkering with zero interest rates (and negative deposit rates) for some time, to no great effect so far as its 2% inflation target is concerned, but with deleterious consequences for banks' profits and the returns on offer to their equity holders.

Investors in banks in Europe are already accustomed to this punishment



Source: Refinitiv data

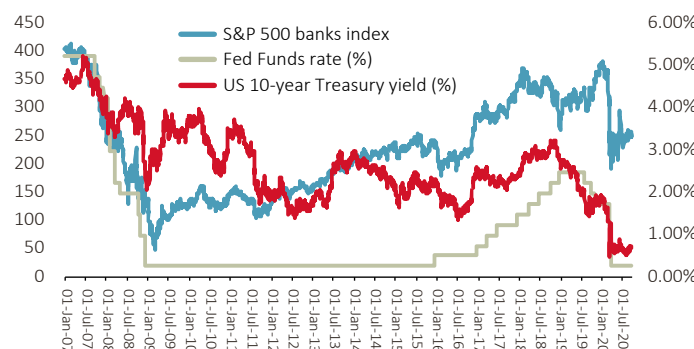
Unfortunately, investors in banks had already been warned of what might come their way. After all, the Bank of Japan has been fighting the effects of the bursting of a debt-fuelled stock market and property bubble since 1990, some 17 years before a similar fate befell the UK, Europe and America.

The effects of three decades of QE and ZIRP upon Japanese banking stocks are all too clear to see in the miserable share price performance,

and the Bank of Japan's record in promoting consistent economic growth and 2% inflation, in line with its target, is spotty at best.

Only US banking stocks have shown any real signs of life in the past few years but the pandemic, a recession and reversal of Fed policy from tightening to easing appear to have taken care of that in 2020.

US banks are now struggling too



Source: Refinitiv data

AMERICAN DREAM

The disconnect between the market cap weighting and the estimated profit and dividend contribution means that either the FTSE 100 banks are too cheap or market doesn't believe the analysts' forecasts for 2021.

The experience of America's investors suggest that banks' profits and share prices need rising bond yields, as that may help lending margins, so that may be the catalyst that contrarian value seekers crave, although what it could do to their loan books when it comes to sour loans and impairment charges is another matter.

Economic growth and (some) inflation would be potential triggers for bond yields to rise. Central banks continue to strive for both and are now calling for further fiscal stimulus to help.

Until governments sanction more spending and higher deficits, banking stocks may continue to recoil from central bank policy statements which promise low interest rates for longer or even the dreaded prospect of negative interest rates, to the detriment of individual bank stocks and perhaps the wider FTSE 100 index.

EMERGING MARKETS: BEYOND CHINA

BLACKROCK FRONTIERS INVESTMENT TRUST PLC

Investors' focus has been directed towards China as its weight in global indices grows, however, this may see them miss out on the growth, income, and diversification opportunities that smaller emerging markets still offer says Emily Fletcher, Co-Manager of the BlackRock Frontiers Investment Trust plc.



Emily Fletcher

Co-Manager, BlackRock Frontiers Investment Trust plc

At a time of global fragility, investors cannot neglect diversification. Yet many emerging market portfolios are focused on a few dominant countries and stocks that are equally sensitive to global tensions and news flow. With imbalances at both the country and stock level – Chinese technology giant Alibaba, for example, holds a similar share of the index compared to the whole of Latin America, while Tencent is worth more than Eastern Europe¹ – we believe investors may be missing out on opportunities offered from smaller markets such as Indonesia, Turkey, and Egypt as economic conditions change.

While external pressures remain from the unknown impact of COVID-19 and flaring geopolitical tensions between the US and China, it is our belief that the breadth and diversity across the smaller markets will allow us to find additional pockets of value in such a fluid and macro-sensitive environment. This also comes at a time when low interest rates and coordinated fiscal stimulus has greatly improved liquidity, a factor that should benefit all developing markets as investors hunt abroad for returns and yield.

With the promise of broader access and valuations that compare favourably to long-term averages, we believe frontiers may be on the cusp of better times after a period when global investors have pulled money from the asset class.

IMPROVING FORTUNES

On the BlackRock Frontiers Investment Trust, we aim to identify those markets that are at the foothills of a change in fortunes. When it happens, it can be powerful: investors reap the benefits of an improving currency, stronger liquidity and a change in investor expectations. This means we may be



looking at countries where bond yields are high, the currency is weak and GDP is lower, but they are showing stronger signs: liquidity may be improving, trade balances are healing and the political situation may be stabilising.

That said, while we are always looking to invest in countries where the backdrop is improving, we aim to add around two-thirds of our value from picking individual stocks. In other words, strong companies in improving economies. At times when the economy is improving, stronger companies will see an influx of capital and can employ that additional capex to their advantage.

While not an explicit objective of the Trust, investing across the smaller economies allows us to engage with regulators and policy makers, passing on investment expertise that can help drive change to develop a more sustainable financial and social infrastructure for those communities to thrive.

NATURAL DIVERSIFICATION

These markets have a notable diversification advantage. They are very different both to broader global stock markets and from each other. What is happening in Vietnam, is very different to what is happening in Nigeria, and then again to South Africa. From a risk management perspective, this is helpful.

The coronavirus has demonstrated how correlation can increase at times of market dislocation and therefore the importance of true diversification. We have 16 to 17 different countries represented within the portfolio, each with different drivers of performance and growth.

Risk: Diversification and asset allocation may not fully protect you from market risk.

INCOME ADVANTAGE

We find that the companies we invest in not only tend to generate cash, but also prioritise paying dividends, which directly benefits shareholders. Also, valuations remain quite depressed, flattering these payouts. While these markets haven't fully escaped dividend cuts in the wake of the

coronavirus crisis, they haven't been as hard-hit.

What will change the fortunes for these markets? It may be more confidence in global stock markets or global growth, it may simply be that investors realise that they have become too cheap given the value on offer. Either way, we believe we are on the cusp of change.

Risk: Reference to the names of each company mentioned in this communication is merely for explaining the investment strategy, and should not be construed as investment advice or investment recommendation of those companies.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or financial product or to adopt any investment strategy. Unless otherwise stated all data is sourced from BlackRock as at July 2020.



For more information on this Trust and how to access the potential opportunities presented by frontier markets, please visit: www.blackrock.com/uk/brfi

**TO INVEST IN THIS TRUST
CLICK HERE**



¹ MSCI, June 2020

Risk Warnings

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

Trust Specific Risks

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

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

Frontiers risk: The Company invests in a number of developing emerging markets ("Frontier Markets"). Frontier Markets tend to be more volatile than more established markets and therefore present a higher degree of risk as they are less well regulated and may be affected by political and social instability and other factors.

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

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Is new IPO THG a retail or tech business, and should you invest?

Beauty and nutrition dominate sales but online shopping platform is driving all the excitement



Initial public offerings (IPOs) of note have been a relative rarity in the UK this year but The Hut Group, or **THG (THG)** as it is officially called, brought some glitz to London's new issues market earlier this month.

City brokers have been all over the float, the UK's biggest by money raised since Worldpay in 2015, and investors have piled in in their droves. The company, which was launched in 2004 by founder Matthew Moulding and initially scaled up using

private equity cash, pitched its IPO at a fixed £4.5 billion market valuation before new money.

However, the success of its pre-market parade around City institutions saw it raise £1.88 billion, £920 million of fresh funding plus another £961 million for existing shareholders, that set the market capitalisation at £5.4 billion.

The 500p IPO starting share price jumped 25% on its debut to close at 625p on day one.

In 2019 THG made £111.3

million of earnings before interest, tax, depreciation and amortisation (EBITDA) on £1.14 billion revenue, 29% and 24% up on 2018 respectively. That's impressive growth, no doubt, but it does imply pretty eye-watering valuation multiples.

Based on our back of envelope £5.1 billion enterprise value (EV) calculation, it puts the stock on about 4.5-times EV/sales and an EV/EBITDA of more than 46-times.

Whether the business

deserves this valuation, and what sort on upside potential remains on the table will probably depend on your point of view about whether THG is a run-of-the-mill online retailer, or a more exciting tech company.

TECH VERSUS RETAIL

THG has two main parts to the business, selling beauty products through *Lookfantastic* and other websites, and *Myprotein* in sports nutrition. Both are sold internationally. Between them THG Beauty and THG Nutrition generated 78% of 2019 revenues, so about £890 million of the £1.14 billion.

Tech platform Ingenuity is the third leg (more on this later) while the rest of the business is a long tail of smaller commercial propositions in the beauty and nutrition space (plus some other assets like hotels and a gym).

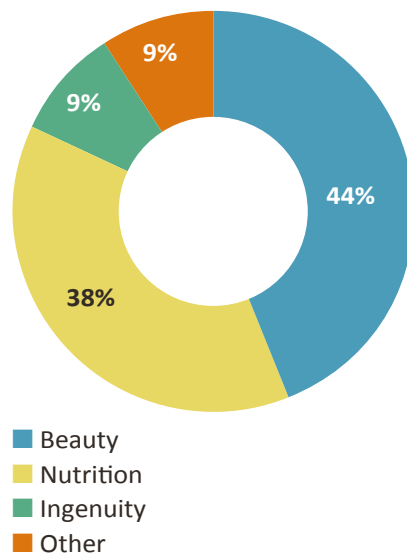
The company anticipates that both beauty and nutrition growth in the coming few years will outstrip the high single-digit or so compound average growth of their wider industry segments. First half 2020 (to 30 June) revenue growth was 56% and 30% respectively.

Myprotein, for example, has delivered averaged 45% yearly compound growth since it was acquired in 2011, according to analysis by Liberum.

Yet it is neither beauty nor nutrition that has got investors hot under the collar, it is its small but potentially exciting platform THG Ingenuity which gives the company its tech slant.

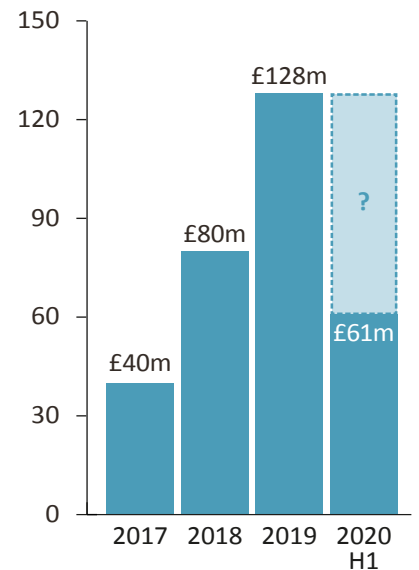
Ingenuity has been sold as a solution to third parties much in the same way that **Ocado's (OCDO)** online groceries platform

Nutrition and Beauty are still dominant

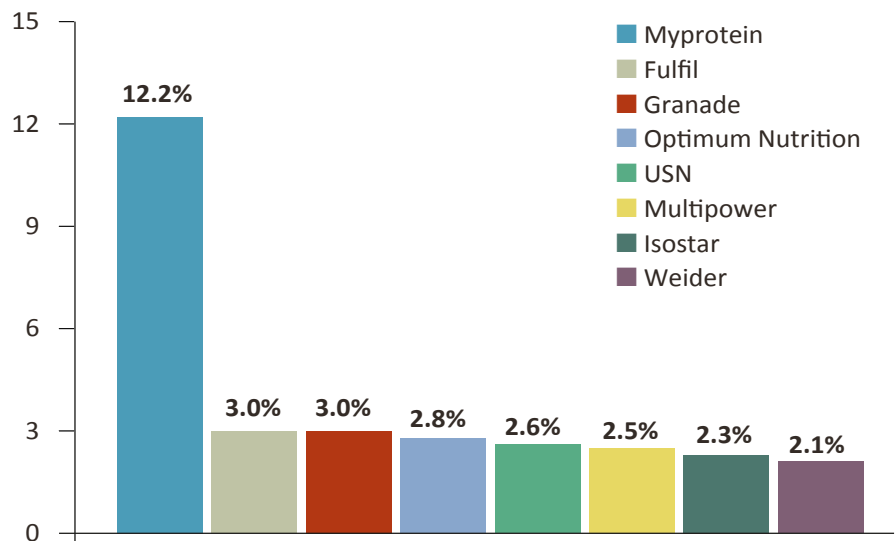


Source: THG, Bernstein Research

Ingenuity's revenue growth



Sports nutrition market share in Western Europe



Source: Euromonitor, Bernstein Research

is sold to global supermarkets.

It is effectively a ready-made online sales platform for businesses and brands eager to go digital. It's a full service that covers everything from designing your website to taking the payments and delivering your goods. Product manufacturing can even be managed if a client wants it.

It has more than 1,000 brands as clients, including Coca-Cola, Johnson & Johnson, Homebase and Kellogg.

That makes Ingenuity perhaps more readily comparable to New York-listed Shopify, the giant of the space valued at \$111 billion. In the second quarter Shopify grew revenues 71% to \$714.3 million and reported adjusted

net income of \$129.4 million, up from \$10.7 million on 2019's second quarter.

By contrast, Ingenuity is tiny, with £128 million revenue for the whole of 2019, or about 11% of THG's total. Management forecast revenue growth of 20% to 25% for the group as a whole over the medium term (out to 2024, according to Liberum).

Ingenuity is seen as the capital-light growth lever, forecast to grow at 40% primarily as a result of increasing mix of e-commerce revenues as global brand owners accelerate their adoption of direct to consumer strategies.

WHERE DID THE GROWTH GO?

In that context it is puzzling that the tech platform's growth evaporated in the first half of 2020. Ingenuity reported £61 million revenues in the first six months of the year, which was basically flat on last year.

Coronavirus slamming the brakes on this part of the business might make some sense as companies pulled the plug on investment and stored cash. However, this would fly in the face of the large bank of evidence that companies have been bending over backwards to speed up digital plans as a way to help adapt to a post-Covid reality.

There are other red flags beyond Ingenuity's surprising growth arrest. Founder Matthew Moulding will hold the positions of both chief executive and executive chairman, flouting the UK Corporate Governance Code.

The IPO also saw THG property transferred to a company personally owned by Moulding called Kingsmead.

Moulding also retains a



founder share that means he can block takeovers and resolutions while retaining voting powers. This is an unusual structure for a listed company and means THG will not be eligible for entry to the FTSE 100 or any other indices.

INCENTIVES QUESTIONED

A final risk is Moulding's incentive package, where he will be entitled to a £700 million payout if the company's market value reaches £7.25 billion in two years' time. Basing executive pay on the firm's market value is risky as it can encourage management to make value-

destructive acquisitions or starve the business of investment to meet targets.

Economic uncertainty remains a concern for investors and there's worry that tech stocks are in an unsustainable bubble. THG's valuation will do little to ease those worries. At best we believe that investors should demand more evidence of consistent execution as a public company before considering an investment in the shares.



By **Steven Frazer**
News Editor



Time to back the UK economy?

Tellworth British Recovery & Growth Trust plc

Using the three pillars of investment: British Global Leaders, British Recovery and British Technology, the Trust will invest in UK companies and intends to:

Support UK businesses with equity

Support UK employers

Promote UK technology and innovation

For more information contact your financial advisor,
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Application is open

Application closes: 5th October 2020 at 5pm



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The impact of negative interest rates on savers and investors

UK investors are already paying the Government to lend it money for certain bonds

The central banks of Japan, the EU and several other countries have implemented negative interest rate policies for some years and the Bank of England (BoE) says it will explore how this could work in the UK, should it ever be needed.

With the current base rate at 300-year lows of 0.1%, we now discuss what negative rate policy might mean for investors.

HOW NEGATIVE INTEREST RATES WORK

The BoE's base rate determines the interest rate it pays to commercial banks that hold money with it.

The base rate influences the rates those banks charge people to borrow money or pay on their savings.

If the base rate were to move to a level such as minus 1%, then in theory for every £10 million of reserves held with the BoE a commercial bank would pay £100,000. In practice, rather than pay the interest, the BoE gives back the collateral minus the interest cost.

The goal of a negative interest rate policy is to create disincentives for banks holding excess reserves and instead encourage more lending. This is expected to increase economic



activity and potentially boost growth and inflation. That's why some economists see negative interest rates as a continuation of traditional monetary policy.

NEGATIVE BOND YIELDS ARE NOT NEW

The level of the base rate affects the cost of money across the economy and lowers the cost of servicing debts for corporations. In fact, low interest rate policy and quantitative easing has resulted in negative bond yields in shorter dated UK government bonds and corporate bonds out to five-year maturities.

The UK first issued negatively yielding bonds in May this year when the Treasury sold £3.8 billion of three-year gilts at minus 0.003%. You might assume that finding investors willing to part with their cash would be a struggle, but in fact the issue was twice oversubscribed.

HOW ARE NEGATIVE INTEREST RATE BONDS ISSUED?

UK government bonds are IOU's issued by the Debt Management Office on behalf of the government in exchange for cash. They pay a fixed amount of interest over a specific period;

at maturity the investor cashes in the bond for its original face value (also known as 'par').

It's not actually possible to pay negative interest, so the way it works is that the bond is sold to investors at a premium to par and redeemed at par. If the interest payments don't sufficiently compensate investors for the premium paid on purchase, they are guaranteed to make a loss on maturity.

Believing interest rates will become more negative in future, institutions would happily purchase negatively yielding bonds (the coupon or yield moves inversely to price) in the expectation that the premium to par would move higher, locking in a capital gain, as long as it is sold before maturity.

...when interest rates are below the rate of inflation, the purchasing power of your savings diminishes.

WOULD IT COST INDIVIDUALS MONEY TO SAVE?

With interest paid on instant access savings accounts already as low as 0.01%, some banks could decide to charge customers for holding their cash. They might take the view that a good proportion of customers save money for a rainy day and are more concerned about the security of the cash rather than the level of interest earned.

It is always worth bearing in mind that when interest rates are



below the rate of inflation, the purchasing power of your savings diminishes over time. This means whatever you were saving for may have moved beyond your original expectation.

Denmark has had negative interest rates since 2012 and in August 2019 Denmark's third largest lender Jyske Bank imposed negative interest rates on customer deposits over \$1 million.

The worry for the UK financial regulator is that negative interest rates may result in retail customers closing savings accounts to seek out riskier products promising higher income.

WHAT ABOUT MORTGAGES?

Denmark has also introduced mortgages with negative interest rates, which means in practice the borrower pays back less than the original loan. Jyske Bank offered 10-year mortgages at a rate of negative 0.5%.

However, so far in the UK this type of product isn't available. It's always important to read the terms and conditions of financial products and in most cases there

are limits built into the product. In addition, some lenders have products which specify that rates can only move up.

ARE NEGATIVE RATES GOOD OR BAD FOR SHARES?

In theory shares could benefit from negative interest rates because the discount rate that institutional investors use in their discounted cash flow models could be lowered to reflect a minus risk free rate.

However, this approach is based on valuing shares on very long-term future cash flows, so you would need to implicitly assume that interest rates will remain below zero for the next 20 to 30 years in order to justify taking this measure.

In addition, if the central bank policies are successful in raising economic growth and inflation, interest rates will rise over time, creating a headwind rather than a tailwind for share valuations.



By Martin Gamble
Senior Reporter

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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New-look Witan moves away from cyclical firms

Has the trust hopped aboard the growth train too late?

After enduring a tough period through the Covid-19 crisis, investment trust **Witan (WTAN)** has rung the changes.

At first glance it looks like the trust has moved away from value investing and towards growth. We talked to investment director James Hart to discuss why this isn't necessarily the case.

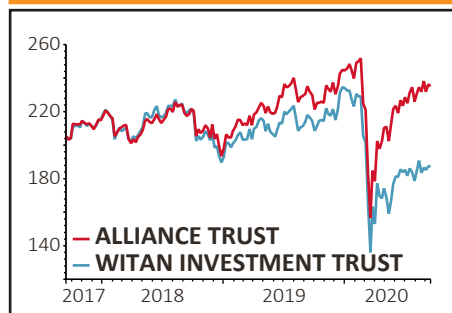
MULTI-MANAGER STRATEGY

Witan's investment strategy involves the use of a panel of third-party managers, as well as running a small part of the portfolio itself.

It adopted a 'new and simpler benchmark' from the start of 2020, with a lower UK weighting (19%, down from 30%) and a higher footprint in the US (46%, up from 25%).

But as a legacy from its previous benchmark, at the beginning of the year its portfolio was heavily biased to the UK and Europe and under-allocated to the US.

Witan has recently lagged its closest listed peer, Alliance Trust



Witan took a decision, which with the benefit of hindsight turned out to be a bad move, of only gradually aligning manager allocations to reflect the global structure of the new benchmark.

This was based on last December's definitive election result in the UK and an apparently improved picture for economic growth outside of the US.

In the trust's own words this 'proved costly', with markets in the UK (-19% to the end of May) and Europe (-7%) performing much worse than the US (+2%). The substantial overperformance of the US reflected its heavy allocation to technology – perceived widely as a coronavirus winner as reliance on the internet in all sorts of areas increased.

RESHAPING THE PORTFOLIO

Stocks from Witan's Europe ex-UK mandates run by Crux Asset Management and SW Mitchell were eventually sold by June. Witan also offloaded a holding in the global systematic value portfolio managed by Pzena, with the proceeds initially held in

a US equity index ETF.

On 4 September the trust appointed WCM Investment Management and Jennison Associates as its new global growth managers. Both specialise in faster growing companies.

WCM, located in Laguna Beach, California, has been allocated \$200 million to manage, or 8% of Witan's assets, while New York-based Jennison has been allocated \$100 million, or 4%. The move was funded by selling the aforementioned US equity index ETF.

Hart tells *Shares* the changes don't so much represent a move away from value as they do from cyclical to non-cyclical stocks. Though as he admits 'there is definitely crossover between cyclical stocks and value'.

He adds: 'Those companies which are more cyclical tend to be at the value end of the spectrum because of the fragility of the economic recovery all the way back to the global financial crisis.'

A MOVE TO 'A-CYCLICAL' BUSINESSES

Hart explains that the trust

is moving towards what he describes as 'a-cyclical' companies which are set to grow their earnings over time regardless of the sector they are in.

'This is a recognition that life is becoming increasingly difficult for managers whose structural process always takes them towards deep value companies.'

'Often these companies operate in sectors at risk of disruption whether for technological reasons or due to regulation or because of an increased focus on ESG (environmental, social, governance) factors.'

Hart cites the examples of fossil fuel and tobacco stocks and adds he would expect the managers

WITAN: JAMES HART'S VIEW ON SOME OF ITS MANAGERS

Veritas: 'Essentially this team looks for growth at a reasonable price.'

Lansdowne Partners: 'Flexible, they include some cyclical value on the basis that in a return to normality there will be out-sized returns on the way up for these stocks.'

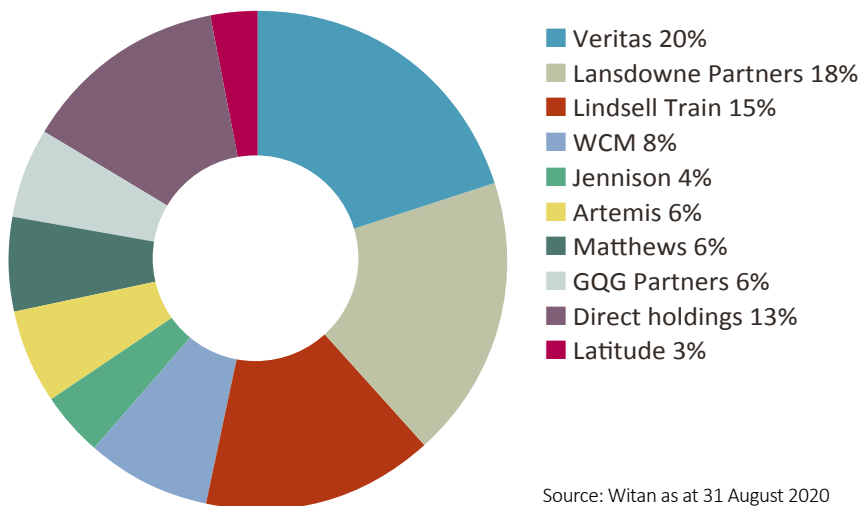
Lindsell Train: 'Targets rare and beautiful brands.'

WCM: 'Buys and holds companies with strong corporate culture and increasing competitive advantages.'

Jennison: 'Focuses more on disruptive and innovative businesses with exceptional growth rates.'

HOW THE NEW-LOOK WITAN SHAPES UP

WITAN – MANAGER BREAKDOWN



appointed by Witan to have low exposure to these areas.

One danger of moving towards growth companies is that valuations have become more stretched and Hart admits he and the team are cognisant of this risk.

For this reason, the allocation to WCM and Jennison, at 8% or 4% respectively, is lower than Witan would typically employ with a new manager. Hart says this leaves room to add positions over time – potentially when valuations are less stretched.

JUDGING PERFORMANCE OVER THE LONG TERM

Stifel analyst Ian Scoulter says: 'The Witan team has explained clearly what the problems have been, and we hope that the changes in the managers employed by the trust start to deliver better performance over the next six months. To narrow the discount (it trades at 8.4% below net asset value), we think Witan will need to deliver better performance in order to get more

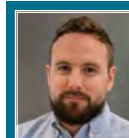
investors on board.'

The market remains sceptical as the discount to NAV has widened since the latest manager changes were announced.

Not unfairly Hart expects to judge the managers Witan employs over a longer timeframe of five to 10 years – noting that it will typically have around 10 managers on the roster and change around one a year.

In *Shares'* view the same logic should be applied to Witan itself and although we are somewhat wary of the decision to chase growth this remains a well-balanced portfolio, it charges a reasonable fee of 0.79% and is a good option for genuinely long-term investors.

As Hart observes: 'We had an awful couple of months but are hopeful that won't be repeated, and we are now looking to rebuild.'



By **Tom Sieber**
Deputy Editor

Income-hunting: a focus on Asia

MARKETS ACROSS THE globe have suffered increased volatility as a result of the COVID-19 pandemic, with income-seekers being particularly hard hit by recent corporate dividend-cutting, which has served only to exacerbate an already challenging environment of record-low interest rates and gilt yields on the floor. Whilst the impact of the coronavirus has been ubiquitous, not all regions have endured the pain at the same level of intensity, with Asia Pacific economies in particular exhibiting encouraging resilience.

Within the AIC Asia Pacific Income sector, Henderson Far East Income Limited offers the highest yield – currently over 7%.¹ This, coupled with the fact that dividends are paid quarterly (in February, May, August and November), makes it a viable option for the income-seeking investor.

A DECADE OF DIVIDEND GROWTH

The latest Henderson Far East Income Asia Pacific Dividend Index² confirms that payouts rose to a record £234.8bn in the year to April 2020, a headline increase of 0.4%. Whilst this was the shallowest rate of growth since at least 2010, this had little to do with the pandemic. Earnings showed almost no uplift in 2019, with global trade tensions dampening economic growth, giving rise to a direct, knock-on effect on dividends. Whilst two thirds of companies maintained or raised their payouts, roughly a third reduced them (up from a quarter in the previous two years). On a longer-term retrospective, Asian dividends have more than tripled in the last decade, the rest of the world merely doubling. Four of the world's largest 25 dividend payers, such as Samsung Electronics, come from the Asia Pacific region; in 2019, £1 in every £6 of global dividend payouts came from Asia Pacific, up from £1 in £9 a decade earlier. In contrast, the UK's share has fallen from £1 in £10 to £1 in £13 over the same period.

THE 12-MONTH HORIZON

It's well recognised that, in the year ahead, dividends are unlikely to reach pre-pandemic levels, although Asia is better positioned – a function of a number of contributory factors.



- Asia Pacific companies are well-positioned to pay dividends. Whilst there has been less direct government support than in the West, the COVID-19 impact has been less brutal, lockdown measures implemented to counter it had begun to ease even as they were tightening further in other developed economies, and the region as a whole has responded swiftly and efficiently, South Korea being a prime example. The consequent economic damage has been intelligently minimised therefore.
- Many Asian businesses have higher levels of insulation in terms of sustainability of cash on their balance sheets, and there is good headroom in the dividend payout ratio (the portion of profits paid out in the form of dividends). Companies in the region typically distribute under 40% of profits to shareholders, compared to, say, over 60% in the UK and 50% in Europe where businesses are more constrained by highly levered balance sheets.³ It's a widely held view that



this conservatism has roots in the fact that Asia has endured more crises than the West in recent years. Historically, it has been more focused on growth than dividends but, as companies mature, this is changing.

- In terms of dividend coverage, Asian companies are cash-rich, with nine times more net cash than the current level of dividends paid, compared to 3.5 times for US and European companies.⁴
- In the larger markets, such as China, Hong Kong and Taiwan, payouts due in the coming months are based on 2019 earnings and it is largely anticipated that they will be honoured. Whilst 2021 dividends will undoubtedly be adversely affected by this year's earnings hits, this gives more time for any portfolio adjustments required to mitigate any particularly unpalatable income reductions. Given that earnings growth in Asia is expected to be only marginally impacted in 2020, the impact to dividends should be similarly marginal.

THE SECTOR PERSPECTIVE

Given that overarching context, it seems worthwhile to identify sectors, areas and countries that are likely to prove less vulnerable to the pandemic, and those that are best avoided. Some areas of Asia's economy will experience a V-shaped recovery as latent demand manifests itself once again.

The banking sector – the region's largest dividend payer, accounting for 28% of all payments in 2019 – is likely to prove resilient (other than in Australia). Regulators have, for the most part, not required Asian banks to suspend or cut dividends, unlike their UK and European counterparts, and banks in the

region are generally well-capitalised with low dividend payout ratios, and so are better placed to weather the unfolding crisis. Many banks are state-owned, and governments are reliant on dividend payments to bolster their coffers. China's largest banks are more than 50% owned by the Ministry of Finance and have payout ratios of circa 30%, compared to over 40% for banks globally. Contrastingly, Australian banks – which make up 40% of all dividends paid by quoted firms there and have exceptionally high payout ratios ranging from 75% to 100% last year – have succumbed to regulatory pressure to curb dividends. Singapore has also restricted corporate payouts.

The sector mix across the Asia Pacific region is also more favourable in relation to the current economic climate than some Western markets – with a relatively high allocation towards technology, for example, and a low allocation to sectors dependent on discretionary consumer expenditure. Technology, infrastructure and commodities look set to fare well, whilst other sectors are likely to struggle to regain their past earnings as a result of the continuing enforcement of social distancing measures, increased debt burdens or lower discretionary consumption. Healthcare is another area which, for obvious reasons, will prosper, although the lack of large healthcare businesses within the region is a relative detractor.

LOOKING REGIONALLY

The most significant dividend cuts by far will be in Australia, but Hong Kong will also be impacted negatively by its large leisure and resorts businesses such as Sands China. South Korea looks likely to be least affected, as does Malaysia. Those countries looking potentially vulnerable include Singapore, China and Taiwan, although their frailty has yet to translate into

tangible action and, overall, the vast majority of payouts by value from these nations are likely to materialise this year largely as expected.

Looking forward over the next 12 months therefore, our best case scenario – which assumes cuts only by those companies that have already announced them or are certain to do so – sees payouts falling by 17% to £196bn. Excluding HSBC (historically a very high dividend payer) and Australian banks, the best case is a decline of less than 10%. On a worst case basis, dividends fall by 43% to £134bn, which factors in the elimination of all those companies we consider to be vulnerable. Needless to say, the actual decline is likely to be somewhere between the two, not least because some vulnerable dividends may be reduced or deferred, rather than cancelled altogether.

With regard to Henderson Far East Income, the total dividend for the trust for the financial year ended August 2019 was 22.4p per ordinary share, a 3.7% increase over the previous year's total of 21.6p per ordinary share, and well ahead of the equivalent 12-month figure for UK inflation of 1.7%. The Board believes that the impact of Covid-19 does not change the structural growth



story for Asian dividends and has reasons to be confident that the positive trajectory will resume once the virus has been contained. Accordingly, it has declared a third interim dividend of 5.8p per share for the financial year ending 31st August 2020, a 1.8% increase over the 5.7p paid for the second interim dividend. 2020 was the twelfth successive year that the trust has increased its dividend.

¹ Source: Association of Investment Companies, as at 26th August 2020.

² May 2020. All data within this article are sourced from this publication unless otherwise specified. References to 'Asia Pacific' relate to the region of Asia Pacific ex Japan.

³ Source: Henderson International Income Trust, Global Dividend Cover Report: Tracking global dividend sustainability, October 2019.

⁴ Source: Jefferies, Factset, Bloomberg. Dividend payouts – banks and region-wide, as at March 2020.

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Can Russia reduce its reliance on oil and gas?

More than half of the country's GDP is accounted by the worth of its oil and gas reserves

Oil prices have had a very turbulent year. The fossil fuel traded above \$70 per barrel in January as simmering tensions between the US and Iran threatened an escalated conflict in the Middle East and oil is now priced at around half that level.

The futures contracts on the US benchmark WTI dipped into negative territory at one point as Covid-19 dealt a devastating blow to demand and a price war briefly blew up between major producers Saudi Arabia and Russia.

Oil (and gas) production remain highly significant contributors to the Russian economy. In 2019 Russia's Natural Resources and Environment Ministry estimated that the combined worth of the country's oil, gas and other



resources amounted to 60% of its gross domestic product.

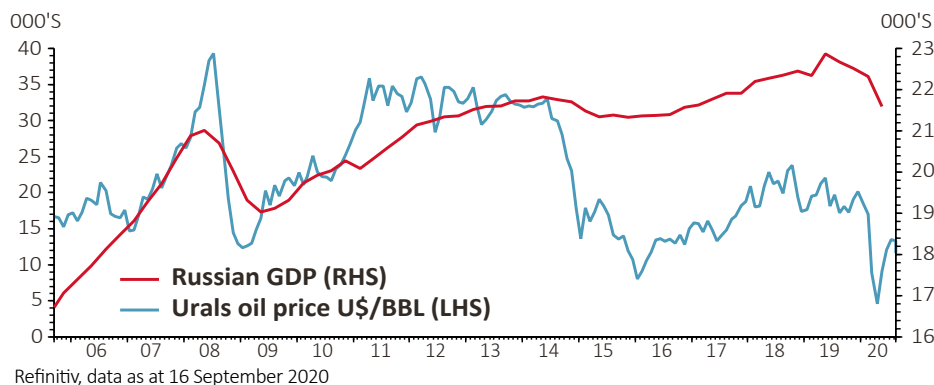
The influence of the energy sector can be seen in the correlation between oil prices and the Russian GDP – although there are signs that the link

between the two is starting to weaken.

In a June 2020 report the World Bank specifically referenced oil as it commented: 'With oil prices averaging \$32 per barrel in 2020 and the global economy contracting by 5.2% year-on-year, the baseline scenario suggests a contraction of Russian GDP by 6%, an 11-year low, with a moderate recovery in 2021-2022.'

Could the ongoing volatility in oil act as a spur for the country to reduce its reliance on the export of hydrocarbons and focus on developing other sectors? In August 2020 Russia demonstrated some intent in this area as it launched a Year of Scientific and Technological Innovation in partnership with China.

Russian GDP is expected to be hit by weaker oil prices



**FRANKLIN
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This outlook is part of a series being sponsored by Templeton Emerging Markets Investment Trust. For more information on the trust, visit [here](#)

Emerging markets: Views from the experts

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

1. A trend witnessed in several countries globally, the daily number of Covid-19 cases in **India** started to increase in late-August as the country continued to ease quarantine restrictions and economic activity began to gradually normalise. A silver lining is that these countries – including India – have not seen a corresponding jump in mortalities, reflecting improved treatments and wider testing revealing asymptomatic cases. While this may raise uncertainty on the pace of economic recovery, government stimulus should filter into the real economy gradually, supporting a recovery in due course. Indian equity markets continue to trade at a discount to long-term averages, and we believe long-term reforms and expectations of faster earnings growth could support a re-rating.

2. Although US-China tensions heightened in August following US president Donald Trump's decision to ban Chinese apps TikTok and WeChat in the United States, sanctions on Huawei, export controls and the South China dispute, commitment by American and

Chinese officials to ensure the trade deal remains on track eased investor concerns that worsening relations could lead to the end of the agreement. While we expect US-China relations to remain volatile, we remain positive on **China's** longer-term outlook as the country continues to emerge from the Covid-19 crisis with positive growth in gross domestic product (GDP) in the second quarter, raising expectations for positive growth for the year as a whole.

3. In our view, **Russia** is in an enviable position when looking at a number of fundamental factors; it has little sovereign debt, a current account surplus and considerable foreign exchange reserves. The



country's leading bank is so much more than a traditional bank. Its digital ecosystem incorporates artificial intelligence, big data and robotisation. Similarly, Russia's leading search engine has built an impressive ecosystem. Already successfully competing with Google, it offers services such as e-commerce, ride sharing and online music in a similar fashion to Apple Music. Thus, it would seem that in addition to its continued dominance in the old economy of oil, Russia appears to offer a compelling investment pool for those wanting to ride the structural tailwind of the new reality where consumption and technology underpin tomorrow's drivers of growth.

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Do I need to bother with property funds if I'm a homeowner?

We consider the argument for and against putting money into the real estate sector if you've already got a mortgage

It's a commonly held view that homeowners don't need any other type of exposure to the property sector to be well diversified in investment terms.

But does owning a residential property in which you live provide enough exposure to that asset class? Or do you need exposure in another way? Let's consider the arguments on both sides.

THE CASE AGAINST INVESTING IN PROPERTY FUNDS

When you own a home, you usually own it for decades and over that time there's a chance it will go up in value.

Since 1952, UK house prices have risen by an average 7.7% a year (albeit the annual actual growth is much lower since 2017), according to the Nationwide House Price index. This means your slice of exposure to the property asset class is growing as your 'investment' increases in value.

But even if it did fall in value, your house is still serving its purpose as a place for you to live, so you're not really losing out – after all, you're probably not trying to sell right now.



If you're investing in property through an investment fund, you're more likely to have a broader spread of property types, including both commercial and residential, and potentially a mix of property shares, real estate investment trusts and even exposure to physical property.

These various assets will behave in different ways and you will be exposed to the vagaries of the stock market, and possibly with more volatility than the wider market. As such, it's no longer just a binary bet that a single real asset (your

house) will rise in value over the next 30 years.

LESSONS FROM PROPERTY FUND SUSPENSIONS

Dealing has been suspended in numerous open-ended property funds since March, tying up more than £20 billion of investors' capital as funds were unable to accurately value their underlying properties in fast-moving markets.

Although they are now starting to reopen, this saga has reminded investors once again that these property funds do struggle in challenging markets,

and that physical property is an illiquid asset. This could be a compelling reason for those not wanting to invest in property beyond their own home.

Another key point is that a mortgage can be a cheap form of debt. Anna Sofat, associate director of wealth at financial planning group Progeny, says property buying is the only time she would ever advise her clients to leverage up, namely buying a bigger home.

‘You get value from it and there is (fingers crossed) future equity in there. And if you don’t make money then you have still lived in it and got value from having that bigger property.’

THE CASE FOR INVESTING IN PROPERTY FUNDS

Let’s now consider the argument for property investing alongside home ownership. If you own your home outright, it might be your greatest asset, accounting for a large percentage of your overall wealth.

Those who have a large outstanding mortgage or high maintenance costs might feel their home is more like a liability. It’s for this reason that Leanne Lindsay, chartered financial planner at Edinburgh Wealth Management, says people should have property investments in addition to their own home.

‘Although some people class their home as an asset, it is actually a liability,’ she says. ‘They may have some equity within their home, however, as they need somewhere to live, it’s not an asset that can be sold easily to

repay another debt.

‘If someone’s property was sold, the person would need to rent and potentially have greater outlays. For this reason, although your home is an asset on paper, it costs you money and therefore is a liability,’ she explains.

INHERITANCE PLANS

Sofat at Progeny always asks clients what they plan to do with their property in a wider financial planning context. If they intend to leave it to their children, she would exclude it as an asset, but if it will be sold or the value realised in another way while the owners are alive, then it should be factored in to overall wealth.

If you cannot include your home as an asset and don’t own any property investment funds, then effectively you have no exposure to the property sector and so you’re not fully diversified.

Another issue to consider is the fact that physical property is hard to shift quickly. You might be sitting on an asset but how are you to realise any of that value without selling up?

Unless you go down the path of extortionate equity release schemes, you can’t use your property as a cash machine, like you could if you wanted to just sell a few shares in a property investment trust to raise some quick cash. ‘Physical property is incredibly illiquid, including your home. You can’t sell a brick or two,’ says Sofat.

DIVERSIFICATION STRATEGY

Property as an asset class is not one homogenous mass. By owning a single residential property, you’re not participating fully in the

property sector, you have very granular exposure, and you won’t be achieving true diversification.

‘I would class property assets as a rental property, direct investment into commercial property or holding property funds,’ says Lindsay at Edinburgh Wealth Management.

‘Many property funds invest in areas like retail, industrial, retail warehousing, leisure and hospitality, and offices. By holding a direct investment in property such as a rental property or commercial let, you do not have exposure to the other property assets contained within property funds.’

Even if you were a landlord with a handful of rental properties, she would still suggest around a 5% allocation to property in your investment portfolio to ensure diversification, reduce risk and give you the opportunity to get returns uncorrelated to bonds and equities.

Finally, property investments can give you an element of inflation protection that can be very valuable in the long run.

‘The only two asset classes that give you better-than-inflation returns over the longer term are property and equities. Having equity property exposure is a halfway house between the two – you’ve got the liquidity of that equity market and then you’ve got some linkage to the returns from the property market,’ says Sofat.



By Hannah Smith



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Actual Investors

Six simple rules for successful investing

How to rein in your emotions and avoid classic mistakes when investing

As regular readers will know, we have a soft spot for legendary value investor Benjamin Graham, author of *The Intelligent Investor*, which that other legendary value investor Warren Buffett describes as ‘by far the best book on investing ever written’.

In the book’s introduction, Graham says his objective is ‘to guide the reader against the areas of possible substantial error’, including the psychological pitfalls of investing, ‘for indeed the investor’s chief problem – and even his worst enemy – is likely to be himself’.

If we are going to expose ourselves to ‘the excitements and temptations’ of the stock market, then even those of us with extensive knowledge of finance need to develop the calm temperament needed to invest successfully.

Investing isn’t easy, otherwise we would all be millionaires, but it can be made simpler. There are many books on investment psychology – or its modern cousin, ‘behavioural investing’ – but they all have a common thread.

The list of suggestions in this article are a good starting point, particularly for first-time investors still getting to grips with how markets behave. Most of us know what we should do, but emotion tends to get the better of us.



Several of the suggestions are sourced from books we have previously reviewed, such as [here](#) and [here](#). For those who want to delve deeper into the sociological and psychological tendencies which impact on investing *The Behavioural Investor* by Daniel Crosby is also worth studying.

SIX SIMPLE RULES FOR SUCCESSFUL INVESTING:

1. BEST IDEAS ONLY

If you’re investing in individual company shares, only invest in your very best ideas. Quite often investors spread their money across hundreds of different stocks which is too many to manage and you might be better off simply buying a tracker fund.

However, if you have a high level of conviction in a particular stock, avoid the temptation to go all in.

Bad luck happens, so spreading your investments evenly can avoid the risk of one big idea going horribly wrong and sinking your whole portfolio.

With luck you will have more winners than losers, some of which may be big winners. The trick is to keep your losers smaller and fewer. Warren Buffett has one over-riding rule when it comes to investing: don’t lose money.

2. BE HANDS-OFF

Given the eye-catching gyrations of the stock market, it’s easy for investors to feel the need to tinker with their holdings.

They should take a leaf out of the handbook of asset manager Fundsmith: find good companies, don't overpay, and do nothing.

Don't check your portfolio every day: if you are genuinely investing for the long term, look once a month or even once quarter and don't get sucked into lots of buying and selling because you feel you ought to be doing something.

3. STICK TO YOUR GUNS

There's no way to reliably time the market, and there will be periods when your stocks have setbacks. This is when emotional detachment counts. Don't get shaken out of your convictions if the strategy that worked for you six months ago isn't working now. Compounding and big gains only come with patience.



4. SET ALERTS

Having said not to trade for the sake of it and to stick with your convictions, if there is a material change in the fortunes or the outlook for one of your holdings you need to review it.

Every investor makes mistakes: the trick is recognising them and writing them down, so you don't repeat them.

Set an alert if the share price falls to 20% below the price you paid, and the alert being triggered is the reason to review



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your original investment case.

If the outlook hasn't changed for the worse it could be an excellent time to add to your position, but if your reason for buying in the first place no longer stacks up cut the idea and move on.

5. CUT EARLY

Chasing losses is a fool's errand. If you lose 20% on a stock, it needs to rebound by 25% just for you to get back to break even. However, short-term losses can get bigger with time.

If your 20% loss turns into a 50% loss, the stock needs to double for you to get back to break even. The recovery could happen, but the odds are extremely low. As the old market saying goes, the first cut is the cheapest.

Also, hanging onto loss-making investments isn't the trait of a good investor, it's stubbornness.

6. RUN YOUR WINNERS

While it's very tempting – and indeed satisfying – to book profits on your winners, the most successful investors let their positions run with the aim of winning big.

If you absolutely have to take profits, sell some but not all of your shares and don't set yourself a price target to sell the rest.

Early investors who doubled their money and sold out of stocks such as Amazon or UK equipment hire firm **Ashtead (AHT)** could have made 100 times their money had they stayed invested. A £10,000 investment in either stock would have generated life-changing gains.



By **Ian Conway**
Senior Reporter



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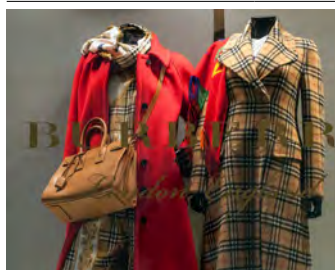
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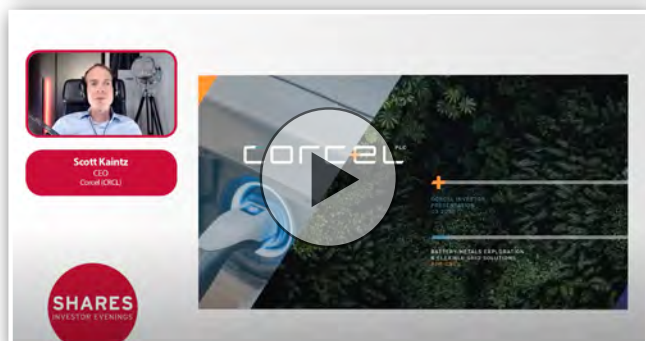


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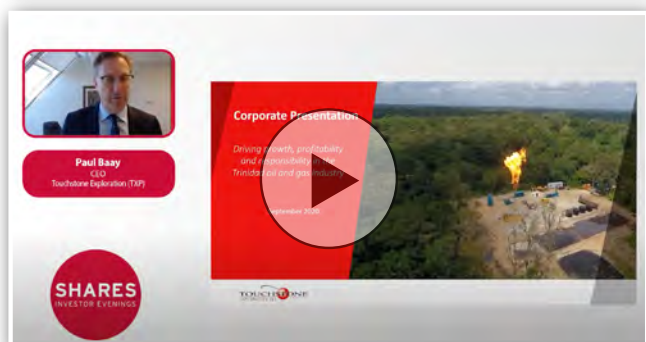
Belvoir Group (BLV) - Dorian Gonsalves, CEO & Louise George, CFO

Belvoir Group founded in 1995 and listed on AIM in 2012 is the UK's largest property franchise, operating nationwide from 396 offices across five brands specialising in residential lettings, property management, residential sales and property-related financial services.



Corcel (CRCL) – Scott Kaintz, CEO

Corcel is a mining and mineral resource development company, with interests in flexible energy storage and production. The Company was founded in 2004 and listed in 2005.



Touchstone Exploration (TXP) – Paul Baay, CEO

Touchstone Exploration Touchstone is a UK listed international upstream oil and gas company currently active in the Republic of Trinidad and Tobago. It is one of the largest independent onshore oil producers in Trinidad.

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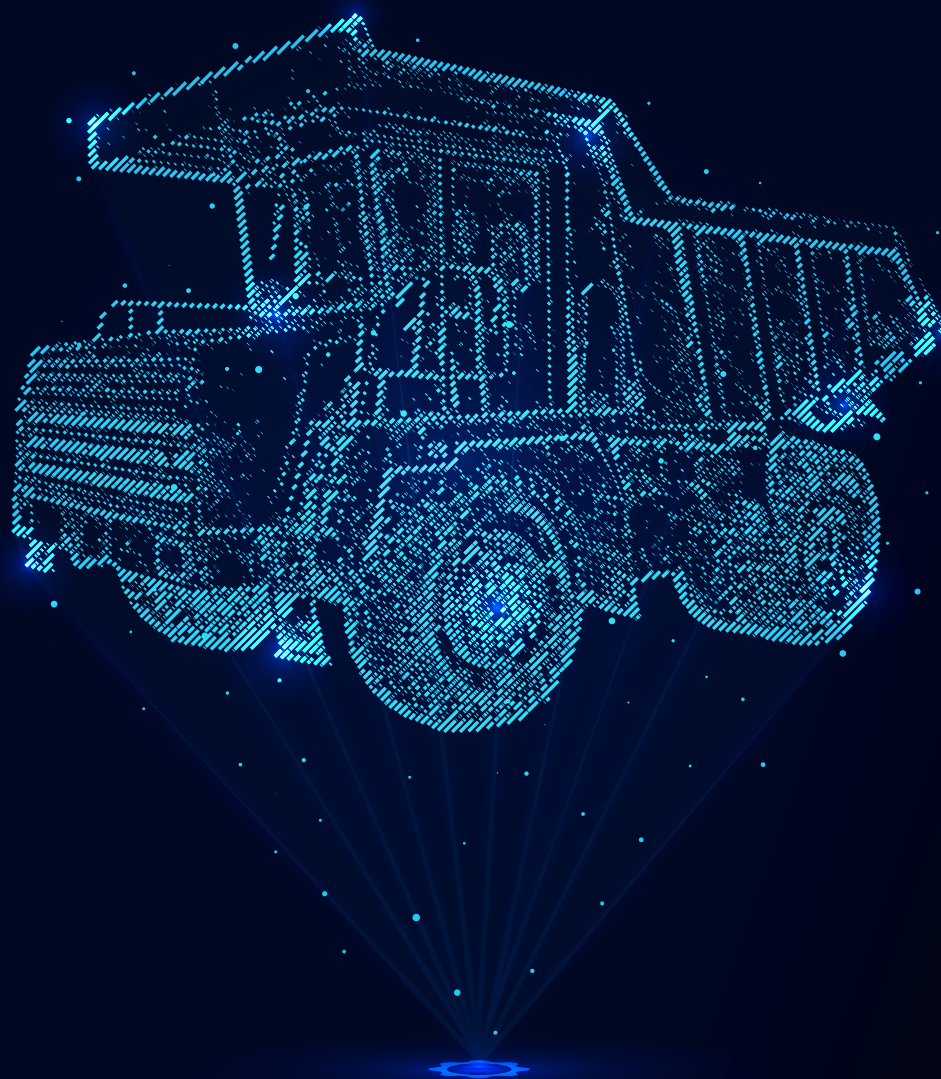
CORCEL

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*Mining, oil
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INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

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Introduction

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

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

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

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

These profiles are paid-for promotions and are not

independent comment.

As such, they cannot be considered unbiased.

Equally, you are getting the inside track from the people who should best know the company and its strategy.

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

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

[Previous issues of *Spotlight* are available on our website.](#)

Growing investor appetite for gold stocks



Gold miners are back in favour with the market as the price of the shiny metal soars in 2020, reaching a new all-time high on the back of the coronavirus pandemic and the subsequent economic fallout.

Considered one of the ultimate safe haven assets, gold tends to do well with investors in times of uncertainty, and uncertainty looks set to persist for the foreseeable future with the prospect of more economic challenges ahead, a weakening US dollar and negative real interest rates.

All this has caused the share prices of some gold miners, a leveraged play on gold, to rise exponentially in the year-to-date, and has seen a number of junior miners – both explorers and those in production – come back into vogue with the market.

CONDOR SHINES BRIGHT

One of the biggest risers has been **Condor Gold (CNR:AIM)**, a gold exploration and development company focused on developing its 100% owned La India project in Nicaragua.

The miner is targeting production of 120,000 ounces of gold annually within the next 24 months from its permitted La India open pit mine, at an all-in sustaining cost (AISC) of \$690 per ounce. For reference, any AISC under \$1,000 is considered good.

In August it managed to significantly de-risk the project and make strong progress in advancing it to a construction decision after acquiring 85% of the land in and around the site area.

Condor also has the ability to expand production to 170,000 ounces a year, and in addition it is conducting

“ Gold tends to do well with investors in times of uncertainty ”

technical studies to see if it can enter production earlier via mining high grade mini pits within the permitted pit and possibly toll refining at nearby processing plants, in a move that could lead to the company generating cash flow earlier than expected and potentially cause a re-rating of its share price.

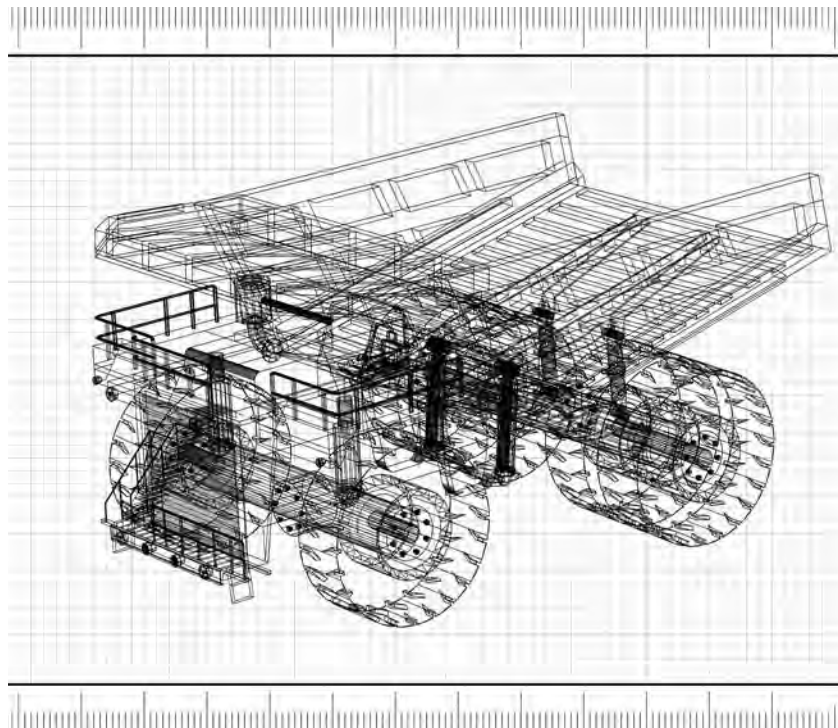
KEEPING A LID ON COSTS

While one gold miner already in production, and another which has had a strong 2020 in share price terms, has been **Ariana Resources (AAU:AIM)**.

The Turkey-based firm has been able to mostly shrug off the impact of the pandemic with production in the second quarter of 2020 standing at 4,679 ounces, meeting its half-year annual guidance.

Ariana also manages to keep a remarkable lid on costs and reported an operating cash cost of production of \$492 per ounce of gold at its Kiziltepe mine during the second quarter. The firm hasn't had to raise capital from the market since 2017.

Regarding the miner's ability to keep costs down managing director Dr Kerim Sener says: 'Credit has to go to our geological team for understanding the vein structures and ore bodies so well. Also, Turkey represents a low cost environment – the



wage profile is supportive, electricity rates are relatively low and overall our tax burden is substantially lower.'

The firm also excited the market in recent months after announcing major resource updates, revising upwards the estimate for its 100% owned Salinbas project to 1.5 million ounces from the 1 million estimated previously, while its half-owned Tavsan project also had its resource estimate increased by 50%.

EXCEPTIONAL DRILLING RESULTS

Another miner to have done well, albeit not to the same extent as those mentioned above, is gold and lithium explorer **IronRidge Resources (IRR:AIM)**.

The West Africa-focused company moved into the gold space three years ago, having made three discoveries in three jurisdictions during that time, driving its share price significantly higher.

It recently announced exceptional drilling results from its Zaranou project, with some grades as high as 1,075

grams per tonne (g/t). Chief executive Vincent Mascolo is confident there is more to come from the miner and says, 'Hopefully we will surprise the market early next year.'

A newer entrant to the market, having listed on 31 July, is explorer **AEX Gold (AEXG:AIM)**, which has been drilling for gold at its Nalunaq project in Greenland.

Chief executive Eldur Olafsson calls Greenland the 'biggest frontier left' in the mining world, with few miners in the country and no others focused on gold. 'If you want to play gold in Greenland, you have to do it with us,' he adds.

The miner's official resource estimate currently stands at 250,000 ounces of gold grading at a remarkably high 18.5 g/t, but it believes there could be as much as two million ounces in the ground.

AEX also places a big focus on ESG and Olafsson says: 'We're looking to do green, ethical mining. People want ethically-sourced gold. We want this area to be greener when we leave it.'

"If you want to play gold in Greenland, you have to do it with us"

Eldur Olafsson

Corcel: Beginning to energise

Website: www.corcelplc.com

Many publicly listed companies are content to follow the leaders. Countless oil and gas companies have for example flocked in recent years to the Permian Basin in Western Texas, all hoping to grab a piece of the shale gas boom before their competitors.

Some may have gotten there early enough to make money, and others ended up paying extreme prices for later access. In the mining space it currently seems that every company in the sector is either rebranding themselves as major gold players or working to find a gold asset quickly to do exactly that, indicative of the very same mentality.

Other firms, such as the newly branded **Corcel (CRCL:AIM)**, decide to take a longer strategic view, and demonstrate a willingness to take calculated risks regardless of their current level of favour.

In doing so, Corcel has created a truly unique proposition for investors, one that offers exposure to the most powerful trends affecting the world's economies both today, and in the years to come.

These trends being exposure to the effects of the global transition to renewable energy and the elimination of fossil fuels from the world's economies.

RISE OF THE BATTERY

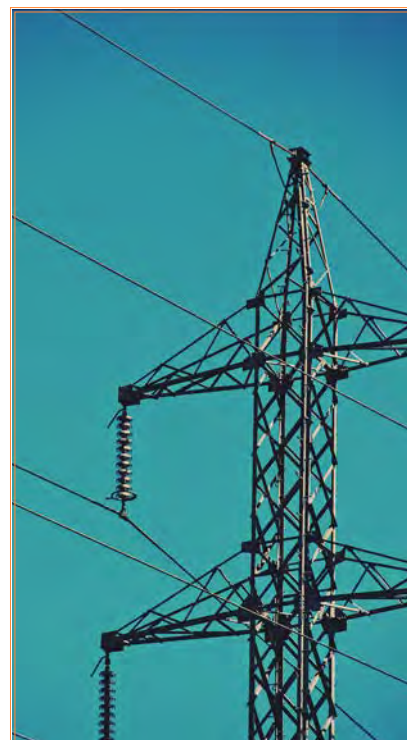
These movements when added to the technology of new battery chemistries, are propelling the lowly battery from minor player in various household gadgets to an enormously powerful driver of change in the world today.

Batteries look set to power nearly all of the world's cars, trains, trucks and in the future potentially even ships and planes.

Massive amounts of new infrastructure will be required whether these be charging points required to keep these vehicles topped up and moving, or the enormous battery factories required to produce the quantity of batteries ultimately required.

At the same time, batteries are set to be a significant new player in power grids, as countries close polluting coal stations and look unlikely to build significant numbers of new nuclear plants.

BATTERIES ARE SET TO BE SIGNIFICANT NEW PLAYERS IN POWER GRIDS



This means renewables, in the form of wind and solar, which brings with them volatility of supply and significant inconsistencies in performance. Enter the industrial battery complex, smoothing the entry of renewables to the grid and ensuring that reliable power is available to both industrial and private users as required.

STRATEGIC INTERSECTION

All of these movements are just beginning as of 2020, and are set to expand exponentially in the coming years, which could mean massive increases in demand for both the raw materials that will go into making batteries, and at the grid level, for the sites and connections required to allow industrial batteries to function.

Corcel sits at the intersection of these forces, offering

investors exposure to both the key battery metals in the ground as well as the end use cases of these batteries in the UK energy grid.

Corcel currently operates two complementary business units, the first its battery metal exploration business and the second its flexible grid solutions, energy and energy storage business.

Together these units aim to offer the potential out-sized returns of the mining exploration space, balanced out, and in part funded by, the reliable industrial style returns of a portfolio of UK energy complexes.

The board of Corcel believes this to be a dynamic combination for growth, on trend with the UK's 2050 Net Zero effort, and optimally positioned to evolve and develop into a significant listed business.

BATTERY METALS

On the battery metals side,

Corcel offers exposure to nickel and cobalt via a direct interest in a large JORC resource at Mambare, in Papua New Guinea, and indirectly through a debt position in ASX listed Resource Mining Corporation, which owns the Wo Wo Gap nickel-cobalt project.

With Corcel possessing an option to buy substantially all of the debt of RMI, a union in some form of these two sizeable battery metal projects could result in a major regional nickel player going forward.

In Canada, Corcel and its partners have just wrapped up their summer 2020 field season searching for an economic deposit of vanadium. The team overcame the challenges of Covid-19, and brought back several hundred samples for processing in Canadian labs.

Positive results from this

season will drive a 2021 drill campaign, seeking a NI-43-101 resource in a key battery metal, one that forms the core of the very attractive vanadium redox flow battery technologies set to gain market share for industrial uses.

With their low cost and massive number of charge cycles, they are expected to become a much larger part of the industrial battery mix in years to come.

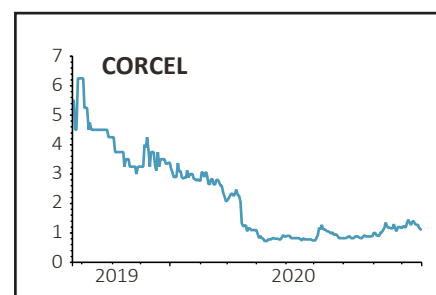
FLEXIBLE GRID SOLUTIONS

In the United Kingdom, Corcel operates its Flexible Grid Solutions business, which identifies, assesses, develops and finances flexible energy production and storage sites across the country.

Its current focus is at Burwell, outside Cambridge, where farmers' fields and an anti- landmine robot factory await conversion to a cutting edge energy storage park, with a potential solar add on also contemplated. With the site expected to be 'shovel ready' in the near term, it is set to provide Corcel's first revenues in 2021.

SUMMARY

All together, these initiatives set Corcel apart from the both the current mining and energy players, and as Corcel executes its plans, it may well be that its peers look to follow this new leader going forward.



Echo Energy positioned for a brighter future

Website: www.echoenergyplc.com

Having extensively restructured its financial and operational platform to embed stronger commercial foundations, more operational catalysts and potential material growth, Echo Energy has been through a period of significant change during 2020.

Despite the challenging backdrop provided by Covid-19 and commodity price volatility during the year, Echo Energy is now well positioned as a Latin America focused, full cycle E&P company with a balanced portfolio centred on the onshore Austral Basin, Argentina.

The portfolio comprises a significant production base, with enhancement opportunities, in combination with high impact exploration acreage.

Echo's growth strategy focuses on three fundamental areas: exploration, development, monetisation. This targets exploration and development assets in

proven hydrocarbon basins with access to existing infrastructure offering near-term, lower-risk and cost-effective opportunities.

By adopting this approach, Echo creates value by acquiring high-quality acreage, generating high-grade prospects while operating with a cost-effective focus. Echo's market position and size enables it to be a nimble and proactive player in Latin America.

MINIMUM IMPACT, MAXIMUM EFFICIENCY

As a small company with multiple assets, Echo has been able to respond to 2020's challenging environment quickly and effectively. While a large number of oil and gas companies have been affected by the oil price volatility and Covid-19 pandemic, Echo's management team rapidly streamlined the company's capital expenditure to ensure a clear focus on the delivery of maximum value for shareholders.

These measures have not only seen a significant reduction in G&A costs but have also resulted in lower field costs too. Additionally, Echo mitigated its debt position by successfully renegotiating the terms of its facilities with lenders.



SANTA CRUZ SUR

At the heart of Echo's portfolio lies the Santa Cruz Sur production and development licences, which deliver material production and sales revenue. The assets are located in the east of the onshore Austral Basin, with existing infrastructure for gas transport by pipeline to Buenos Aires and oil sales at the Punta Loyola terminal.

SANTA CRUZ SUR NET RESERVES

Net to 70% Working Interest

Oil Equivalents (MMboe)

1P	2P	3P
3.78	12.14	12.93

SANTA CRUZ SUR NET PROSPECTIVE RESOURCES

Net to 70% working interest

Prospective Resources (Bcf)

P10	Pmean	P50	P90
458.2	90.5	43.0	10.3

TAPI AIKE PROSPECTIVE RESOURCES

Net to 19% working interest

Prospective Resources (Bcf)

P10	P50	P90
2,265	851	341

As at 31 December 2019



Santa Cruz Sur also offers significant upside from relatively low-risk production enhancement options and near-term drilling catalysts. Since entering the licence, Echo has programmed a series of low-cost workovers to increase production from a number of wells and has progressed exploration activities on the licence.

With the anticipated reduction of Covid-19 related restrictions and an increase in commodity prices, Echo expects to increase operational activity across these licences into 2021. This includes completion of the Campo Limite well, of which Echo's participating interest was funded by the previous owner of the concession as part of the acquisition agreement.

The well was safely and successfully drilled to its total measured depth, encountering the targeted Springhill reservoir in the process, and completion and testing of the well will resume once travel restrictions are lifted. Initial indications remain positive and management and shareholders eagerly await its commerciality assessment.

TAPI AIKE

Echo has an option on the Tapi Aike licence, located to the west of the Santa Cruz assets and spanning a licence area of 5,187 square kilometres. Echo believes that the Tapi Aike licence represents great strategic value to the company as an underexplored, high impact asset. The latest Gaffney Cline CPR report indicates potential resources of up to 6 trillion cubic feet of natural gas (mean estimate).

Echo recently shot a total of 1,200 square kilometres of new



3D seismic data across the block, on time and on budget and interpretation continues to progress. In November 2019, Echo safely drilled the Campo La Mata exploration well on the Eastern Cube, the well was ultimately deemed an uncommercial discovery but did confirm the presence of gas and further contributed to understanding the sub-terra model.

INNOVATIVE SOLUTIONS

Echo recently restructured its relationship with the Tapi Aike licence's operator Compañía General de Combustibles S.A.. The result of the deal saw Echo relinquish its 19% working interest and cease financial commitments to ongoing pre-drill expenditure at the licence without incurring any exit penalty.

Not only has this provided Echo with the ability to streamline its resources, permitting capital reallocation to the Santa Cruz Sur assets, the company also benefits by maintaining the option to re-enter the licence at a later date after the pre-drill activities have been concluded and after it has had the opportunity to assess the data available.

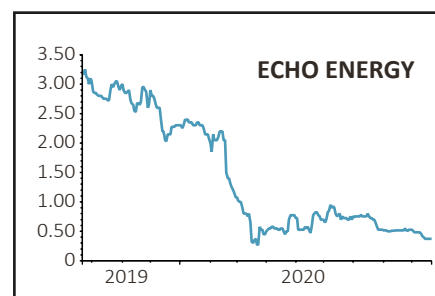
It will also enable the company to assess the prevailing economic climate at the time in terms of both commodity prices and their impact on the pathway to commerciality.

BOLIVIA AND BEYOND

While the Huayco and Rio Salado blocks in Bolivia are currently deemed as non-core to Echo's current strategy, management are evaluating the best route to maximise value from its Bolivian position. Additionally, Echo continues to actively assess M&A opportunities across Latin America which match its specific criteria.

Looking forward, Echo CEO, Martin Hull explained: 'This is an exciting time for Echo, as we move into a period of increased activity, looking to enhance production output while simultaneously investing in infrastructure in anticipation of future growth.'

'At a corporate level we continue to actively manage the portfolio with innovative deals designed to deliver maximum value and optionality for shareholders. We are also seeking to deliver on a number of operational catalysts in the coming months, and I look forward to updating our investors on progress in due course.'



Power Metal Resources is embarking on high-impact metal exploration

Website: www.powermetalresources.com

Despite their risky reputation, some investors consider now is a good time to invest in junior mining exploration companies.

This is based on an encouraging outlook for base and precious metals. Fears over the health of the global economy are driving investors to the traditional safe havens of gold and silver.

Meanwhile expectations of a post-Covid infrastructure boom, to solve global unemployment, are fuelling demand for industrial metals, such as nickel and copper.

In Canada and Australia the price performance of junior explorers has been strong. Valuations have been moving higher and there are hopes London-listed shares could enjoy a similar run.

Against this backdrop **Power Metal Resources (POW:AIM)** has put together a portfolio of potentially attractive exploration assets, with significant and realisable potential in the near future.

Through a series of joint ventures and acquisitions, when the market was struggling for liquidity, Power Metal established an

impressive project footprint.

Having successfully completed two strategic fundraises totalling £1.7 million over the last 12 months, and raised additional working capital through warrant conversion, Power Metal is fully funded for the next phase of its growth.

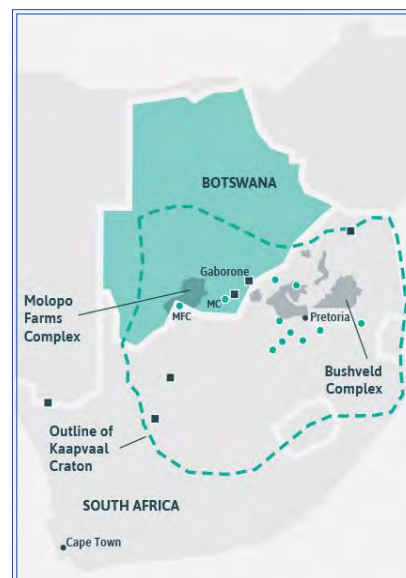
The company is now about to embark on a series of high-impact exploration campaigns, targeting some of the hottest metals today; gold, silver, copper and nickel.

THE NICKEL PROJECT IN BOTSWANA

There is a well-publicised growing shortage of nickel worldwide. One of the crucial elements for electric vehicles (EVs), demand was already expected to grow substantially later this decade. This supply-gap is likely to be exacerbated by any post-Covid infrastructure boom.

In Botswana, Power Metal is earning a 40% direct interest in the Molopo Farms Complex Nickel Project, by paying for a \$500,000 exploration programme. This includes target drilling, which is due to commence imminently.

Extensive work has already



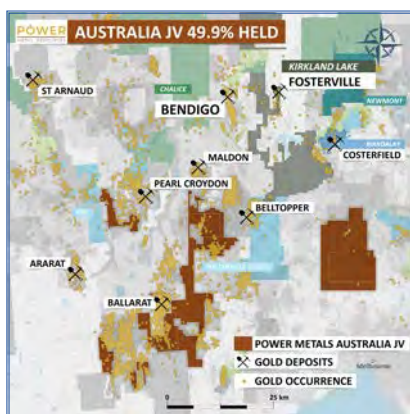
been conducted at Molopo Farms by the operator, in which Power Metal already holds an 18.26% stake. This has resulted in the identification of four high-priority targets, with the aim of discovering massive nickel sulphide mineralisation.

Encouragingly, ground-based geophysical work has correlated with previously flown high-resolution airborne surveys. The operator at Molopo farms is now in the final stages of preparing for drill commencement, in a programme which will intersect the centre of each of the four targets.

THE GOLD PROJECT IN AUSTRALIA

In Australia, Power Metal recently secured a 49.9% interest in Red Rock Australia (RRAL), an ambitious joint venture with fellow-junior **Red Rock Resources (RRR:AIM)**.

The state of Victoria is experiencing a modern-day gold rush. In 2015, Canadian-listed major, Kirkland Lake, discovered previously unrecognised, yet exceptionally high-grade, underground gold



zones at its Fosterville Mine.

Further exploration built on this success and Fosterville went on to become one of the world's most prolific gold mines. The potential of these discoveries has reignited interest in the wider region, which historically had focussed production near surface, open-pit deposits.

The Geological Survey of Victoria now estimates there could be as many as 80 million ounces of gold, waiting to be found in large-scale underground deposits across the state.

RRAL has lodged 12 license applications, covering 2,188km² of prime exploration land. much of this has hosted historic gold production, but the underground potential is yet to be tested.

Extensive exploration is



planned, with 3 priority licenses being advanced to toward granted status. Also, RRAL is considering listing some, or all, of its interests on a North American stock exchange.

With so many other international exploration companies drilling across Victoria, each new discovery will likely draw in significant investor interest. The RRAL JV is extremely well positioned to take full advantage of this.

THE SILVER PROJECT IN CANADA

One of the most recent additions to the Power Metal stable is its recently exercised option to take a 30% stake in the Silver Peak Project in British Columbia, Canada.

This 46 square kilometre high-grade silver exploration property includes the historic Eureka-Victoria Silver Mine. First discovered in the late 1860s, production continued along the Eureka and Victoria veins until 1981 with grades as high as 500 per ounce to 658 per ounce a ton at their peak.

More recently, underground sampling along the strike of the Victoria Vein, in 2011, returned a grab sample of 8,889 grams per ton. However, the full underground potential of both veins has never been tested.

To exercise its option, Power Metals has committed to spending C\$225,000 on ground exploration here. A systematic

phased exploration programme is now planned at depth and along strike, including an initial drill programme.

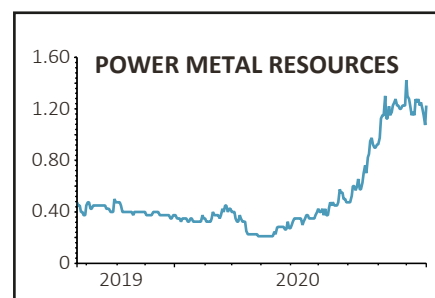
Power Metal has signalled its intent to move quickly here and further news is expected in the coming month.

CAPITAL STRUCTURE & FUNDING

As of 11 September, Power Metals had 798,816,542 shares in issue. The directors hold 14.33% of the company's shares, having directly participated in both of the fundraises over the last 12 months. CEO Paul Johnson has also bought stock in the market, taking his personal percentage to 6.89%.

With over £1.65 million cash and liquid investments on hand at the end of August, the financial position is robust. Power Metal's policy is to put as much into the ground as it can, while aligning the board's interests with those of shareholders.

With high impact exploration and drill campaigns anticipated in the coming months, Power Metal is gearing itself up for a period of extensive growth.



Solgold shines in Ecuador

Website: www.solgold.com.au

Mining firm **SolGold (SOLG)** started its corporate life focused on copper gold porphyries in Solomon Islands but quickly saw the significant opportunity in Ecuador, entering the country in 2012 having identified highly prospective and underexplored sections of the Andean Copper Belt.

Following this move into the country, the Company has to date defined a world class copper-gold deposit at its flagship Alpala Project, and has secured a significant number of concessions throughout the country, ultimately becoming the largest explorer on the ground. It has also seen a share price rise of over 1,300% during the last five years.

STRONG INDUSTRY AND INSTITUTIONAL SUPPORT

SolGold has always been listed on the London Stock Exchange, initially on AIM but moved to the London Main Market in 2017 and dual-listed on the TSX due to the strong shareholder demand out of Toronto. It has an enviable shareholder base with significant support from mining majors including **BHP (BHP)**, Franco-Nevada and Newcrest Mining and institutional investors such as BlackRock and Ninety One. From this strong platform, SolGold is positioned to achieve its aim to drive the growth of Ecuador's mining sector like BHP has done in Australia and **Antofagasta (ANTO)** has done in Chile.

The starting block for this

growth is undoubtedly the extremely exciting 85%-owned Alpala Project in Northern Ecuador. Widely regarded as one of the best undeveloped copper gold projects in the world, and with some of the greatest drill hole intercepts in porphyry copper-gold exploration history, the SolGold team have so far defined a resource of 21.7Moz (million ounces) gold, 9.9Mt (million tonnes) copper and 92.2Moz silver.

To put this into context, SolGold's work at Alpala has unearthed 10% of the gold discovered globally in the last decade (according to S&P Global). Located in an ideal position within Ecuador, the project is close to deep water ports, with clear access to fresh water, cheap power and sealed highways.

RECENT FUNDRAISING

Following the recently announced US\$100-150 million royalty financing with Franco-Nevada, and the US\$40 million equity raise which saw new institutional investors come on board, the company is fully funded through to development decision, during which SolGold will deliver the Pre-Feasibility Study (PFS) and Definitive Feasibility Study (DFS) in addition to further regional exploration results.



However, the Tier 1 Alpala is only the first project within SolGold's Ecuadorean portfolio. SolGold's first-mover advantage in Ecuador allowed the Company to secure 75 concessions across the country, becoming the country's largest explorer in an area that has seen relatively little porphyry exploration to date.

SolGold has identified 13 priority exploration projects along the Ecuadorean section of the Andean Copper Belt with the same growth and geological features as Alpala. SolGold is aiming to replicate the exploration blueprint created at Alpala to advance these projects rapidly, believing that the opportunity for further world-class deposits similar to, or even exceeding Alpala is high.

SolGold is currently focussing on drilling at three of the priority targets, with early signs of success recently seen at La Hueca. SolGold is the only company in the world with such a highly prospective pipeline of opportunities that contain the same geology, regulatory environment, fiscal environment and social environment. The Company's financial strength assisted by the recent capital raise ensures that its award-winning geologists can rapidly explore these high priority targets in parallel with the development of Alpala.

TRANSITIONING FROM EXPLORER TO DEVELOPER

As SolGold grows, and transitions from pure-play explorer to explorer and developer, it is important that the company adapts, recognising its responsibility towards its environment, social responsibility and corporate



governance.

SolGold places a strong emphasis on its relationship with all stakeholders, including investors, employees, local communities and the country of Ecuador itself, on whom SolGold depends on for its continued success. SolGold has demonstrated its commitment to local communities over many years, investing millions of dollars into local initiatives and recently supporting local people through the COVID-19 pandemic, for example with the provision of medical supplies.

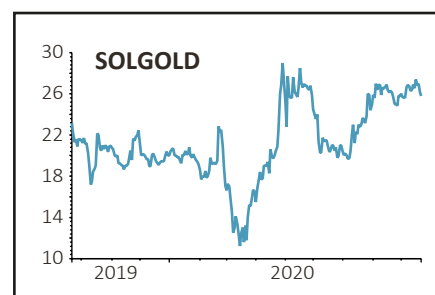
The company has recently announced its ongoing developments and improvement to corporate governance, the company's board composition and independence, along with an increased focus on shareholder engagement.

In particular, SolGold has announced its intention to be fully compliant with the UK Corporate Governance Code, helping to promote the highest standards of cooperation between the Company and its shareholders

and stakeholders as SolGold pursues its ambition of becoming a leading mining company.

KEY MILESTONES APPROACHING

SolGold believes it is on a clear path to value creation with a number of milestones expected over the coming 18 months. SolGold is expecting to reach final feasibility by mid-2021, whilst also continuing to progress the highly prospective exploration portfolio. With a fully-financed programme targeting numerous near-term projects, SolGold is excited by the opportunity to drive value and allow its investors, employees, local communities, Ecuador and wider stakeholders to share in the company's success over the years ahead.



Databank – Commodity price performance 2017-2020

2017

2018

Copper		19.5%		-16.1%	
Corn		3.6%			3.9%
Crude Oil		7.7%		-18.7%	
Gold		7.6%		-1.4%	
Natural Gas	-25%				10.8%
Platinum		-1.0%		-14.3%	

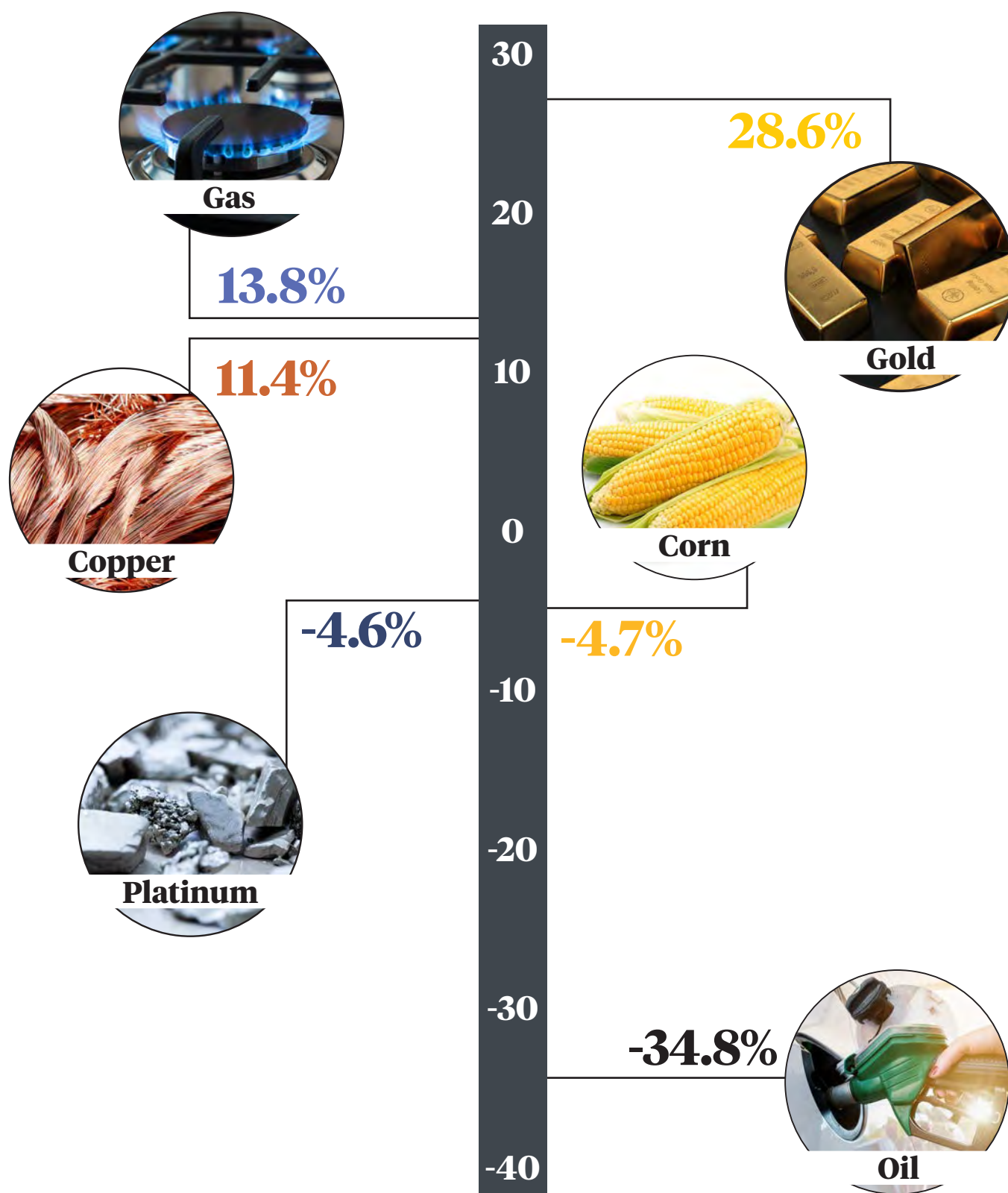
2019

2020*

Copper		6.3%			11.4%
Corn		0.1%		-4.7%	
Crude Oil		21.9%		-34.8%	
Gold		18.7%			28.6%
Natural Gas	-26.0%				13.8%
Platinum		18.7%		-4.6%	

Source: Refinitiv. Data to 21 September 2020.

Databank – Gain / loss so far in 2020



Source: Refinitiv. Data to 21 September 2020.