STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

SHUFFLING *the* PACK

How income funds are turning to different stocks for dividends

PLUS

FORGET TECH, **SOLAR AND CLEAN ENERGY** IS THE HOT SECTOR IN 2020

WHERE TO SHIFT YOUR MONEY AS **SUSPENDED PROPERTY FUNDS** REOPEN

LEISURE SECTOR HIT BY BORIS' LATEST LOCKDOWN RESTRICTIONS

European stock recovery is picking up pace

Take note of positive earnings surprises in retail and pharma and tentative signs of a banking sector rebound

Investors should be watching European markets closely as there is a lot of positive news coming from companies and interesting share price movements in recent weeks.

A trio of firms caught the market's attention on 9 October by increasing their earnings guidance for the year. Retailers Pandora and Zalando as well as drugmaker Novo Nordisk were all in demand after respective management gave an upbeat view of their earnings potential.

In mid-September fellow retailer H&M said it would return to profit on stronger than expected recovery. Around the same time, Spain's Inditex said current trade was returning to normality, with online sales growing sharply and store sales recovering.

Also catching our attention has been a tick up in the Euro Stoxx Banks 30-15 index, signalling that investors are becoming more interested in bombed-out financial stocks, perhaps because they are very cheap. The index, which tracks the performance of 22 banks in countries such as France, Germany, Portugal and Spain, has risen by 9% since 25 September.

This is interesting given the prospect of rising bad debts among consumers and businesses, together with expectations for low interest rates, would suggest the banking sector is unappealing.

However, there continues to be signs of a resurgence in value investing where people are looking to buy cheap stocks that could revert to fair valuation once economic prospects improve.

This year's winning trade has been buying the US market, in particular tech stocks. *Shares* gets the impression that there is growing fatigue from parts of the investment market towards the US due to high valuations. That might explain why investors are sniffing around elsewhere for opportunities. The UK is cheap but still has the cloud of Brexit hanging over it, so Europe is arguably a good alternative for those looking to redeploy some of their US profits.

The Euronext 100 index has been keeping pace with the S&P 500 since 25 September, both rising by 5%. On a year-to-date basis the Euronext has lagged with a 14.4% loss versus a 6.5% gain from the US index.

If you look at Europe on a broader basis including the UK via the Stoxx 600 index, even that is doing its best to play catch-up, with 4% gain since 25 September. Naturally these are very short time periods and the direction of travel could easily swing the other way.

'Despite concerns that the recovery in the euro area may go into reverse in Q4 in the face of rising Covid cases and intensifying government restrictions, at the moment, our data suggests that activity is still holding up reasonably well,' says Marchel Alexandrovich, European economist at investment bank Jefferies.

Shares discussed the opportunities for European stocks in a recent article and we now have even stronger conviction with this market.

Contents

CFA UK Publication of the Year CFA UK Journalism Awards 2019

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

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An old hand in China.
A new way to invest in it.
Baillie Gifford has been appointed by the board of the former Witan Pacific Investment Trust as the company's new investment manager. The result is the Baillie Gifford China Growth Trust. A trust with a new name and a new mandate investing in Chinese public and private companies seeking out opportunities in the world's second largest economy, for decades to come.
Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.
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BAILLIE GIFFORD
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Leisure sector hit by Boris' latest lockdown restrictions

The Government's new three-tier restrictions framework lands yet another blow on beleaguered travel and leisure operators

In another blow for the hard-pressed leisure sector, Boris Johnson has introduced a new three-tier restrictions framework to combat the spread of coronavirus, notably across the north of England.

Noting that wet-led (drinks) establishments are expected to be harder hit than food-led venues, Liberum Capital has identified **JD Wetherspoon (JDW)** and **Marston's (MARS)** as having a larger exposure than their peers to the North of England and Scotland, the areas where infection rates are highest and stricter local restrictions look most likely.

Liverpool is the first city to be placed in the 'Very High' category and the bulk of its hospitality venues will be forced to close for at least a month, but further areas could feasibly be placed into this category in the coming days.

The new tiered restrictions imposed on certain areas will be in place for a month before being reviewed and follow restrictions introduced in Scotland that will see all pubs and restaurants in the 'central belt' close until 25 October.

Ten Entertainment (TEG:AIM) and **Hollywood Bowl (BOWL)** have a reasonable presence in Northern regions which potentially exposes the bowling centre duo to new restrictions.

Focused on London and the Home Counties, Young's **(YNGA:AIM)** and **Fuller, Smith & Turner (FSTA)** are not directly impacted by the change in the latest restrictions, though their relative exposure to the Square Mile versus peers remains a drag on trading recovery, according to Liberum.

City Pub Group (CPC:AIM) could be less impacted as its estate is built up around cathedral cities and market towns in Southern England and East Anglia.

Meanwhile, Wagamama-owner **Restaurant Group (RTN)** and **Loungers (LGRS:AIM)** look to be least affected according to Liberum.

In the 'Very High' category, only wet-led pubs and not food-led pubs or restaurants will be forced to shut their doors, meaning Restaurant Group and Loungers would be exempt from the full closure restriction. They would only be allowed to serve alcohol with a meal.

The travel sector is also feeling the pinch as tighter lockdown restrictions are negatively affecting consumer sentiment.

Investment bank Jefferies thinks the sudden change in UK Government policy could have 'severe implications for customer booking confidence'. It notes that year-on-year web searches for tour operators have significantly declined from the summer rebound currently down by roughly 65% year-on-year with searches for **TUI (TUI)** declining the most.

Searches for 'Package Holiday', 'Spain Holiday' and 'Tenerife holidays' have all slumped from July peaks with 'the recovery reversing due to the UK second wave and volatile policy' according to Jefferies.

Forget tech, solar and clean energy is the hot sector in 2020

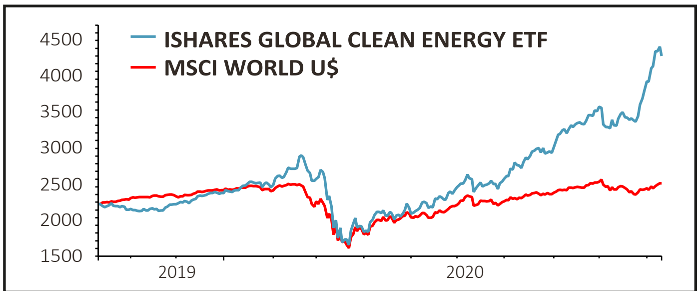
Solar and wind stocks have soared this year, but not all renewable funds have felt the benefit

The big US and Chinese tech stocks aren't the only ones bouncing back from the Covid-induced market sell-off to record large gains in 2020.

A number of funds, exchanged-traded funds (ETFs) and stocks in the renewable energy space have also soared year-to-date.

Take US-listed Invesco Solar ETF as an example. Since hitting a low of $22.22 on 23 March, the ETF has since risen over 220% to trade at around $72.69 this week and in the year-to-date is up over 125%.

On the London market **iShares Global Clean Energy ETF (INRG)**, which tracks the S&P Global Clean Energy benchmark, has returned 85% year-to-date.



The S&P Global Clean Energy index is comprised of 30 large cap stocks and includes solar PV maker SolarEdge Technology, whose share price has almost trebled so far this year, and wind turbine manufacturer Vestas, which has more than doubled since hitting a low in the March sell-off.

Part of the reason these companies have done so well is the fact that solar and wind farms across the world are now becoming economically viable without government subsidies, a big tailwind for demand for solar panels and wind turbines as the world transitions to renewable energy.

But another big factor in their share price surge

has been markets betting on a Joe Biden victory in the US presidential election next month.

If elected Biden says he will take a huge climate and jobs plan to Congress 'immediately' after becoming president, with $2 trillion to be spent on clean energy infrastructure and other climate solutions.

Solar and wind stocks have risen markedly in recent weeks in line with data showing Biden to be ahead in the polls. If the Democrats win the Senate and hold onto the House of Representatives, Biden could have a clearer path to push his policies through Congress.

Not all renewable energy funds have enjoyed such a bounce. While still well ahead of the 21% loss from the FTSE 100, **VT Gravis Clean Energy Income (BFN4H46)** has returned just 16.7% in the year-to-date compared to the 85% from its S&P Global Clean Energy benchmark, along with **Pictet Clean Energy (B516829)** which has returned 29.4%.

Both funds hold renewable energy power generators, which haven't fared as well with power prices plunging because of a lockdown-induced lack of demand. A rise in the number of solar and wind farms is good for the solar panel and wind turbine makers, but not so good for the generators which may have to sell their power for less.

DISCLAIMER: Editor Daniel Coatsworth owns shares in iShares Global Clean Energy ETF.

Regulators on both sides of the pond size up big tech targets

Amazon, Apple, Facebook and others could face lawmaker backlash

Some of the world's largest technology companies are facing attack from both sides of the Atlantic as regulators mull arming themselves with new powers aimed at capping the market dominance of Amazon, Apple, Facebook and Google-owner Alphabet among others.

The four tech juggernauts are thought to be on a European Union hit list aimed at curbing the market power of large technology companies.

Reports say that as part of the plan big tech companies will not only have to comply with tougher regulations compared to their smaller rivals but they will also have to share data and be more transparent on how they gather information.

The *Financial Times* claimed that EU regulators are looking at a host of criteria, such as market share, number of users and the dependency of other companies on their products, platform and services.

While individual companies may not be singled out, Brussels' regulators are reported to be keen on building a list of up to 20 companies, with the watchdog given new powers to force big technology companies to change their business practices without a full investigation or any finding that they have broken existing laws.

This follows complaints that the current regulatory regime has resulted in weak and belated action, which has done little to foster competition, says the *Financial Times*. The number of companies and the precise criteria for the list is still being discussed, but it is the latest indication of how serious the EU is about coming up with powers to limit the power of platforms seen as too big to care.

Alphabet, Amazon, Apple and Facebook have become the poster kids for growth investors since the financial crisis of more than a decade ago because of their ability to deliver goods and services that people want, and their access to personal data of billions of customers.

This year the four stocks have put up astonishing growth in operating numbers and share price returns, defying the Covid-19 pandemic and outstripping average returns by huge margins.

Amazon's shares have jumped 81% in 2020, Apple is up more than 65%, while Facebook returns top 30% year to date. Even Alphabet, the worst performer of the four, is 14% higher in 2020, close on double the 8.5% return of the S&P 500 index.

Now with a combined market value of more than $5.7 trillion, regulators and lawmakers in Brussels and Washington are investigating whether the four technology companies have used their size and wealth to quash competition and expand their dominance.

Earlier this month the US's Antitrust Committee slammed the technology industry with a 449-page report. However, any restrictions or attempts to break up these four companies, or others, are likely to prove difficult and long-winded. We believe investors should keep a watching brief but see little reason to panic now.

Vodafone could raise stakes in TalkTalk buyout battle

Toscafund is currently leading the charge to buy the telecoms group

Don't rule out more bidders for embattled telecoms services supplier **TalkTalk (TALK)**.

Private equity investor Toscafund has made a 97p per share offer for the business, valuing it at £1.1 billion. While the approach implies a rough 16.5% premium to the stock's 83.3p level before the announcement, it would cement a five-year run of value destruction for investors.

TalkTalk shares traded at more than 400p in 2015, and the decline has continued even after the return of founder and 30% shareholder Charles Dunstone in 2018 as executive chairman.

While other private equity buyers could emerge, mobile giant **Vodafone (VOD)** is the most likely strategic potential buyer, according to Philip Carse of technology website Megabuyte. With around £1.6 billion revenue versus Vodafone's £5.5 billion UK income, he believes TalkTalk would add scale as well as fixed line and pay TV components.

Vodafone has fallen to a distant third in the UK following the proposed Virgin Media/O2 merger, and fourth including pay TV. **BT (BT.A)** with its EE mobile network remains the UK's number one supplier.

Berenberg believes Toscafund may have to raise its offer to placate disgruntled minority shareholders angry at the low premium compared to past share price levels.

Hipgnosis rival Round Hill Music to float new trust on UK stock market

It is hoping to generate 9% to 11% total return for investors each year

FTSE 250 music royalty investor **Hipgnosis Songs Fund (SONG)** is to get another listed rival in mid-November as Round Hill Music plans to float an investment trust on the London Stock Exchange.

Both companies generate an income through owning the rights to various songs, collecting royalty payments when they are streamed or purchased digitally, on vinyl or CD, feature in films, TV shows and adverts, as well as being played on stage, in shops, restaurants or gyms.

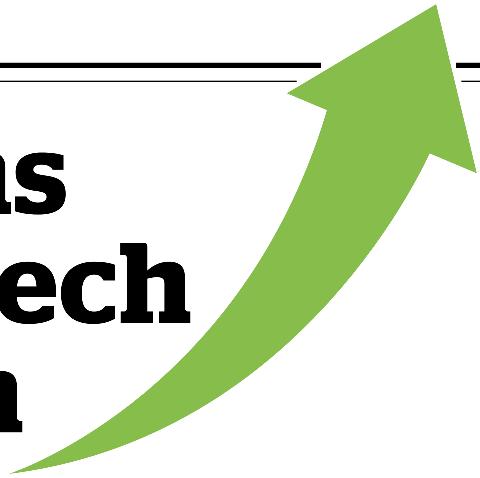
Round Hill hopes its trust will deliver 9% to 11% annual total return for investors including a 4.5% dividend yield.

It plans to raise $375 million to buy various catalogues of songs already owned by another Round Hill fund. They include songs by The Beatles as well as classics such as What A Wonderful World, Santa Baby and Total Eclipse of the Heart.

Round Hill says these catalogues mainly feature older songs that have 'reached a steady state of earnings and are stabilised and not subject to the natural decline in earnings and value that typically occurs within the initial 10 years of a composition's life.'

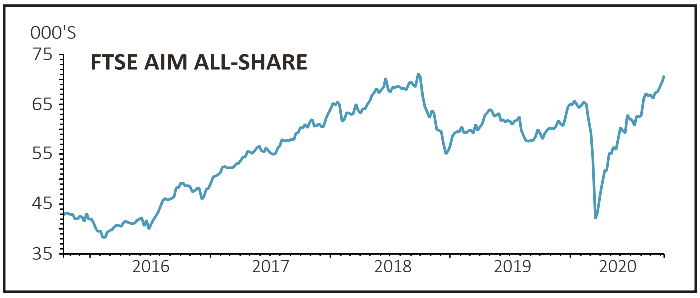
Hipgnosis recently said its pipeline of acquisitions was also focused on older songs. It has previously come under criticism for relying too much on recent hits whose durability in terms of being able to generate royalties long-term is untested.

AIM index regains strength and US tech stocks rally again



We look at the key risers and fallers on the market over the past week

While the FTSE 350 and FTSE All-Share indices remain well below all-time highs, the AIM market has been on tear, recovering all the losses suffered during the lockdown-induced sell-off in March.



Across the Atlantic the US technology sector-dominated Nasdaq 100 index registered its biggest one-day gain since April on 12 October, up nearly 3% driven by a 6% pop in Apple ahead of a product launch event.

In the six months before Apple's eight previous major generational product launches, dating all the way back to the original iPhone in 2007, its shares have risen by an average of 20%, only to move up by 4% on average in the six months after launch.

Amazon surged 5% higher as it geared up for the launch of its Prime Day sales bonanza where it slashed prices for two days exclusively for its members.

Shares in engine maker **Rolls-Royce (RR.)** have been on quite a rollercoaster ride over the last couple of weeks with the shares doubling in price between 2 and 9 October after US investment manager Capital Group revealed an 8.7% stake. Having gone on to hit 235.5p on 12 October, they then pulled back sharply to 185.5p the following day.

Car dealership **Marshall Motors (MMH:AIM)** surprised investors by saying it expects to generate an underlying pre-tax profit of £15 million for the year to 31 December. That is quite a jump from previous guidance of break-even. Strong trading continued through August while it saw a bumper performance in the all-important September plate-change month. The shares rallied 10% on the news (13 Oct).

Shares in respiratory drug development company **Synairgen (SNG:AIM)** jumped 50% between 7 and 12 October. While there wasn't any company-specific news behind the move there is increasing optimism about the prospects for the company's SNG001 drug as a treatment for hospitalised Covid-19 patients.

Bus company **FirstGroup (FGP)** saw its shares rise by 31% over the last week on higher than average volumes of shares traded, but no company news. Activist investor Coast Capital, which lobbied for a break-up of the company, remains the largest shareholder with a 13.8% stake.

One of the biggest casualties in the past week was pharmaceutical therapeutics company **4D Pharma (DDDD:AIM)** which cratered 38% to 100p despite reporting positive phase two trial results for its irritable bowel syndrome drug. The share price had increased nearly five-fold since July when the company raised £7.7 million from shareholders at 35p.

Snap up IP Group before it starts selling more assets

The successful exit from Ceres Power is potentially the first of many over the next few years

The risk-to-reward on offer at **IP Group (IPO)** is very attractive with many investors unappreciative of the near-term positive catalysts at various mature companies in its portfolio.

IP Group was set up to evolve ideas from partner universities into world changing companies. It pioneered the partnership model with UK universities and has spent many years honing a unique approach to building businesses and providing support along the journey from 'cradle to maturity'.

Over half of its portfolio consists of businesses which are over eight years old, potentially providing numerous cash realisations over the next five years. What we find interesting from an investor standpoint is that the company is close to an inflexion point where the business model becomes self-sustaining.

Investment bank Berenberg thinks the company is approaching the 'steep uphill part of its J-curve' which looks anomalous with the shares trading at around a 30% discount to net asset value. IP Group recently crystallised its investment in alternative energy supplier **Ceres Power (CWR:AIM)**, generating a return seven times its cost.

In private equity the J-curve is used to illustrate the tendency for investments to deliver losses in the early years followed by investment gains when the companies mature and cash is returned to investors.

IP GROUP
BUY
(IPO) 83p

Market cap: **£850 million**

Portfolio company Oxford Nanopore Technologies has just secured £84.4 million from existing and new shareholders. The firm has been working with various public health laboratories in China to support the only real-time sequencing of Covid-19 to better understand the outbreak.

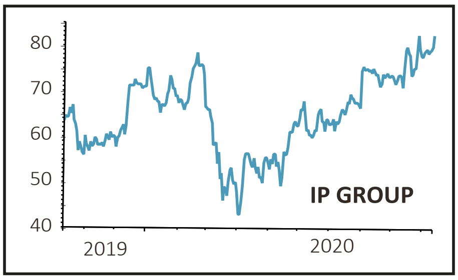
On 9 October Oxford Nanopore's Covid-19 test gained CE-Mark approval for sale across the EU while the business is on track to receive approval in the US. Separately, the Federal Drug Agency has approved a different sequencing virus test which uses the company's technology. IP Group owns a 15% stake in Oxford Nanopore.

Another portfolio holding which has seen a lot of progress over the last few months is quoted hormone deficiency specialist **Diurnal (DNL:AIM)** whose share price has more than

doubled since July.

The company has developed and commercialised Alkindi, a drug aimed at children suffering from cortisol deficiency. Cortisol is a steroid hormone that helps the body to respond to stress by increasing the body's metabolism of glucose and controlling blood pressure.

For patient investors, IP Group's current discount to net asset value provides a very attractive entry point to buy the shares in anticipation of a number of potential cash realisations from the mature part of its portfolio.



It's worth paying up for quality compounder Experian

Even fund manager Nick Train has been happy to pay top dollar for the stock

EXPERIAN
BUY
(EXPN) £30.69
Market cap: £28.1 billion

Credit checking group **Experian (EXPN)** has always been a premium-priced stock to own, and for good reason too.

It's a business that has long since proven its worth through all market conditions, consistently showing itself to be highly cash generative with low capital intensity, underpinned by its high quality recurring revenues and remarkably consistent earnings throughout market cycles.

Even the coronavirus pandemic has failed to dampen expectations, and the company's shares are at an all-time high after it last month raised its growth outlook for the second quarter ending 30 September. It now expects organic revenue to grow between 3% and 5% compared with its previous forecast of flat to minus 5%.

QUALITY SCORES

It is a clear quality business and scores well on the all right metrics with both a sector and market-beating operating margin of 22.8%, return on equity of 28.5% and return on capital of 17.8% according to Stockopedia.

Its full-year results to 31 March, before most of the impact of the pandemic, had showed a solid growing business with revenue up 9% to $5.18 billion and pre-tax profit up 5% to $942 million. Earnings have subsequently held up very well.

In part, its ability to weather all conditions is because the biggest chunk of Experian's customer base really need its services and, importantly, either can't or don't want to take the risk of getting them from elsewhere, underlying the importance of the business to its customers.

BUSINESS MODEL

According to its latest annual report, 39% of Experian's revenue came from financial services, mostly from banks. The latter supply the company with raw credit history data for free, Experian aggregates it and applies analytics, then sells it back to the banks as a credit report for one or two dollars a report.

It's an attractive business model for Experian and one of the reasons why high-profile fund manager Nick Train has decided to finally invest in the business, adding Experian to **LF Lindsell Train UK Equity (B18B9X)** portfolio.

Lindsell Train deputy portfolio manager Madeline Wright explains that Experian's customer relationships in this area are very 'sticky', with renewal rates standing at around 90%.

This is because there are only two other players in this space – American giants Equifax and TransUnion. Competition is minimal as the banks use the services of all three, because the dataset owned by each of them varies.

There's also little threat of a new entrant to the market given the tough regulation regarding such sensitive data, as well as the fact it would take a new player over 10 years to amass enough data to effectively compete.

GROWTH OPPORTUNITIES

Experian has 163 million business and 1.3 billion consumer credit history records.

What's exciting analysts and fund managers now about Experian is some other aspects of its business which offer attractive growth opportunities.

Morgan Stanley highlights Experian's direct to consumer segment, which has a membership base of 82 million and is currently the second largest contributor to revenue (15%) after financial services.

Analysts at Morgan Stanley forecast this division to bring in $1.9 billion by 2025, growing at an annual compound growth rate of 12%.

EXPERIAN: INCOME STATEMENT

Year	Revenue US$m	Pre-tax profit US$m
2016	4550	1027
2017	4335	1071
2018	4579	949
2019	4861	957
2020	5179	942
2021e	5202	1106
2022e	5671	1267
2023e	6128	1430

March year-end.
Data source + estimates (e): Morgan Stanley

While barriers to entry are lower in this category compared to its business with the banks, Morgan Stanley believes Experian is gaining market share against its competitors, where website traffic data indicates it is catching up with market leader Credit Karma in the US.

Apart from the US and UK, its other key market is Brazil, where it has 67% market share and combined with recent investments gives it an advantage to capture structural growth, the analysts add. In Brazil alone they reckon changes to regulation and a macroeconomic tailwind could add $1.3 billion in revenue over 10 years.

BETTER USE OF DATA

Lindsell Train's Wright highlights that Experian is undergoing an 'active shift' from simply selling data to selling data enhanced by decision tools, pointing out that right now 55% of its sales come from large databases of credit history from which reports are generated.

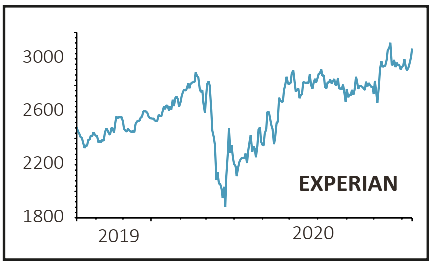
Advanced analytics and tools sitting on top of Experian's datasets now account for 25% of revenues and, crucially, growing faster than its other data services, with this shift being the driver of substantial growth over the next decade.

RICH RATING

The business is generally considered by analysts as one of the safest growth compounders globally in the information industry.

Morgan Stanley adds: 'We see scope for share buybacks to return from next year, which, along with steady dividend growth, should drive double-digit total shareholder return.'

It trades on a 12-month forward price-to-earnings ratio of 37.1 times. That's a rich rating, but Experian has generally delivered consistent share price growth ever since listing in October 2006. It's sometimes worth paying a high price to own the best and that applies to this stock.



FINDING INCOME IN A DIVIDEND DROUGHT: A CONTRARIAN APPROACH

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

Why income investors should look globally

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

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

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

A contrarian approach can pay dividends

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

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

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

A dividend reserve – the benefit of long-term thinking

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

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

14 August 2020

THE SCOTTISH Investment Trust

High conviction, global contrarian investors

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RISK WARNING

VOLUTION

(FAN) 189.2p

Gain to date: 4.8%

Original entry point:

Buy at 180.5p, 9 July 2020

AFTER AN UP-AND-DOWN start our faith in ventilation products firm **Volution (FAN)** is beginning to be rewarded – helped by a fairly robust set of results for the year to 31 July.

Alongside the numbers the company announced strong recent trading and a plan to resume dividends for the current financial year. Long-term we think the company can be a beneficiary of increased focused on air quality in the wake of coronavirus.

For the 12 months to 31 July 2020, pre-tax profit fell 37.1% to £14.6 million year-on-year as revenue slipped 8.1% to £216.6 million. However, strong cash generation meant that on a like-for-like basis net debt fell by £23.5 million to £51.1 million.

Canaccord Genuity analyst Aynsley Lammin says: 'The group delivered a relatively good set of results given the timing and impact of the pandemic. Cash generation was very good with leverage reducing significantly in the absence of substantial acquisitions.'

Volution chief executive Ronnie George tells *Shares* that although the company has seen organic revenue growth of 7% in the first two months of its new financial year and margins ahead of pre-Covid levels the company is sticking with its conservative guidance for now. This suggests scope for earnings upgrades if current trends continue.

SHARES SAYS: ↗
Keep buying.

MID WYND INTERNATIONAL INVESTMENT TRUST

(MWY) 678.59p

Gain to date: 17.2%

Original entry point:

Buy at 578.94p, 5 March 2020

ANYONE HOLDING SHARES in global equities investor **Mid Wynd (MWY)** should be pleased given how the stock is on the cusp of hitting a new all-time high.

At 678.59p, Mid Wynd is just below the 682p record high seen in August this year, with the shares having perked up in the past few weeks.

The investment trust has stakes in a broad range of companies, from tech including Amazon and Microsoft to healthcare (Merck and Roche) and consumer goods (**Reckitt Benckiser (RB.)**).

Fund manager Simon Edelsten says he has focused on creating a balanced portfolio and looks for less fashionable growth stocks on reasonable valuations. This has resulted in 12% of the portfolio's assets being in Japan and over 7% in China and elsewhere in Asia.

'These holdings dominated the fund's returns in September with Daifuku (automated warehouses), Keyence (automation control systems) and Hoya (eyeglasses and lithography plates for making semiconductors) leading the way,' adds Edelsten.

Over the past five years Mid Wynd has achieved 17.05% annualised returns versus 14.2% from the FTSE World Total Return benchmark, according to Morningstar.

SHARES SAYS: ↗
This should be viewed a long-term holding and it's pleasing to see the investment trust continue to deliver strong returns. Keep buying.

RE-FOCUSING ON THE FUTURE: CHINA

In September 2020, Baillie Gifford became investment managers for what was the Witan Pacific Investment Trust. Our radical proposition was simple – to refocus the trust away from the broad Asia Pacific region, and instead focus it solely on the most important, and arguably most exciting market of the coming decades: China.

The value of your investment and any income from it is not guaranteed and may go down as well as up and as a result your capital may be at risk.

Consequently, the trust has been renamed as Baillie Gifford China Growth Trust plc, and the portfolio invested into the 40-80 Chinese companies which we believe are most likely to deliver outstanding growth over the next five to 10 years.

WHY CHINA?

The first and most obvious reason for this is that the opportunity for investors in China is huge.

Over the past decade, China has accounted for roughly a third of all global GDP growth, its middle class is now the largest in the world, and the economy and stock market are the second largest. Driven further by world-leading technology, continual innovation, and a middle class growing by tens of millions every year, there is so much more to come.

More importantly, the opportunities in the equity market are compelling. Our experience of China is that it is one of the most inefficient markets in Asia, partly as a result of the significant role played by retail investors who make up some 80 per cent of domestic trading volumes. Such participants often exhibit herd like investment mentalities, with holding periods measured in days not years. We are confident such inefficiencies give the trust, with our five to 10-year investment time horizon, a truly differentiated edge.

At the stock level, China is where investors can find many of the world's most innovative companies which are well suited to our growth style of investing. Some examples from our portfolio include:

REVOLUTIONISING HEALTHCARE – **Ping An Good Doctor**, an online GP service, has utilised artificial intelligence in such a way that a single Ping An doctor can review 500 patients a day, with double the accuracy of a physical doctor.

Catalysing ecommerce: Alibaba and JD.com have helped create the world's biggest ecommerce market, larger than the next 10 combined.

Spearheading electric vehicle adoption: CATL, the world's largest electric vehicle (EV) battery maker, has enabled China to account for nearly half the global EV market.

Chinese companies continue to ramp up their investments in research and development, (the country already spends more on R&D than all of the EU, and is likely to soon overtake the USA). This, combined with the world's largest middle class, whose appetite to consume and adopt technology is arguably growing faster than anywhere else in the world, gives us confidence that many of the world's leading technology firms will be found in China over the coming decades.

Baillie Gifford is fortunate to have been investing in China for many decades, providing us with years of knowledge and understanding of the unique Chinese market, and allowing us to hone our unique investment process through numerous market cycles. Key to our success has been our differentiated philosophy, which is perhaps surprisingly simple: it is long-term, active and growth.

China has some of the most exciting and transformational growth companies in the world and our philosophy is centred on finding them.

Thanks to our experience, size and unusually long investment time horizon, we have a strong reputation in China and have developed a number of close relationships with the country's leading companies. This brings many benefits, including being sought out to be early investors in the best unlisted Chinese companies. With a number of companies increasingly putting off listing until much later in their development, a key benefit of the trust is its ability to take advantage of this growing opportunity set, supported by Baillie Gifford's significant experience in this area.

The Baillie Gifford China Growth Trust is a highly differentiated product, characterised by Baillie Gifford's long-term time horizon, our focus on identifying companies with substantial growth potential, and our experience investing in China and in attractive unlisted equities. We believe this is a compelling proposition for investors seeking access to what we believe is the most exciting, yet under-owned, market of the coming decades: **China**.

Important Information and Risk

This article does not constitute, and is not subject to the protections afforded to, independent research. Baillie Gifford and its staff may have dealt in the investments concerned. The views expressed are not statements of fact and should not be considered as advice or a recommendation to buy, sell or hold a particular investment.

The trust's exposure to a single market and currency may increase risk. The trust invests in overseas securities. Changes in the rates of exchange may also cause the value of your investment (and any income it may pay) to go down or up. The trust's risk could be increased by its investment in unlisted investments. These assets may be more difficult to buy or sell, so changes in their prices may be greater. The trust invests in emerging markets where difficulties in dealing, settlement and custody could arise, resulting in a negative impact on the value of your investment. The trust can borrow money to make further investments (sometimes known as "gearing" or "leverage"). The risk is that when this money is repaid by the trust, the value of the investments may not be enough to cover the borrowing and interest costs, and the trust will make a loss. If the Trust's investments fall in value, any invested borrowings will increase the amount of this loss.

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A Key Information Document is available by visiting www.bailliegifford.com

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SHUFFLING *the* PACK

How income funds are turning to different stocks for dividends

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

It's been a tough year for people who rely on their investments for income thanks to widespread dividend cuts. Income fund managers have now rejigged their portfolios to names which they believe will be dependable source of dividends or bond coupons going forward.

Their changes make for interesting reading, particularly for anyone who prefers individual stocks to investment funds as it might throw up some ideas as to where the best income prospects lie.

SCALE OF DIVIDEND CUTS

'Forecasts suggest UK dividends on aggregate for the market could be down between 30% to 50%', explains David Smith, manager of **Henderson High Income Trust (HHI)**.

He has taken a pragmatic view to dividend cuts, 'supporting those companies I believe have the best long-term potential and capital recovery prospects, given their business model strengths and competitive positioning, despite no dividends in the short term, such as **Whitbread (WTB)** and **Informa (INF)**.'

He has sold businesses that have cancelled dividends and where he has less faith over the medium-term recovery prospects or where structural or competitive pressures persist. Names that have left his portfolio include **BT (BT.)** and **HSBC (HSBA)**.

To help limit the income hit, Smith has added to more defensive holdings such as **Tesco (TSCO)** and **Reckitt Benckiser (RB.)**. He has also taken advantage of share price falls in more cyclical businesses with the balance sheet strength and cash flows to continue paying their dividends including **3i (III)** and **Rio Tinto (RIO)**.

The Janus Henderson Investors money manager says he has also materially increased the holdings in overseas companies, buying high quality names with good long-term growth prospects that 'pay an attractive, sustainable and growing dividend'. Names that now have a more prominent position in his portfolio include semiconductor manufacturer Texas Instruments in the US and European utilities RWE.

INVESTMENT TRUST BENEFITS

One of the advantages of investment trusts is their ability to use revenue reserves to supplement income in more difficult dividend environments. 'While that helps bridge the gap for income so the trust can maintain its own dividend, it means I can also maintain holdings in companies that have postponed their dividends to hopefully benefit

UK stocks: Dividends being restored

Date	Amount
July	£1.1bn
August	£1.3bn
September	£605m

Source: AJ Bell

from any capital recovery,' adds Smith.

Charles Luke, manager of **Murray Income Trust (MUT)**, says his fund's focus on quality companies with robust balance sheets and resilient business models put the Murray portfolio 'in a relatively strong position to cope with the falls in the market and the reduction in income generation that we have seen this year'.

Also aided by its substantial revenue reserves, Murray Income has been assisted by its ability to generate an additional uncorrelated income stream from an option-writing programme, says Luke.

His view is that income distributions across the market are likely to fall by around 40% this year, though his concentration on high quality companies means he expects the aggregate income flowing into his portfolio to be down only 15%.

He also expects those portfolio companies that have suspended their dividends to return quickly to the dividend list. 'This is exactly what we are now seeing with the likes of **XP Power (XPP)**, **Close Brothers (CBG)**, **Bodycote (BOY)** and **Mondi (MNDI)** recently reinstating their dividends.'

DIVIDEND SUSTAINABILITY

Luke warns that during challenging times for income generation there is 'the temptation to chase lower quality companies with the chimera of higher dividend yields', but these dividends are 'rarely sustainable in the long term'.

Instead, Murray Income has taken advantage of the market dislocation to add to companies with long-term earnings growth prospects such as **Fevertree (FEVR:AIM)**, **Dechra Pharmaceuticals (DPH)** and **Unite (UTG)**.

4.2%

FTSE 100 dividend yield for 2021, based on consensus forecasts.

These purchases were funded by selling the likes of **Royal Dutch Shell (RDSB)** and HSBC before they cut their dividends.

SWIFT ACTION

Job Curtis, manager of **City of London Investment Trust (CTY)**, describes his financial year to 30 June 2020 as 'a year of two halves'.

In the first, 'things went quite smoothly, the economy was chugging along with low inflation, the Conservatives won a decisive general election victory and that removed worries over sectors such as utilities', but the second was turbulent to say the least.

'Everything changed in January as the virus emerged in China, then spread to Europe and the UK. I really had to make some quite big changes to the portfolio.'

Curtis could see travel and leisure would be badly affected by the virus, so he sold **TUI (TUI)**, **Compass (CPG)**, Whitbread and **Cineworld (CINE)** and bought La Francaise des Jeux, the cash-generative French national lottery operator.

He also reduced exposure to banks. 'I had bought **Natwest (NWG)** in 2019 but I subsequently sold it, and I also reduced HSBC, **Lloyds (LLOY)** and **Barclays (BARC)**'.

Banks have temporarily been stopped from paying dividends by the regulator, and while they have stronger financial constitutions than during the financial crisis, Curtis frets over the fact they remain 'leveraged institutions vulnerable to a downturn in the economy'.

When will banks resume dividends?

- Banks across Europe stopped paying dividends this year following pressure from regulators to preserve capital during the pandemic.
- An official update on when European banks might be able to restart payments is expected by the end of 2020.
- Lloyds' shareholders should brace themselves for significantly lower payments. The consensus analyst forecast is 1.53p in dividends for 2021, which is less than half the 3.37p paid for 2019. Analysts predict 2.41p in 2022.

In oil, Curtis' holding in Shell was reduced following its historic dividend cut and City of London bought into French international oil company Total, which he says has a lower cost of production than Shell and a stronger balance sheet.

Curtis also shuffled the pack in food retail, buying Tesco and **Morrisons (MRW)** while selling **Sainsbury's (SBRY)** after it failed to pay its shareholder reward. In life insurance, he sold **Aviva (AV.)** and bought **Legal & General (LGEN)** 'when they confirmed their dividend in April'.

DIVIDEND RESUMPTION

Simon Moon, who manages the smaller companies portfolio of the **Acorn Income Fund (AIF)**, recounts that during March, April and May, the period which happens to coincide with the most significant quarter of dividend declaration, a number of investee companies cancelled or deferred dividend payments.

'This was predominantly a prudent act,' insists Moon, 'since the extent and duration of the economic disruption was uncertain and companies conservatively chose to prioritise liquidity.'

He says the recovery for many of these investee companies has been far sharper than expected and dividends have resumed accordingly.

'In contrast, several large dividend payers further up the market-cap scale, that had been over-distributing dividends for years, used the same disruptive factors as an opportunity to reset excessive payouts at more sustainable levels, thus lowering their dividend outlook permanently,' he adds.

Besides selling two indebted firms as the pandemic took hold, Moon used the volatility to top up numerous existing holdings and add other names to the portfolio. These included healthcare software provider **EMIS (EMIS:AIM)**, fund manager **Liontrust (LIO)** and sausage skins manufacturer **Devro (DVO)**, the latter demonstrating 'cash flow solid enough to reinstate its final dividend'.

Dividend yields around the world

Index	Yield
S&P ASX 200 (Australia)	4.7%
FTSE 100 (UK)	3.9%
Bovespa (Brazil)	3.5%
Hang Seng (Hong Kong)	3.3%
Dax (Germany)	2.8%
FTSE MIB (Italy)	2.7%
SSE Composite (China)	2.6%
Topix (Japan)	2.3%
CAC 40 (France)	2.2%
S&P 500 (US)	2.1%
OMX Stockholm 30 (Sweden)	1.3%
Sensex (India)	1.2%

Source: Refinitiv, as of 9 October 2020

GOING GLOBAL

Murray International Trust's (MYI) global mandate has been 'very helpful in this difficult environment' according to co-deputy manager Martin Connaghan, as it meant the fund wasn't overly exposed to the UK or Europe, where dividend cuts have been much more severe than in other parts of the globe.

At the height of the volatility in markets, 'when dividends were vanishing at very short notice', Murray's managers believed the most prudent course of action was to be relatively inactive. Since the market has settled down, portfolio activity has increased.

Investors' obsession with the tech and e-commerce sector has led to numerous sectors and markets being overlooked, insists Connaghan, throwing up opportunities for those 'prepared to stay focused and disciplined on relative value'.

In recent months, Murray International has invested in growth stocks including Abbvie, Ping An Insurance, China Resources Land, Hon Hai Precision, **Unilever (ULVR)** and Broadcom.

ASIAN OPPORTUNITIES

Coronavirus has caused dividend cuts around the world, though the scale of dividend losses in Asia is relatively smaller than in Western markets.

Convenience Retail Asia has the exclusive rights to use the Circle K brand in parts of Asia

'Even within Asia, better quality companies have had a better crisis,' says Yoojeong Oh, manager of **Aberdeen Asian Income Fund (AAIF)**, another trust sitting on significant revenue reserves. Hong Kong retailer Convenience Retail Asia 'kept generating cash flow by quickly adapting its in-store products to suit the changing spending patterns during a tumultuous half year, which allowed the company to pay out a much welcomed special cash dividend in May', she explains.

Technology and telecoms companies in Korea and Taiwan have emerged relatively unscathed from the worst of the pandemic, thanks to increased demand for electronic equipment and data stemming from the need to work from home.

Aberdeen Asian Income has used the last few months as an opportunity to add companies that could benefit when the tide turns, such as Singapore's CapitaLand, and its subsidiary, CapitaLand Mall Trust, a retail-focused real estate investment trust with a suite of local downtown and suburban malls.

'The REIT subsequently announced its merger with CapitaLand's office unit to form a combined entity of well-located properties across the island state. Both new additions share robust income profiles and stable yields', explains Oh.

BRAZIL'S ATTRACTIONS

Somerset Capital Management's Kumar Pandit, who becomes co-manager of the **Somerset Emerging Markets Dividend Growth Fund (B4Q0711)** in November, believes Brazil offers a unique combination of income and growth potential.

'Brazil is still 40% off its pre-pandemic peak in US dollar terms and is yielding 3.5% despite a wave of dividend cuts this year. Despite this, the economy has been hit less hard than many others – chiefly led by Bolsonaro's refusal to implement a nationwide lockdown – and companies remain under-levered and well-placed to benefit from operating leverage when the economy recovers,' says Pandit.

He adds that many companies have cut their dividends for good reason this year, but there is a strong culture of paying dividends in Brazil which bodes well for when the economic backdrop improves.

Also alive to opportunities is Brown Advisory, which bought more shares in Bank Rakyat earlier this year. Long owned in its **Brown Advisory Global Leaders Fund (BYPJ0V0)**, the bank is 'the undisputed leader in microfinance in Indonesia which is a key driver of its growth and high return on invested capital', insists Priyanka Agnihotri, Brown Advisory's head of international equity research.

Bank Rakyat's key competitive advantages are its rural credit infrastructure and the system of incentives in its microfinance units which have been hard for other banks to replicate.

"(Brazil's) economy has been hit less hard than many others"

TWO INCOME FUNDS TO BUY

City of London Investment Trust (CTY) 325.5p
Yield: 5.8%

Over the 29 years to 30 June 2020, City of London has delivered a net asset value total return of 936% versus the 706% return from the FTSE All-Share.

Despite this year's dividend cuts across large parts of the market, City of London raised the dividend for the year to June 2020 by 2.2%, partly funded by revenue reserves.

This marked a 54th consecutive year of increased payouts, the longest of any investment trust, and the board expects to increase the dividend in 2021 too, for a 55th successive year of rising shareholder rewards.

City of London's three biggest holdings are consumer staples giants **British American Tobacco (BATS)**, Unilever and **Diageo (DGE)**, 'global companies making everyday products with very good long term records, good cash generators, ideal as the bedrock of an income portfolio' according to Curtis.

He says British American Tobacco's profits have held up well during the pandemic and the stock offers a prospective 8% dividend yield. Such a high

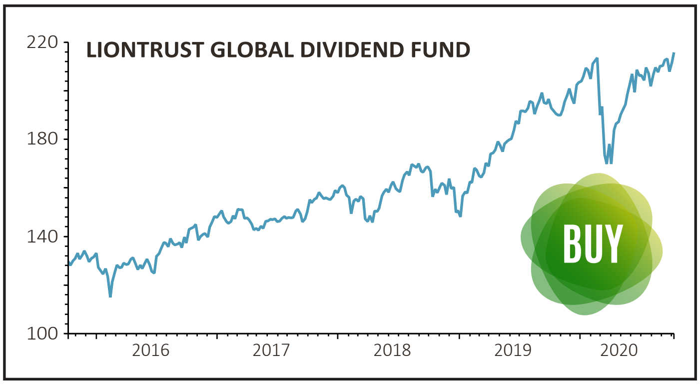
yield could be the market's way of saying it doesn't believe the dividend forecasts, which is something that investors should consider.

'I'm a great believer in valuation coming through and you have seen more bid interest and stakebuilding going on in the UK market,' explains Curtis. 'The value may take time to be realised but we're being paid while we wait'.

While predominantly a UK large cap trust, City of London has also increased its exposure to overseas listed stocks. It offers income seekers exposure to cash generators including Microsoft, Coca-Cola, Nestle and Johnson & Johnson.

Liontrust Global Dividend Fund (B9225P6)
Yield: 3.7%

A savvy option for the new era of income investing is the **Liontrust Global Dividend Fund (B9225P6)**, whose fortunes have been turned round since Storm Uru took over as manager in August 2017.



Rather than a high yield today, Uru focuses on dividend growth, a strategy he insists delivers a greater and more consistent level of income and total return to investors.

Uru invests in global leaders with economic moats and structural growth tailwinds which are well positioned to drive earnings and deliver attractive dividend growth.

A truly global fund, invested in 38 stocks spanning different sectors and countries, this is a portfolio of best-in-class businesses with strong competitive positions.

Uru says 'economic profit is tipping the way of the best businesses in the world' and he has some 130 global leaders on his watchlist.

A fairly new position is Disney, which cut its dividend in May in response to the pandemic-driven closure of its theme parks and is under pressure from activist Dan Loeb to suspend the dividend completely and invest the cash back into the business.

Liontrust's Uru says the future economic prospects for the company is not its theme parks but its direct to consumer business like Disney+, Hulu and ESPN+. He also flags up Disney's 'fortress balance sheet with $27 billion of cash on hand' and (before Dan Loeb's intervention at least) expects Disney to return to dividend growth next year and provide investors with a steady stream of income for years to come.

The fund manager has also invested in Google-parent Alphabet, blessed with $120 billion cash on the balance sheet. 'It is already buying back shares and it is only a matter of time before it initiates a dividend,' says Uru.

Dividend growth stocks in the fund include credit card group Visa and industrial-to-consumer products maker 3M, 'a stock that exhibits characteristics I'm looking for including an economic moat, high gross margins and a strong balance sheet,' he adds.

The "homebody economy" – investing in your digital back yard

Covid-19 has accelerated existing trends to shop, study, work and play at home with important implications for investors

By Jean Roche

It is clear that UK shares are unloved. No likes, no shares, no new friend requests. The level of gloom surrounding this market is remarkable even amongst UK based investors, who, you might think, should feel more comfortable investing here.

This is not just pandemic queasiness. Although the UK economy is service-led to some extent, it is not uniquely disadvantaged by the fallout effects of Covid-19.

And indeed, the government's support schemes such as Eat Out to Help Out have focused on supporting the more vulnerable services element of the economy.

Should we blame Brexit?

Last year, we saw a similar spell of despondency when international investors shunned British shares ahead of the withdrawal deadline. Once they realised the world wouldn't end, UK mid-caps bounced back very strongly.

We're back there again. Global fund managers are at their gloomiest, in terms of an underweight to UK equities, in two years, according to the most recent update of a monthly survey by Bank of America.

There's no guarantee history will repeat itself. But it seems reasonable to assume that current fears will subside as the usual brinkmanship around EU negotiations results in an agreement of sorts, and that UK share prices will rally.

One chart, from Peel Hunt, captures the story from a different angle. It shows analysts' consensus for increases in earnings per share for certain markets. The FTSE 250 is forecast to recover with more gusto than other major markets shown below.

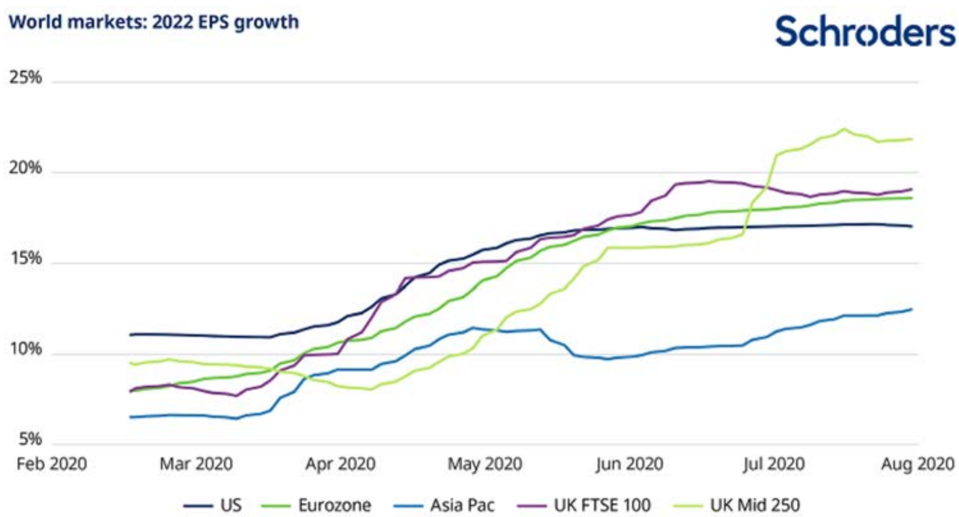
The forecasts included should not be relied upon, are not guaranteed and are provided as at the date of issue. Forecasts and assumptions may be affected by external factors and are subject to change

Valuations are also worth considering. UK small and medium-sized stocks trade at a discount of around 25% to similar stocks globally, based on a blend of valuation yardsticks including price-to-earnings and price-to-book.

Regardless of whether confidence returns, we're focused on a certain characteristic of the market – the "homebody economy".

Why the "homebody economy" is flourishing

The term will be familiar



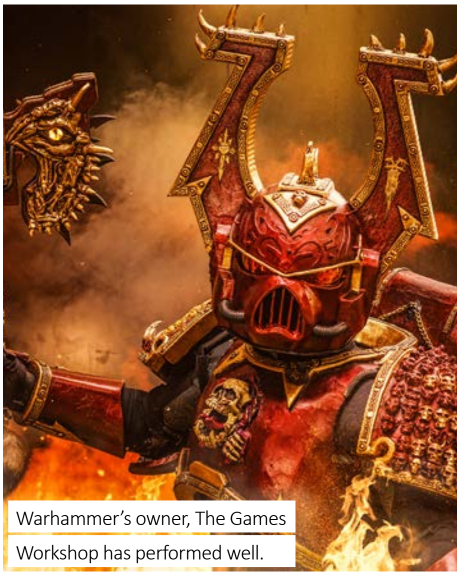
Source: Peel Hunt, IBES. 486433

to those in the US; less so elsewhere. It is the increased shopping, studying, working and entertainment we've all been doing at home during lockdown. "Homebody" is no longer considered a derogatory word; it reflects a trend that's widespread, growing, and a force to be reckoned with. Most importantly, you can get plenty of exposure to it in the UK, through underappreciated technology or technology-enabled growth companies, and their enablers.

In my world, as an investor focused largely on medium-sized FTSE 250 companies, or mid-cap, I see industries and sectors that are firmly in this space.

You will have noticed these trends yourself – the boom in pet ownership, for instance, thanks to the likely new normal of two or three days a week working from home. This shift in pet ownership has been a boon to Pets at Home, an out-of-town superstore for pet owners.

The increase in gaming has also been widely reported. With non-existent commutes and more time available at home, many people are spending more of their wages on entertainment. It's not just desktop gaming either; table-top gaming has flourished too. The likes of Warhammer, a table strategy game previously associated with pre-teen boys, has seen demand soar. Its owner, The Games Workshop,



Warhammer's owner, The Games Workshop has performed well.

has reaped the benefits.

Refurbishment is another trend that may resonate with anyone who has sat at home long enough to notice the rooms in dire need of a makeover. As a result, retail park-based companies such as DFS, a furniture chain, and Dunelm, a specialist in affordable and well merchandised homewares and furnishings, have seen demand rise.

All this increased working from home is only made possible by good connectivity and reliable "kit" however. Homeworkers are at the whim of technology, so companies providing infrastructure and support have naturally thrived amid the homebody digital economic boom. Examples include under-appreciated UK tech companies such as Computacenter (which seems to keep upgrading its earnings forecasts) and Softcat.

Other trends are less obvious. The increase in stock market trading has been helpful to online trading companies. This is the result of a section of the population, having more time (and privacy!) to dabble, more money after saving on travel costs, and the inspiration of a breathless rally for high-profile stocks, such as Apple, Amazon and Tesla. Digitally advanced UK online financial spread betting companies IG Group and CMC Markets, for example, have significantly expanded their audiences.

And what of office stocks?

Well, these can benefit from an increasingly digital world too. IWG, the largest flexible office space platform, is well placed to respond to what is likely to be a rapidly evolving backdrop, with employees mixing and matching working from home alongside collaboration sessions in the office.

Much rests on which of these trends hold. The government has told us to go back to the office. But changes which were already happening have been accelerated by the pandemic. The shrewd investor must judge the extent to which they will persist. Only then does assessing the long term winners and losers become possible.

For more information on Schroder UK Mid Cap and the full range of investment trusts at Schroders, subscribe to our newsletter here.

AJBell Awards 2020

Approximately 8,600 votes were cast for the best funds, investment trusts and exchange-traded funds in AJ Bell's Fund and Investment Trust Awards 2020. Now in its fourth year, the awards are a chance for retail investors and financial advisers to have a say on their favourite funds across both the active and passive fund categories. Congratulations to all the winners.

CATEGORIES	WINNERS
ACTIVE	
UK Equity	**Liontrust Special Situations Fund**
Specialist	**First Sentier Global Listed Infrastructure Fund**
Emerging Markets Equity	**Templeton Emerging Markets Investment Trust**
Japan Equity	**Baillie Gifford Japanese Fund**
Asian Equity	**Schroder Asian Alpha Plus Fund**
North American Equity	**JPMorgan American Investment Trust**
European Equity	**Baillie Gifford European Fund**
Ethical/Sustainable	**Baillie Gifford Positive Change**
Income	**City of London Investment Trust**
Bonds	**M&G Global Macro Bond**
Property	**Tritax Big Box REIT**
Technology/Biotech	**Polar Capital Global Technology Fund**
Commodities/Resources	**BlackRock Energy and Resources Income Trust**
UK Smaller Companies	**BlackRock Throgmorton Trust**
Global Equity	**Fundsmith Equity**
PASSIVE	
Ethical/Sustainable	**UBS (Irl) ETF plc - MSCI United Kingdom IMI Socially Responsible**
Income	**Fidelity Global Quality Income ETF**
Bonds	**Legal & General All Stocks Gilt Index Trust I Class**
Property	**Legal & General Global Real Estate Dividend Index Fund**
Technology/Biotech	**Invesco Technology S&P US Select Sector ETF**
Commodities/Resources	**WisdomTree Physical Gold GBP**
Global Equity	**Vanguard FTSE Developed World ex-U.K**
Emerging Markets Equity	**iShares Core MSCI EM IMI UCITS**
Japan Equity	**iShares Japan Equity Index Fund**
Asian Equity	**Vanguard FTSE Developed Asia Pacific ex Japan ETF**
North American Equity	**iShares S&P 500 ETF**
European Equity	**Vanguard FTSE Developed Europe ex UK ETF**
UK Equity	**Vanguard FTSE 250 ETF**
Specialist	**WisdomTree Cloud Computing ETF**

The US market presents massive opportunity for Flutter Entertainment

It is the leader in US online sports betting through its FanDuel and FoxBet brands

The pandemic has accelerated the shift towards online gambling which provides a big opportunity for **Flutter Entertainment (FLTR)** to pick up new customers as they migrate away from physical arenas.

Because around 88% of the gambling market is still offline, there is plenty to play for, especially given that research shows retail brands retain less than half of their migrating customers.

The biggest growth opportunity lies in the US thanks to the Professional and Amateur Sports Protection Act (PASPA) of 1992 being overturned two years ago, allowing sports betting in the US. Some analysts have estimated the market could be worth between $30 billion and $35 billion.

WHO IS FLUTTER?

Flutter has grown by acquisition over the years to become the largest gambling company in the world with revenues forecast to be over £4.4 billion by the end of 2020.

Flutter is organised across four regional divisions each with its own chief executive. The UK and Ireland division houses the Paddy Power retail chain, Betfair which is the world's largest online betting exchange, and Sky Betting and Gaming which joined the group as part of the 2019 acquisition of Stars Group.

The international division is comprised of Betfair's international business, the world's largest real money online site PokerStars, and Adjarabet which is an online gambling company based in Georgia.

Australia is comprised of online bookmaker Sportsbet as well as BetEasy which became part of the group with the Stars acquisition. Flutter is in the process of migrating BetEasy customers to Sportsbet so that it operates under a single brand in Australia.

Lastly the US division consists of PokerStars's US business, the largest US fantasy sports betting operation FanDuel, TVG (Television Games Network) which is the number one horse and greyhound racing operator, and Foxbet which is an online and mobile sports betting business.

FLUTTER CONSENSUS ESTIMATES

	2020	2021
Revenues	**£4,419m**	**£4,993m**
Net Profit	**£617m**	**£696m**

Source: Stockopedia, Refinitiv

PROFIT CONTRIBUTION

Revenues are split 50/50 between sports and gaming which provided a good counterbalance during the lockdowns when sporting events were cancelled with the loss of sports betting more than offset by an increase in gaming activity as people were stuck at home.

This can be seen in the first-half profit performance where the PokerStars business saw 67% uplift in EBITDA (earnings before interest, tax, depreciation and amortisation) to £380 million, increasing its contribution to total EBITDA to 55% from 45% in 2019.

Conversely the PaddyPower Betfair business, which is more dependent on sporting events, saw a 53% fall in EBITDA to £85 million, dropping its contribution to 12% from 34% last year.

An 18% increase in gaming revenue was not sufficient to offset a 21% reduction in sports leading to online revenue falling 8%. Meanwhile the closure of stores resulted in a £10 million loss in EBITDA.

The other piece of the UK division, Skybet sportsbook, Sky Vegas gaming business and Oddschecker saw EBITDA increase 66% to £184 million representing 27% of profits, up from 21% last year. The UK businesses represent around 40% of earnings.

Favourable sports results, a higher mix of UK football and reduced promotional spending during the Cheltenham Festival were the factors driving growth while sportsbook stakes fell 30% due to the cancelled events.

The Australian businesses grew online revenues by 45% as they benefitted from the temporary closure of retail shops. Stakes grew 18% in the first-half period helped by increased prominence of horse racing which is also a higher margin product. Overall EBITDA grew 84% to £121 million representing 17.8% of group profits.

FLUTTER ENTERTAINMENT

UK & IRELAND	INTERNATIONAL	AUSTRALIA	US
Betfair	Adjarabet	BetEasy	Fanduel
Paddy Power	Betfair	SportsBet	FoxBet
Sky Betting & Gaming	Pokerstars		Pokerstars
			TVG

Source: Flutter

US CONTRIBUTION

Flutter claims to be the only operator offering sports betting, daily fantasy sports, casino, poker and horse racing wagering in the US.

The US business is still loss-making with EBITDA losses of £19 million in the first-half period despite revenues growing 66% to £278 million. Strong growth in TVG horse racing thanks to greater TV coverage helped drive revenues while the substitution of gaming during lockdown increased gaming revenues by a whopping 380%.

For the full year the company expects to make an EBITDA loss of between £140 million and £160 million for the US arm, incurring extra costs related to online launches in Tennessee and Michigan in the second half.

HOW DO BOOKMAKERS MAKE MONEY?

A good way to think about the bookmaking business is to consider a fair coin toss. The probability of heads and tails is 50% each, which means a fair price would put the odds at 2.0 for both. In other words, you bet £100 to win £100.

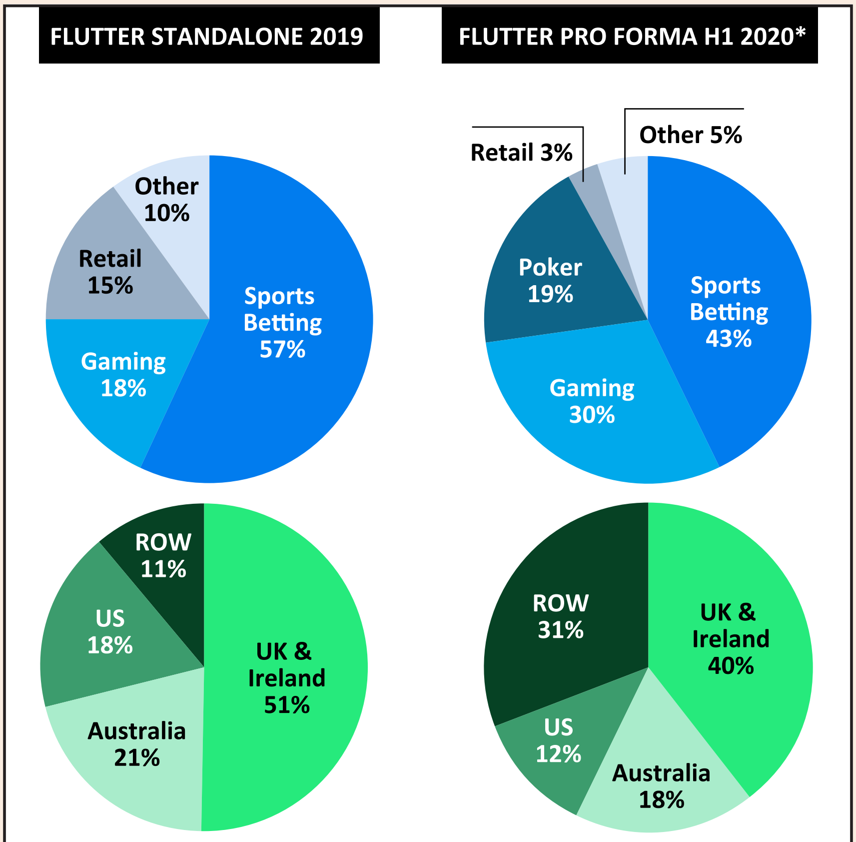
It's not in the interests of a bookmaker to offer the true odds of an event. Instead they would price the coin toss market at 1.9, creating a margin of 5%. Over time the average bettor would lose 5p for every pound spent, which would be the bookmaker's average profit.

Flutter owns Betfair which operates an exchange market where users bet against other users, removing the need for a bookmaker. This creates the possibility that bettors might get a better price than offered by a bookmaker.

Betfair charges a percentage of the winning bets to generate income. This business model is less risky because Flutter gets paid whatever the outcome.

BREAKDOWN OF FLUTTER'S EARNINGS

There are clear benefits to be had from **Flutter Entertainment's** purchase of **The Stars Group** such as a broader geographically footprint and a better diversified product offering.



Source: Flutter. *Shows the group's financials with The Stars Group included for the full period. The acquisition completed on 5 May 2020

FANDUEL'S IMPORTANCE

Flutter arguably has one of the best footprints in the US market and over the next few years the division may well become an important contributor to profits.

One of its key businesses which may not be as well known to UK investors is FanDuel, in which Flutter owns a 58% stake.

FanDuel and listed competitor Draftkings are the leading daily fantasy sports wagering businesses in the US. The idea behind daily fantasy sports is to create teams made up of real players from a professional sport and play against other users.

Once selected users play against each other for a single game or the entire season and earn points from how well their players perform. Each player has a different salary based on how they are likely to perform and each user is given a fixed budget to select their teams. The attraction for users is the chance to relive the excitement every game without being stuck with the same players.

FanDuel makes money by collecting a percentage of user entrance fees with the rest going to the pool which is paid out to the winners at the end of each game or season. FanDuel also makes money from selling advertising. The company runs a sportsbook across six states online and 10 including retail locations.

Flutter reckons it was the leading sportsbook operator in the markets it operates with a 44% market share in the first half of 2020, ahead of Draftkings at around 34%.

Last year Draftkings listed on the Nasdaq market and today has a market capitalisation of almost $20 billion despite being loss-making, trading on 27 times 2021 expected revenues.

VALUATION IMPLICATIONS

DraftKings' shares are up over 350% so far this year, underlining US investor interest in online sports gambling.

By applying DraftKing's valuation to FanDuel and FoxBet and putting a conservative value on Flutter's non-US businesses Jefferies calculates an implied valuation of around £160 for Flutter, around 26% higher than current levels.

Taking the business as a whole, Jefferies estimates Flutter trades on a 2021 free cash flow yield of 3% which, it says 'appears a full valuation but the opportunity in the US will create material value in the longer term, in our view'. *Shares* has a 'buy' rating on the stock.

By **Martin Gamble**
Senior Reporter

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

Reasons why cryptocurrencies are creeping higher

Bitcoin is trading close to a 12-month high

The Federal Reserve Bank of Cleveland's Loretta Mester has raised the prospect of Americans having an account with the Fed, into which the central bank could directly pump digital dollars, thus bypassing the banks as the main mechanism for quantitative easing (QE).

The European Central Bank has reportedly filed to trademark the term 'digital euro' as it assesses the pros and cons of digital currencies.

And the Bank of Japan is openly discussing what it calls central bank digital currency (CBDC), with work beginning in spring 2021 on issues such as resilience, ahead of trials with a limited number of households.

To prevent a public panic the Bank of Japan continues to stress CBDCs will be used to complement, not supplement, paper money.

Supporters of such experiments will argue they offer another potentially useful tool in the central banker's kitbox, as the existing policy suite of zero rates, QE, inflation targeting and so on struggles to deliver the growth and inflation the monetary and political authorities crave, to help them escape from their debt burdens.

Sceptics will wonder where this will lead next, with rampant money creation, to fund government debts, interest payments and spending plans, and inflation both possible consequences, unintentional or otherwise.

Bitcoin trades near its 12-month highs

RUSS MOULD
AJ Bell Investment Director

These doubters may be in the camp that warms to gold in such circumstances or even cryptocurrencies which, rather to this column's surprise it must be said, refuse to go away.

BOUNCING BACK

Bitcoin may still be trading well below its 2017 all-time high of $18,941 but it is making plenty of ground.

According to coinmarketcap.com, bitcoin's total value is $210 billion, a fraction below its high for the calendar year. That figure is also pretty much double the value of the FTSE 100's largest stock by market cap, **AstraZeneca (AZN)**. The total crypto universe, which now comes to over 3,600 different counters, is currently valued at $361 billion according to the same website.

Some may see this as another reason to view financial markets as worryingly frothy, as a plentiful supply of liquidity from central banks and hopes for fiscal stimulus keep them bubbly.

Others will argue that cryptocurrencies' return to favour supports the view that central bank policies are debasing existing currencies and merely one step down the path toward a reset of how fiat money works, with CBDC experiments the next logical development.

Perhaps Facebook's work on its own blockchain-based payment system, Libra, is prompting central banks to get cracking on their own version.

LONG ARM OF THE LAW

Regulators are sceptical. Attempts to launch exchange-traded funds (ETFs) dedicated to tracking cryptocurrencies have foundered in the US and Britain's Financial Conduct Authority has just banned the sale of derivatives and exchange-traded note trackers related to bitcoin to retail investors, citing 'the inherent nature of the underlying assets, which means they have no reliable basis for valuation.'

No matter how sceptical many financial market watchdogs or participants may be, it can still be argued that if someone, somewhere thinks that cryptocurrencies have a value, then a value is what they have.

Questions over the cost of the bitcoin mining process, the level of mining and transaction fees and efficiency of cryptocurrencies as a payment system relative to cash, or existing credit and debit networks, will also deter many from using bitcoin, let alone treating it as an investable asset class.

Yet the cap on the supply of bitcoin to 21 million will continue to appeal to some investors as they see government deficits balloon and central banks draw up plans for digital currencies and seek out a place to preserve or even hide wealth.

Gold bugs may argue that bitcoin has no physical backing or practical use but critics of the precious metal will assert it is an inert element that generates no yield and is not in frequent use when investors pay for their weekly groceries, either.

Libertarians may also jump in at this point, citing how central bank-backed digital currencies could be the ultimate surveillance tool in any civilised country, let alone despotic, corrupt ones. As such, the battle lines between true believers and nocoiners (and gold bugs) remain drawn.

The ability to pay tax in cryptocurrency or even buy groceries would be a tectonic shift but that looks a long way away. For the moment, the former is having a better year of it than the latter.

The forced shift from cash to cashless payment during the current pandemic is unlikely to do the cause of digital currencies any harm, as more people become accustomed to using their card or mobile device to make a payment in person, let alone online.

Will the state pension age go up to 75?

A reader is troubled by the progressive rise in when the state pension is paid out

I'm confused about the state pension. I know the state pension age has just increased to 66 but I've read stories that it could be about to go to 75. How on earth can anyone know what they will get and when?! Can you help please?
Anonymous

Tom Selby
AJ Bell
Senior Analyst says:

You are right that the state pension age increased to 66 from 6 October 2020. However, there are no plans to increase the state pension age to 75 – this is a common mistake based on a proposal from a think-tank called the Centre for Social Justice in 2019.

The state pension age is due to increase to 67 by 2028 and 68 by 2046 – the Government has proposed bringing this increase forward to 2039 but has yet to pass the relevant legislation. Future changes beyond this time will likely be dictated by the extent to which average life expectancy improvements in the UK continue. You can check your personal state pension age here.

Anyone retiring from 6 April 2016 onwards will receive the 'new' state pension, which currently pays £175.20 a week – roughly £9,000 a year – and rises each year in line with the 'triple-lock'. The latter is a guarantee to increase its value by the highest of average earnings, inflation and 2.5%.

To qualify for the full state pension, you'll need to build up a 35-year National Insurance contribution record and be a UK resident.

If you build up state pension rights under the 'old' system (i.e. before 6 April 2016) these will be reflected in whatever you receive under the new system.

Although the state pension provides a good starting point for your retirement, the income will fall well short of many people's aspirations.

And while automatic enrolment reforms are helping get more workers saving something in a private pension for the first time, minimum contribution levels are low (8% of earnings) and millions of people, including self-employed workers, are not included.

The Pensions and Lifetime Savings Association, a trade body, suggests someone wanting to enjoy a 'moderate' retirement lifestyle might need around £20,000 a year in income, while someone wanting a 'comfortable' retirement could need £33,000.

Around £9,000 of this can be delivered by the state pension, but anything beyond that is down to you (and your employer if you are in a workplace scheme).

To give you an idea, you might need a pot worth in the region of £255,000 to generate an income of £11,000 a year that would last for 30 years in retirement (assuming 4% annual investment returns post-charges), taking you to the £20,000 'moderate' target. Based on similar assumptions, the 'comfortable' goal might require over £550,000.

Don't be put off by the big numbers involved – focus instead on saving as much as you can afford as early as possible, investing for the long-term and keeping your costs as low as possible.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **editorial@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide information and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

Where to shift your money as suspended property funds reopen

Investors might be better suited switching to property investment trusts as they don't have the same structural issues

Various open-ended property funds suspended in March are now beginning to reopen but it could be a stop-start process and it looks like investors will face restrictions on their ability to trade in and out of the funds as new regulations are introduced by the Financial Conduct Authority (FCA).

There is no easy fix to the fact that these funds look to offer investors the ability to buy and sell daily while having their cash tied up in an asset class where it takes much longer to facilitate a transaction.

There is a strong argument for investors in open-ended property funds to pivot to real estate investment trusts (REITs) and other listed property plays which offer similar exposure without some of the more severe structural problems. We suggest **Standard Life Property Income (SLI)** later in the article.

Investors may also want to consider more specialist investment trusts linked to the property market which have held up relatively well through the coronavirus. **Triple Point Social Housing (SOHO)** looks interesting, as we explain later on.

PROPERTY FUNDS SUSPENDED IN 2020

Name	Announced reopening date	Cash holding
Aegon Property Income		7.3%
Aberdeen UK Property		12.6%
Aviva Inv UK Property		21.6%
BMO UK Property		24.0%
Janus Henderson UK Property		19.1%
L&G UK Property	13/10/2020	24.4%
LF Canlife UK Property	08/10/2020	29.4%
M&G Property Portfolio		8.2%
Royal London Property*	30/09/2020	3.0%
Standard Life Investments UK Real Estate		21.6%
Threadneedle UK Property Authorised Investment	17/09/2020	18.5%

Source: AJ Bell
*Institutional fund, not daily dealing

A QUICK RECAP

Dealing in many big open-ended property funds was suspended in March 2020 when the volatility in asset prices around the pandemic led to uncertainty over the value of the properties in their portfolios. This meant funds couldn't accurately give a price on the individual units bought and sold by investors.

The episode had echoes of the situation in the wake of the Brexit vote though the problem that time was that they couldn't sell assets quickly enough to return cash to shareholders who wanted to take their money out.

Investec comments: 'We believe that the open-ended product is fundamentally flawed (for property funds), and seems destined to deliver inferior long-term returns and relatively low dividend yields, while yet again liquidity has proved to be an illusion at a time when investors need it the most.

'Meanwhile, FCA proposals to include a 180-day redemption notice period is stretching the concept of "open-ended" to the limit.'

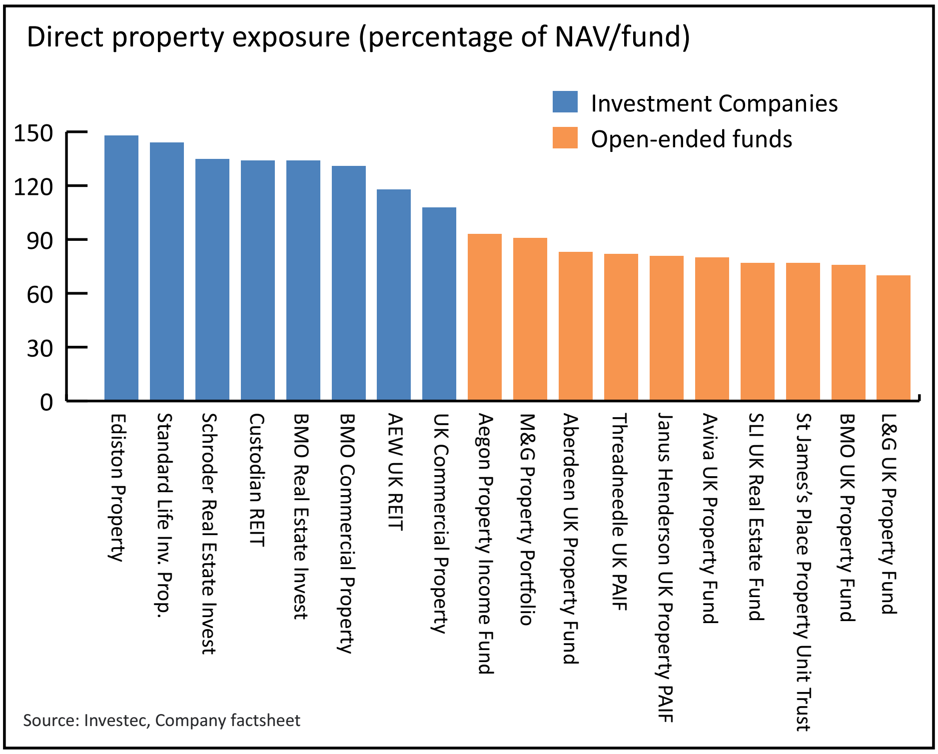
Investment trusts and REITs – classified as closed-ended funds – are better vehicles for assets like property because they are listed on the stock market and the fund managers don't have to factor in redemptions to how they invest – REITs also have to pay out 90% of qualifying income in dividends.

However, they will typically trade at a discount to net asset value (NAV) when the market is experiencing stress and many diversified trusts have cut their dividends.

SLOW TO REOPEN

In September Threadneedle resumed trading in its affected property fund and the largest UK property fund **LGIM UK Property Fund (BK35DT1)** reopened on 13 October.

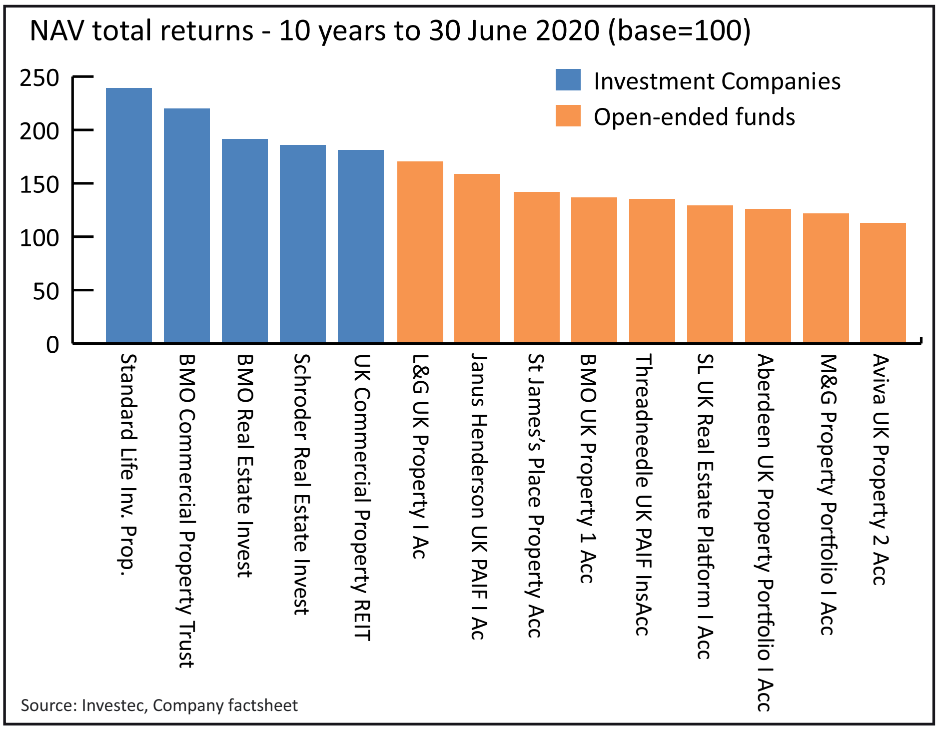
When the others will reopen is so far unclear. Apparently keen to avoid a situation where they reopen again but are almost immediately forced to close as they run out of the funds required to meet redemptions, LGIM and other open-ended funds have been building up their cash reserves.



Source: Investec, Company factsheet

Holding more cash acts as a drag on returns and, to build up these buffers, managers are essentially forced sellers at exactly the wrong point in the cycle.

The chart shows how with open-ended funds you are receiving much less direct exposure to property than their closed-ended counterparts due almost entirely to their larger cash positions.



Source: Investec, Company factsheet

The argument for having any diversified exposure to property is that while some areas are performing much stronger for now, that might not be the case in the future and so it can pay to spread your risks across the sector.

Offices are currently out of favour, while industrial assets, with links to the rise in online shopping, are in the ascendancy.

Industrial assets are currently more expensive to buy and lower yielding, while offices are currently cheaper meaning they also have more scope for an uplift in value in a recovery scenario.

WHAT ABOUT RETAIL PROPERTY?

Retail property has structural issues which have been exacerbated by Covid-19 and which were evident in recent news that West End property investor **Shaftesbury (SHB)**, which has heavy exposure to Central London shops, had received less than half the rental income it was due. However, areas of retail – like convenience stores and out-of-town outlets – are holding up better.

Major commercial property investor **British Land (BLND)** has revealed a recovery in retail with footfall across its sites in September at 84% of the same period last year.

SEEKING INCOME

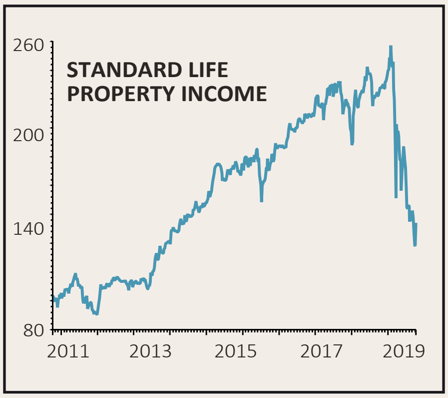
Another approach if you want to invest in property, if you are in the large group that invest in the asset for yield, is to seek out niche areas which offer particularly sustainable income streams.

This includes investors in healthcare facilities and social housing where a large chunk of their income is, in effect, backed by the state.

DIVERSIFIED TRUST TO BUY

STANDARD LIFE PROPERTY INCOME (SLI) 50.8p

This trust has an excellent long-term track record – according to Investec it has generated a net asset value total return of 139.5% over 10 years at an annualised rate of 9.1% and yet it trades at a 35.6% discount to NAV.



Manager Jason Baggaley has been in-situ since 2006 and recently expressed his confidence that a 'policy of investing in buildings that create an environment where people want to work remains relevant'. Nearly 40% of the fund is in industrial assets. In the third quarter it received 75% of its rental income.

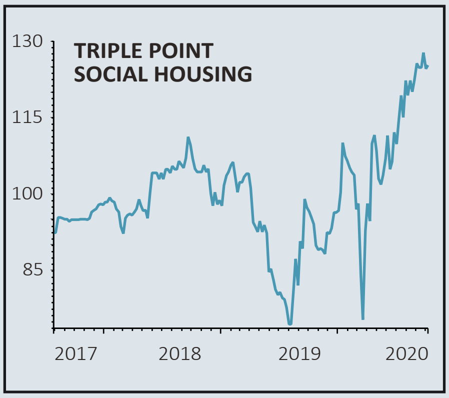
SPECIALIST TRUST TO BUY

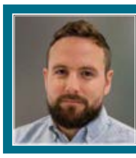
TRIPLE POINT SOCIAL HOUSING (SOHO) 106.5p

The investment trust recently reported 100% rent collection for the eight-month period to 30 August 2020 – demonstrating the resilience of a portfolio which is focused on housing for people with long-term care and support needs linked to mental health issues, learning disabilities or physical impairments.

It is raising £70 million

to invest in a £150 million pipeline of assets which should enable it to grow an income stream which is paid by local authorities and backed by central government. In this context a yield of nearly 5% looks attractive.





By **Tom Sieber**
Deputy Editor

ETF providers quick to launch more ethical funds

They are also being more targeted in how the market is filtered

Exchange-traded funds (ETFs) with an ethical tilt are all the rage with most of the big investment firms looking to bring out new products with an ESG (environmental, social and governance) flavour.

It's easy to understand the appeal. ETFs provide a low cost way to invest ethically, and because they simply track an index, you can often see all of the holdings in the ETF and can ensure your cash is going into the right sorts of investment.

Plus, there's growing evidence to suggest companies with strong ESG practices will deliver better stock market returns over the long term than those that don't take it seriously.

While they have their merits, active funds are more expensive and don't have the same level of transparency, with only the top 10 holdings visible.

TAPPING INTO THE DEMAND

All the big investment firms know this and are trying to tap into the demand, hence the plethora of ESG ETF launches in recent months.

There's also a big market for them to exploit. Research by Invesco has found that more than half of institutional investors (55%) believe the majority of their ESG investments will be held in passive products such as exchange-traded funds within the next five years.

According to Morningstar data as at 31 March, ESG ETF assets in Europe totalled just $31 billion, compared to the $781 billion European ETF market as a whole, showing the headroom for growth.

But ESG investing can be subjective and so there's no one size fits all approach. That's why all these new ESG ETFs can vary quite a lot, and if there are certain areas you want to avoid, it's important to take a closer look at what the ETF and its underlying index track.

HOW IS ESG DEFINED?

As an example, a recent report by Bloomberg showed that oil and gas giant ExxonMobil had plans to increase its annual carbon dioxide emissions by as much as the output of the entire nation of Greece, at a time when virtually all major companies around the world are looking at

MSCI World ESG Screened Sector Breakdown

Information Technology	23.4%
Healthcare	14.0%
Financials	12.6%
Consumer Discretionary	12.4%
Industrials	9.5%
Communication Services	9.4%
Consumer Staples	7.3%
Materials	4.1%
Real Estate	3.0%
Energy	2.3%
Utilities	2.0%

Source: MSCI World ESG Screened factsheet, 31 August 2020 ways to significantly reduce their emissions.

The company had a $120 billion programme to expand fossil-fuel production and according to Bloomberg its internal projections showed its carbon emissions rising by 17% to 2025. These estimates were taken before the coronavirus pandemic and so might've changed given the collapse in oil demand, but nonetheless show the company's intentions.

SO WHAT DOES THAT HAVE TO DO WITH ETFS?

Exxon is included in the S&P 500 ESG Index, making up 0.7%, and so is included in popular ESG ETFs tracking the American stock market like **Invesco S&P 500 ESG (SPEP)** and **UBS S&P 500 ESG (S5SD)**.

Invesco points out in a statement to *Shares* that there has been a long running debate about disinvestment or exclusion compared to company engagement and shareholder influence, and believes it's not clear the best outcomes are necessarily going to be achieved through disinvesting in a company, 'as at that point the investor has lost the ability to influence company management through their voting rights'.

STEWARDSHIP TAKEN SERIOUSLY

A number of big ETF providers say they take stewardship seriously. There's an argument that ETF providers shouldn't just be silent shareholders, and should be obliged to ensure companies they invest in adopt long-term value to shareholders instead of focusing on short-term share price gains. This argument would support the likes of Invesco and UBS staying invested in such companies to help bring about change.

ExxonMobil is in the top 75% of ESG scores in the energy industry group globally

Invesco adds: 'The fact that Exxon is in the index means that it is in the top 75% of ESG scores in the energy industry group globally and in the S&P 500. Put more simply, within the S&P 500 index there are energy companies that do less well than Exxon from an ESG perspective and these are excluded from the index.'

While ExxonMobil may score well when it comes to having strong governance and a good social impact for example, the wider issue of having companies like that in general ESG indices are why some companies have specifically launched 'low carbon' ETFs.

AVOIDING GUNS, GAMBLING, FAGS AND BOOZE

Most ESG indices exclude alcohol, tobacco, gambling, nuclear power and controversial weapons companies, but often the world's big energy companies make the cut. They emphasise their social programmes and strong governance practices rather than the fact that the vast majority of their revenue is derived from fossil fuels.

In June HSBC launched three sustainable equity ETFs for Europe, US and Japan which target a 50% carbon emissions reduction and a 50% fossil fuels cut relative to the parent index.

It's also why BlackRock changed the benchmark of its **iShares MSCI World SRI ETF (SUSW)** from the MSCI World SRI Select Index to MSCI World SRI Select Reduced Fossil Fuel Index, with further screens on thermal coal, power generation and oil and gas companies.

Other recent ESG ETF launches include Amundi launching eight ETFs that follow the MSCI World ESG Leaders and MSCI World ESG Universal indices, which aims to go one further than the S&P 500 ESG index for example in picking the top 50% of companies of the parent index in terms of ESG scores, rather than the top 75% for the S&P index.

By **Yoosof Farah**
Reporter

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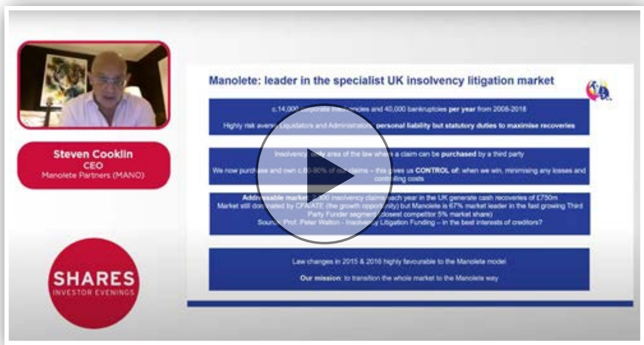

Manolete Partners (MANO) – Steven Cooklin, CEO

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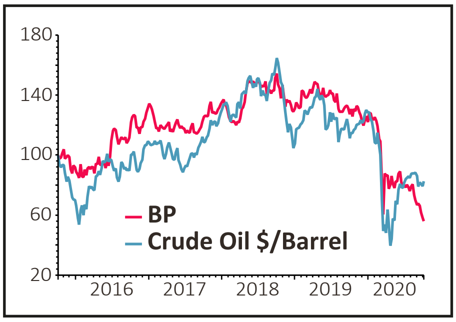
FEATURE

Why investors need to do their homework on rivals and suppliers

Knowing which firms matter to your investments could help you achieve better returns

Whenever a fund manager considers making a new investment, as well as thoroughly analysing the target company's returns, its finances, the valuation of its shares and so on, they typically take a good look at its rivals to understand the dynamics of the market.

In a global sector like oil, investors who own **BP (BP.)** or **Royal Dutch Shell (RDSB)** may follow the news flow from big international rivals like Exxon Mobil and Saudi Aramco.



However, they will likely pay more attention to the price of West Texas Intermediate and Brent Crude oil and any news flow which has an impact on them, such as extreme weather events or output figures from producers' cartel Opec. It's typically the price of oil which determines the all-important cash flows the oil majors use to pay their dividends and therefore a great influence on their share price.

LOOK CLOSER

When it comes to more niche markets, the list of major foreign competitors and the factors which can impact revenues and earnings for a given business may not be that obvious.

If we take the example of UK equipment hire firm **Ashtead (AHT)**, one of the best-performing FTSE 100 stocks of the last decade, its biggest business – Sunbelt – is based in the US, where its main competitor is Stamford, Connecticut-based United Rentals.

Both firms serve the construction and manufacturing sectors, but United Rentals is the market leader with around 14% share against a 10% share for Sunbelt. Last year United Rentals turned over $9.4 billion of revenues or roughly 50% more than the UK firm.

NOT BLACK AND WHITE

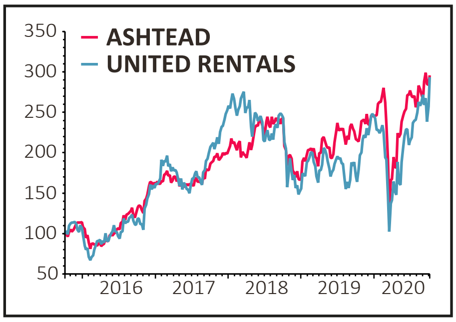
If United Rentals is doing well, is it gaining market share from Ashtead and so should shares in the latter fall on good news from the former? Or does good news from United Rentals mean Ashtead will also report positive trading achievements?

It always pays to look closely at the detail. For example, look at comments about market activity and whether any sales growth or decline is attributed to actions specific to the company or the broad sector trend.

The US equipment rental market is large and although turnover isn't seen getting back to 2019 levels until the end of 2022, from then on revenues are expected to grow by around 6% to 7% per year meaning there is plenty of growth to go round.

In the meantime, both firms have scope to increase their market share through organic growth and small bolt-on acquisitions at the expense of the dozens of smaller players who are likely to struggle with cash flow issues.

For keen stock-watchers, United Rentals releases its quarterly figures at the end of January, April, July and October, typically six weeks before Ashtead releases its results. Interestingly, the read-across looks to be two-way with good United Rentals numbers and a rise in the share price helping to lift Ashtead shares and vice versa.



VIDEO GAMES SECTOR

The world of video games is even more niche than equipment rental, and while the UK boasts some world-class games development companies they are valued at a fraction of their global peers.

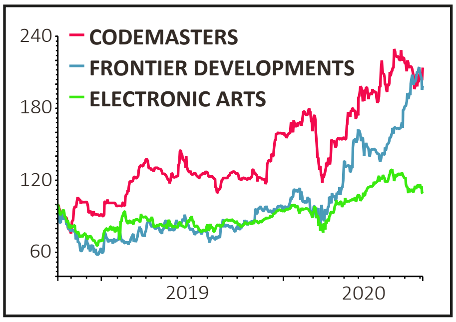
For example, despite a phenomenal performance this year with revenues and operating profits more than doubling in the six months to September and the shares up 28% against a market which is down more than 10%, UK

games company **Codemasters (CDM:AIM)** is still a minnow with sales last year of £76 million and a market cap of £550 million.

Larger rival **Frontier Developments (FDEV:AIM)** has a similar level of turnover but is valued at close to £1 billion. By comparison, US games company Electronic Arts has annual turnover of $6 billion and a market value of $36 billion.

For the whole of last year and the first part of this year, shares of Frontier Developments tracked EA shares closely as EA was seen as the industry leader, but from the March low its shares have preferred to track its UK rival, Codemasters. What's seen as good news for one firm is seen as good news for the rest of the sector.

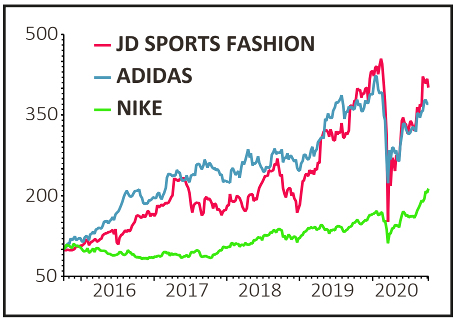
In some cases, it isn't the fortunes of domestic or overseas rivals which can determine or



influence a firm's share price performance, it's those of its key suppliers.

JD Sports Fashion (JD.), the self-styled 'King of Trainers', relies heavily on the strength of global sportswear brands such as Adidas and Nike whose products it sells, and on their ability to come up with exciting new products which its customers will crave.

The correlation between the Adidas and JD Sports share prices is so close as to suggest that the fortunes of the latter are almost entirely dependent on those of the former.



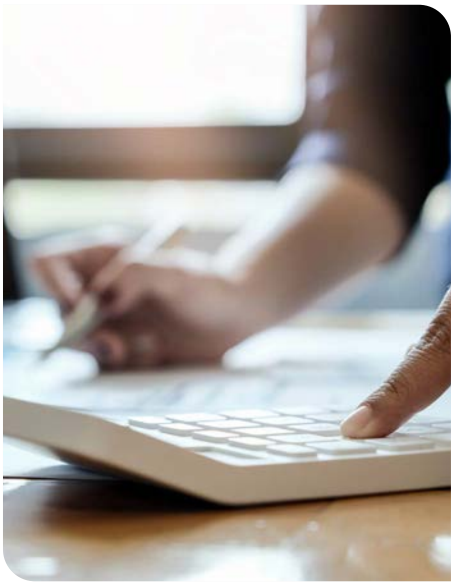
By **Ian Conway**
Senior Reporter

Personal finance tips for small business owners

How technology and careful management of cash and costs can really help

Careful money management and keeping a lid on costs is vital when you're running a small business, especially in the current environment of exceptional challenges.

UK small businesses lost £2.2 billion in revenue for goods and services provided during lockdown as their customers become insolvent. Meanwhile the average small business is still owed almost £60,000 for work done before lockdown, according to September survey carried out by credit insurer Nimbla.



So what can small business owners do to remain in control of their finances during these tough times? Which financial services brands are most likely to help them, and how can technology play a part?

THE IMPORTANCE OF CASH PLANNING

Mahmood Reza is founder of Pro Active Resolutions, which offers business support and accountancy services to

HOW ONE ENTREPRENEUR USES TECH TO MAKE SAVINGS

Mark Webster is a serial entrepreneur who co-founded Authority Hacker, a small business delivering training courses to website owners.

His first start-up had 'terrible money management', he says, to the point that the company struggled to meet its expenses, including its largest one – payroll. With no cash savings to fall back on, a large late payment was the final straw.

'Cash flow was a mess, we lost thousands to bank and exchange fees, missed out on a load of tax deductions and even didn't have enough money to pay employees at Christmas once.'

He had to borrow from a friend's company to get out of that situation, and now he knows his cash flow situation inside out, using a 'tech stack' of money management tools to stay on top of things. 'This setup is cheap to run and has cut our banking costs by around 400%,' says Webster.

He uses cloud accounting service Xero as his core tool to manage invoices and keep an eye on profit and loss, and Hubdoc for uploading digital receipts and tracking expenses. Revolut for Business allows him to give staff virtual credit card numbers for online purchases which can be easily monitored.

Because his company sells internationally, he uses Transferwise to keep fees down on foreign currency transactions. Webster puts aside the company's cash for future taxes into a savings account with Shawbrook Bank which earns a few hundred pounds a year in interest.

He reviews costs and expenses every quarter by looking at how much things like subscriptions cost on an annual basis. 'A lot of our expenses are software tools which inevitably have a monthly cost. While, say, £29 a month might not seem like much, that's £348 over a year, so it is worth taking a look at.'

entrepreneurs. He advises his clients to plan their cash flows a year ahead.

'One thing I would recommend they do is get some idea of a cash plan in front of them for the next 12 months to make sure they don't run out of cash. It can even be a simple Excel spreadsheet or Google Sheet which says "money in, money out" so they can link it to their personal finances as well as their business finances. Most owners will try and build their business up and they just run out of that vital ingredient of cash,' says Reza.

He adds that many entrepreneurs focus on growing sales, when really they should be thinking about how much profit they are taking from each transaction, if their business is to be sustainable.

That means setting pricing in line with what your costs are and how much profit you want to make. 'Most business owners underprice themselves and don't factor in their own time,' Reza notes.

'PROFIT FIRST' MENTALITY

This is something Webster agrees with, as he now follows a 'profit first' mentality and allocates 10% to 20% of revenues to pay his company's directors. He says he knows a lot of outwardly successful entrepreneurs who are actually 'cash poor' because they pay themselves last.

Reza also suggests that, as part of their cash planning, business owners set aside at least 10p in the pound to cover future tax bills, and make sure they are using all the allowances they are entitled to, such as tax relief on working from home expenses,

travel, phones and training courses.

When it comes to expenses, Jon Rata, director of JP Rata Chartered Accountants, recommends that business owners put all of them on one business bank card, to make it easier to keep track.

'No cash, no personal credit card, no expenses claims,' he advises. 'Keeping your spending to one card means that you can rely on the bank statement to include every tax-deductible expense you have ever incurred.

'Then, buy everything for your home life on your personal bank card. It cuts down the time you waste bookkeeping your personal spend and also makes it so easy to see how much money you've made.'

BANKS AND PAYMENT SERVICES

Choosing the right financial service providers is important for SMEs because you want to give your business to companies that make your life easier. But it's not just about ease of day-to-day banking – some companies can offer you valuable extra services to grow your business.

For example, Stephanie Buckley, director of The Insolvency Company, says NatWest has been 'incredible' for her business, which has taken advantage of its Entrepreneur Accelerator programme offering fully-funded mentoring and training to SMEs.

'The mentoring we have had has been of the highest quality and it has introduced us to so many other businesses like ours in terms of size and aspirations,' she says. Buckley also recommends Card Cutters which her business uses for card payments.

Financial acumen is so important when you're trying to make a success of your small business. With careful money management, your company could thrive even in these difficult times.

By **Hannah Smith**

Price to book can be a good way to value banks and housebuilders

This valuation metric is often used by companies seeking takeover opportunities

There are different ways to value companies such as price to earnings and price to earnings growth. Particularly popular among value investors is the price to book metric, enabling individuals to screen for companies trading on a discount to the value of their assets.

It has historically been the preferred way in which to value banks, insurers, property companies, housebuilders and investment trusts.

At the simplest level, a company is worth the value of its assets minus its liabilities – its book value.

EXAMPLES OF BOOK VALUES

• PROPERTY COMPANY
The book value of a property company is how much its collection of offices or other property is worth, minus any debt.

• INSURANCE COMPANY
An insurer will collect customer premiums and invest them in various assets. It will then use these assets and any investment gains to fund any customer claims. Therefore, its book value is principally its investment portfolio minus any liabilities.

Book value is the amount of money that would be available to shareholders if the company's assets were sold at their balance sheet value and all liabilities were paid off.

For example, if assets equal £100m while liabilities are £60m then the company's book value is £40m.

Book value, also known as net asset value, is often expressed in per share terms, or book value divided by the number of shares in issue.

The market price per share is compared to the book value per share, a figure called the price to book ratio. This is worked out by dividing the share price by the book value per share.

ROLE IN TAKEOVERS

This valuation method is often a first point of call when looking for takeover targets. If the market value of a company, or its share price, is lower than its book value, or book value per share then, in theory, a buyer could take control and sell the company's assets for more than it paid. This was a key theme during the heyday of the asset-strippers in 1970s and 1980s.

Investors and analysts use this comparison to differentiate between the true value of a publicly traded company and investor speculation.

As a rule of thumb, investors will infer a price to book of less than one to indicate that a stock is undervalued, while a ratio of greater than one may indicate that a stock is overvalued.

WHY DO COMPANIES TRADE BELOW BOOK VALUE?

- Illiquid assets – i.e. they may not be easy to sell quickly
- The assets may be difficult to value
- The assets may be overvalued
- Concerns among investors that the assets are falling in value
- The assets aren't generating a good return
- Selling the assets would create a tax liability

DOWNSIDES TO CONSIDER

A major drawback with book value is that it is not always easy to establish the value of a company's assets accurately.

It may be unrealistic to assume that the value of an asset on the balance sheet is equivalent to the value it would fetch if it were to be sold off. It may be that an asset is no longer as useful to the business as it used to be, such as an old factory.

Equally, the value of an asset acquired in the past may have significantly increased. Property companies are a good example, where land and buildings typically sit on a balance sheet at cost yet years later may be worth substantially more, especially when property is often revalued only periodically.

RISE OF INTANGIBLE ASSETS

Things like land, property, machinery and furniture are called tangible assets. In other words, they can be seen and touched.

Intangible assets include potentially valuable entities like software, apps, brand names, corporate reputation and much else including goodwill on acquisitions. The latter effectively reflects the premium paid by an acquirer to complete most deals.

These types of assets are often tricky to value accurately and it is not unusual for companies with lots of intangible assets to trade on high price to book ratios.

For example, many technology companies can trade at a price to book of 10 or more, while banks will mostly trade around 1 or less. The difference is down to how an industry uses capital to generate earnings.

Let's take Microsoft as an example. Its key costs are staff, and the company's business model is not capital intensive.

On the other hand, banks require a lot of capital, such as bank deposits, bonds and so on. Because banks tend to hold relatively liquid assets on their balance sheets, these assets can be valued at their fair market value.

This means that a bank's balance sheet, or the price to book, should in theory be roughly equal to the fair market value of its assets. That implies a price to book ratio of 1, yet many banks trade below this level when investors are worried about the state of the economy and interest rates being low for a long time. In comparison, Microsoft currently trades on 12-month forward price to book ratio of 11.1, according to Refinitiv data.

Investors often prefer to use price to sales or EV/EBITDA (enterprise value to earnings before interest, tax, depreciation and amortisation) when valuing software companies.

By **Daniel Coatsworth**
Editor

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INDEX

KEY

- Main Market
- AIM
- Fund
- ETF
- Investment Trust
- Overseas Share
- IPO Coming Soon

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

16 October: Scancell. **19 October:** Tristel. **20 October:** Bellway, Softcat, Transense Technologies.

Half year results

16 October: Spaceandpeople. **20 October:** TP ICAP **21 October:** C&C.

Trading statements

20 October: Luceco. **21 October**: Antofagasta, Marstons, Segro, William Hill. **22 October:** Anglo American, Rentokil Initial, Secure Trust Bank, Unilever.

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