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WHERE THE **GROWTH** IS COMING FROM AT **APPLE**

FUNDSMITH 10-YEAR ANNIVERSARY – COULD IT HAVE DONE **BETTER?**

THE INSIDE TRACK AS **UK TRUST IPOS** ARE PULLED

The companies taking advantage of M&A opportunities

Investments made now could have an outsized impact on returns in recovery

The coronavirus crisis has had a big impact on businesses and their finances – it has also left some firms vulnerable to opportunistic bids.

Companies running the gamut from retirement housebuilder **McCarthy & Stone (MCS)** to telecoms firm **TalkTalk (TALK)**, have been the subject of approaches of late.

Meanwhile **G4S (GFS)** is doing its best, against pretty unfavourable odds, to fight off a hostile £3 billion takeover by its rival GardaWorld.

And in September 2020 **William Hill's (WMH)** board agreed to a 272p per share bid from its commercial partner and US casino giant Caesars Entertainment despite grumbles in some quarters that the terms undervalue the growth potential across the Atlantic. Shareholders will ultimately decide the fate of the deal at a vote on 17 November.

It is not all one-way traffic though. Those companies in the enviable position of having robust balance sheets and/or a relatively limited hit from the pandemic are hitting the acquisition trail.

A recent piece of research from Liberum screened the market to come up with a list of UK dealmakers which in its words were 'companies that have been atypically active on the deals front this year, whilst gaging how accretive this strategy is to earnings and how conservatively goodwill is represented on the balance sheet'.

Goodwill is an accounting term which refers to anything a company pays above and beyond the value of an acquired firm's assets. By buying businesses now, companies will benefit from depressed valuations – with a reasonable chance that these acquisitions will be worth rather more than they paid in a recovery scenario.

Liberum's UK dealmakers

Company	Deals year-to-date
HSBC	19
Halma	5
QinetiQ	4
GVC	4
JTC	3
Ultra Electronics	3
Superdry	2
Watches of Switzerland	2
Next	2
Liontrust Asset Management	2

Source: Liberum, Bloomberg. Data 23 October 2020

ORGANIC INVESTMENT

There are though no guarantees with M&A – hidden nasties, culture clashes and a myriad of other factors mean deals can just as easily destroy as create value – even if an acquisition looks like a relative bargain.

In this context it is also worth looking at companies which are investing in their own business, taking advantage of their financial strength to put money into initiatives which can improve their competitive position.

Two examples stood out to this author among the latest round of corporate updates. Housebuilder **Bellway (BWY)** was among a number in its sector to start putting money into land buying.

By doing so it will look for a repeat of the formula from the financial crisis when land was bought at a discount and then once the houses were built a few years down the line the market had recovered – providing a big boost to profitability.

Consumer goods giant **Reckitt Benckiser (RB.)** is allocating investment to innovation and marketing. This should improve its brand power in the medium term.

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SCOTTISH MORTGAGE INVESTMENT TRUST
We invest in profound change, disruptive technologies and big ideas.
Not just the stock market.
We don't see Scottish Mortgage Investment Trust as simply trading stocks on the world's markets. We see our role as seeking out those genuinely innovative businesses that are shaping the future. We call it investing in progress. And by using our skills as actual investors, not simply stock traders, we believe we can deliver strong returns for your portfolio.
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.
Find out more by watching our film at scottishmortgageit.com
A Key Information Document is available. Call 0800 917 2112.
BAILLIE GIFFORD
Actual Investors

Bank stocks rally but dividend resumption hopes may be overdone

Investors need to be realistic about the scope and scale of future pay-outs

Shares in the FTSE 350 banking index, which in recent weeks has plumbed multi-decade lows, jumped on press reports that talks were under way with the Prudential Regularity Authority (PRA) to resume dividend payments in 2021.

In March 2020, the regulator asked the banks to suspend dividends and buybacks until the end of the year. In June, it said it would assess firms' distribution plans from 2021 'based on the current and projected capital positions of the banks', taking into account 'the level of uncertainty on the future path of the economy, market conditions, and capital trajectories prevailing at that time'.

The question for the PRA today is the same as it was in March, do the banks have enough capital to be able to absorb losses and keep lending? According to Numis analyst Jonathan Pierce, 'the regulator has had eight months to examine this and all of its analysis suggests the answer is yes'.

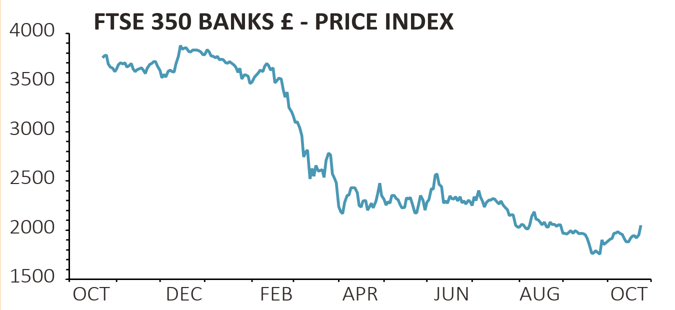
Barclays (BARC), the first bank to report third quarter earnings (23 Oct), posted a record Core Tier One equity ratio of 14.6%, well above the PRA's recommended minimum of 13%, despite a sharp jump in bad loan provisions.

HSBC (HSBA), which scrapped £3.4 billion of planned dividends this year, reported a third quarter Core Tier One ratio of 15.6% and dangled the carrot of a 'conservative' 2020 dividend payment early next year subject to regulatory approval (26 Oct).

Before the coronavirus pandemic, the banks were expected to pay out almost £14 billion in dividends on this year's earnings according to Link Asset Services.

The question for investors is, will pay-outs ever get back to these levels or will the regulator insist on smaller distributions?

Banks rally from multi-decade lows on dividend hopes



Considering that pre-crisis the banks were trading on prospective yields approaching double digits, and in many cases share prices have halved in the interim, it seems highly unlikely that per-share dividends in 2021 will be anywhere close to the former levels. HSBC is effectively saying as much when it describes its potential 2020 pay-out as conservative.

Also, pre-pandemic many UK dividend pay-outs were considered excessively large relative to profits so it's possible that dividends overall, not just in the banking sector, will be reined in to improve firms' coverage ratios. The decision by big oil firms **Royal Dutch Shell (RDSB)** and **BP (BP)** to drastically reduce their dividends in 2020 points in this direction.

Finally, as Pierce from Numis points out, while banks don't need fresh equity now, 'this might not always be the case'. Doling out big dividends and then going back to shareholders for more cash is not going to fly with the regulator.

UK in flux as state support sees borrowing spike and Brexit remains uncertain

Former Vote Leave chief thinks impact of no deal more significant politically than economically

A significant extension of the financial support available for individuals and businesses affected by coronavirus restrictions is unlikely to shift investor sentiment dramatically towards the hospitality and travel businesses at the sharp end of the pandemic.

The spending associated with this new commitment from chancellor Rishi Sunak comes against the backdrop of record levels of public borrowing.

Government debt is up £174.5 billion year-on-year in the six months to 30 September and at 103.5% of annual national income this translates the highest debt-to-GDP ratio since 1960.

This and the latest wrangling over Brexit, with a deal still some distance away despite the looming end of the transition period on 1 January 2021, could put pressure on sterling versus other major currencies.

Somewhat counter-intuitively the strain on government finances and the risks associated with failing to secure a Brexit deal could provide a short-term catalyst for the FTSE 100 given a weaker pound boosts the relative value of the overseas earnings which dominate the index.

It would likely be less positive news for the more domestic-facing FTSE 250 and longer term it could see overseas investors continue to give UK stocks a swerve, contributing to their depressed valuation compared with international counterparts.

OPTIMISM OVER A DEAL

Earlier this month, Shore Capital's senior political adviser Matthew Elliot – the former head of the official Leave campaign from the 2016 referendum – speculated that: 'Trying to decipher smoke signals in a hurricane is difficult, but I'm optimistic there will be a UK-EU trade deal by the end of the year.'

Elliott added that the 'the political fallout is likely to be bigger than the economic one' in the event a deal is not secured with the stance taken by current favourite for the US presidency Joe Biden expected to 'play heavily into the situation'.

This may be why Boris Johnson is reportedly hedging his bets on Brexit until the result of the election is known.

One area of the economy where a no deal outcome could have a significant impact, in the short term at least, is groceries.

Under this scenario an average import tax of 18% will be charged on meat, produce and beverages coming from the EU into the UK from 1 January onwards.

Supermarkets may face a choice of taking a hit to margins or passing on these additional costs to hard-pressed consumers and **Tesco (TSCO)** chairman John Allan recently told *Bloomberg* shoppers might have to get used to doing without certain items for a few weeks or months.

Schroder British Opportunities on track despite other failed IPOs

Investor appetite for UK recovery trust launches proves more modest than hoped

The initial public offering (IPO) of the Buffettology Smaller Companies Investment Trust has been pulled (26 Oct), despite a 'broad level of support from a significant number of investors', after it failed to raise the £100 million minimum needed for a stock market float.

This follows on from Tellworth British Recovery & Growth Trust, which shelved its IPO (7 Oct) after the launch failed to generate enough interest.

Yet a third new launch, the **Schroder British Opportunities Trust**, appears to be forging full steam ahead.

As a Schroders spokesperson insisted to *Shares*: 'Schroders remains committed to launching the Schroder British Opportunities Trust (SBO) and supporting the future growth of British business, both public and private to seize a once in a generation valuation opportunity.

'Work on the launch of SBO continues to progress well and we look forward to updating the market in due course.'

The asset manager had been looking to raise up to £250 million.

While the Tellworth trust's failure to launch rang alarm bells, Buffettology Smaller's cancelled IPO arguably came as an even bigger surprise. Strong demand had been expected given the track record of manager Sanford DeLand's **CFP SDL UK Buffettology (BF0LDZ3)** and **Free Spirit (BYYQC27)** funds.

Buffettology fund manager Keith Ashworth-Lord, CIO at Sanford DeLand, told *Shares*: 'We stressed in presentations to potential clients, that there exists a window of opportunity in UK small companies which will not stay open for long.

'That together with the investment methodology and the long-term nature of our approach, we

thought had been very well received.

'The substantial interest generated early on in the marketing failed to translate into sufficient firm orders on the book in the final week. I put it down to the second phase of lockdown, which substantially turned-up the risk-off dial in investors' brains,' said the Warren Buffett devotee.

Ashworth-Lord continued: 'One of the key attributes of our long-term investment process is that it is agnostic to short-term external and macro factors that cannot be predicted or influenced.

'As a result, a number of opportunities we had identified offered particularly good value and even more so than at the start of the year when the investment trust was first envisaged. If Buffett has taught us anything, it's to be greedy when others are fearful.'

Ashworth-Lord said the work done in preparation has been shelved but explained that if sentiment improved it might look to relaunch assuming valuations remained attractive.

Why stocks have fallen despite beating earnings

The market reaction to recent corporate updates hints at valuation concerns

In a sign that it's sometimes better to travel than arrive, several US technology stocks went down last week despite delivering forecast-beating earnings. Notable names included software firm Citrix, cloud computing and services business IBM and chip maker Intel.

According to veteran US technology investor and commentator Fred Hickey, 'of the 17 tech stocks I follow that reported earnings last week, 100% beat analysts' estimates yet 12 of the stocks (70%) declined on week by 5% on average'.

As Saxo Bank's head of equity strategy Peter Garnry points out, the fact that most companies have beaten estimates suggests analysts have been too bearish 'but earnings beats have generally not been rewarded by the market, in a sign that the market was ahead of consensus estimates'.

Mixed reactions to 3Q earnings

Company	Beat or miss?	Daily Price Move
SNAP	Beat	28%
IBM	Beat	-6%
Citrix	Beat	-7%
Netflix	Miss	-7%
Intel	Beat	-10%
SAP	Miss	-22%

Source: Shares, S&P

The dispersion of returns is also notable. Companies which beat estimates by a big margin, such as Snapchat, rallied sharply (up 30%), while those which missed estimates such as Netflix were treated harshly (down more than 10% initially).

German software giant SAP pulls forward cloud plans

Strategic move comes at short-term cost and sends share price spiralling downwards

EUROPE'S LARGEST software company SAP plans to use the Covid crisis to go all in on cloud computing. The German giant revealed its plans after it was forced to pull medium-term profitability targets as it continues to struggle with the effects of the coronavirus pandemic.

SAP reported disappointing earnings in the third quarter to 30 September, with revenue falling by 4% to €6.54 billion. Operating profit also fell 12%, based on international financial reporting standards. After adjustments and at constant currencies, profit rose 4%.

The decline was offset by a 10% increase in cloud computing revenue but downgraded guidance for revenue and earnings saw the stock plunge 20% to €100.70.

Embracing cloud computing offers clients cost, distribution and efficiency benefits, but going cloud-only brings forward some of the growth and profitability uncertainty of the switchover.

Traditionally selling term licences to use its tools means getting paid up front with high margin servicing and maintenance fees added to top. Cloud revenues are typically bought on a subscriptions basis, with customers paying as they go for what they use, depressing SAP income in the short-term.

The pay-off down the line should be more sticky subscription revenues from a cheaper, more flexible platform for users, plus lower cost of distributing updates, among other things.

Treatt is in a sweet spot and you should buy now

This diversified natural extracts and ingredients provider is real high quality business

We think that shares in extracts-to-ingredients supplier **Treatt (TET)** can maintain the momentum they have shown since the market bottomed in March.

Under chief executive Daemmon Reeve, Treatt's margins are improving thanks to a focus on added-value products and the company is primed to profit from consumer trends including a preference for natural products, the growing interest in health and wellness, as well as premiumisation.

TRUST IN TREATT

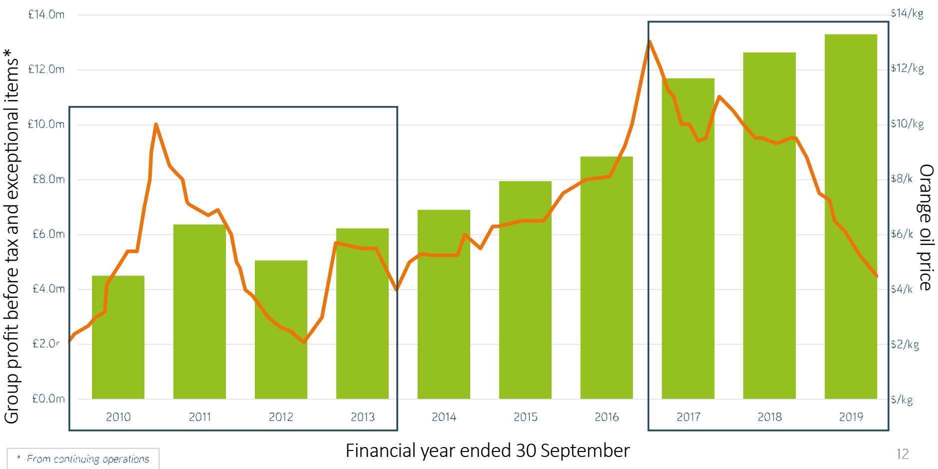
Treatt makes and supplies a diverse portfolio of natural extracts and ingredients for the flavour, fragrance and multinational consumer product industries, particularly in the beverage sector.

TREATT ↗ BUY
(TET) 607p
Market value: £369 million

In a year-end update (9 Oct), Treatt guided towards a modest annual profits rise and reassured it would pay a final dividend. For the year to September 2020, Edison forecasts improved adjusted pre-tax profits of £14.7 million (2019: £14 million), rising to £15.8 million this year for earnings of 20.3p, placing Treatt on a prospective price-to-earnings ratio of 29.9. The paid-for research house expects a 5.8p dividend for fiscal 2020 (2019: 5.5p), rising to 6.2p in 2021.

Annual revenue for 2020 was roughly £109 million, down 3% due to a plunge in citrus prices, though sales actually grew by 4% with orange oil related products stripped out and Treatt delivered a good profit performance overall thanks to growth in the other parts of the business.

Strategy has decoupled the historic link of group profits to orange oil price



Source: Treatt

SEVERAL SWEET SPOTS

During the pandemic, Treatt has profited from buoyant demand for drinks consumed at home, from rising demand for citrus co-products used in industrial and household cleaning products, as well as from strong growth in its higher margin health and wellness category including sugar reduction.

The portfolio is well-suited for consumer trends towards clean labels and more natural, healthier products. One example is the consumer shift away from beer and towards craft beers, alcoholic seltzers and cocktails, all of which contain natural flavourings.

Treatt is making inroads in the global alcoholic seltzer market, worth $4.4 billion in 2019 according to Grand View Research and expected to grow at a compound annual growth rate (CAGR) of 16.2% from 2020 to 2027.

And while lockdowns have hit drinks demand across the on-trade (bars, restaurants, hotels), eventual re-openings will create a top line tailwind for Treatt, now 75% of the way through a capital investment programme in the US and UK which will underpin future growth.

Under the radar Blue Whale Growth won't stay hidden for long

This global growth fund has even managed to trump Fundsmith's performance

If you're after a top-performing global growth fund **Fundsmith Equity (B41YBW7)** is one of the biggest and most popular with retail investors. Terry Smith's simple investment premise of buying great companies on reasonable valuations, then 'do nothing' makes it a classic low maintenance, buy and forget investment.

It has beaten its investment Association (IA) Global category in every one of the past five years, delivering a 142.5% return versus 75.7%, nearly double the IA Global performance (75.7%), according to Trustnet data.

But there are alternatives within the global space, and one in that really stands out to

BLUE WHALE GROWTH
BUY
(BD6PG78) 175.5p

Fund size: **£585.3 million**

us is the **Blue Whale Growth (BD6PG78)** fund, whose 68.7% performance since being set up a little over three years ago beats even Fundsmith's impressive 51.2% return.

The IA Global category average was 26%.

Launched in September 2017, Blue Whale's performance has raised eyebrows in investment circles and drawn a loyal following of retail investors to its portfolio. Run by lead manager Stephen Yiu, and assisted by co-manager Daniel Allcock and a small team of inhouse analysts, the fund's own investment philosophy is, like Fundsmith, deceptively simple; invest into high quality businesses at attractive prices.

Like its better-known, much larger peer, Blue Whale concentrates first and foremost on identifying quality stocks capable of producing sustainable growth over years, five or more typically. Beyond the capability to put up above average growth year after year, investee companies must also demonstrate profit excellence.

This is typically measured by investment criteria such as

Blue Whale performance

	3 months	6 months	1 year	3 years	5 years
Blue Whale Growth	5.1%	24.5%	30.3%	68.7%	N/A
IA Global	4.4%	17.8%	11.5%	24.8%	75.5%

Source: Trustnet

return on capital employed (ROCE), return on equity (ROE) and free cash flow (FCF) plus a host for others.

The fund likes companies with strong competitive positions, good management teams that are able to leverage structural growth drivers, such as digital transformation, cloud computing, online payments and robotics and automation.

This is evident from its current top stakes, including engineering software firms Autodesk and Dassault Systemes, medical technology companies Boston Scientific and Stryker, plus more household names like Mastercard, Microsoft and Facebook.

For example, creative digital design technology firm Adobe (currently Blue Whale's largest stake), the firm behind PDF document technology, has a long run history of gross margins above 85%, 30%-odd operating margins, and improving ROE (29.7% in 2019) and return on invested capital (21.9% in 2019).

Blue Whale's investment lens

- High-quality large and mega-caps at an attractive price
- Companies with strong competitive positions and good management teams
- Exposed to structural growth drivers
- High return on invested capital, equity and cash flows

Blue Whale Growth's portfolio includes Microsoft, Adobe and Intuit

This year (to December 2020) Adobe is forecast to post rough 15% revenue growth, hugely impressive given the fallout from Covid, while FCF is expected to top $5 billion.

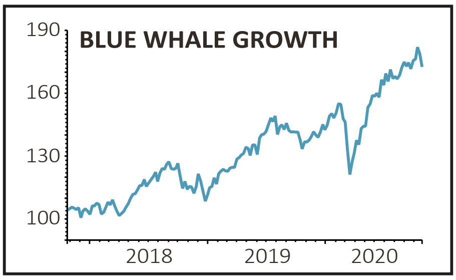
But while its top 10 stakes may make it look like a tech fund, it is not. The high proportion of technology stocks in the portfolio simply corresponds to the team seeing many of the best quality growth opportunities in technology stocks. If that changes, so will the portfolio make-up.

Straightforward the fund's investment philosophy may be, but it involves hard graft too. Blue Whale's team do all their own research, eschewing broker notes the like and instead applying rigorous, scientific analysis of its own. While that makes it stand out from most other global growth funds, another style point it does share with Fundsmith is its concentrated portfolio.

The Blue Whale fund typically operates with around 25 stocks in the fund, chiming with Fundsmith's 20 to 30 target scale. While that may sound less diversified that some investors might like, the advantage is that it gives the Blue Whale investment team far more time to spend on each stock.

This means getting to know every company in the portfolio intimately, giving the fund the chance top up on bargains and top-slice full valuations, as it did in July when it sold a large chunk of its Amazon stake.

Investor costs are competitive if slightly higher than Fundsmith. Ongoing charges run at 1.14% versus Fundsmith's 0.95%, a function of the scale advantages of the larger fund. We believe Blue Whale is a fantastic, slightly under the radar investment option for those taking a long-term view.



THE COCA-COLA COMPANY

(KO:NYSE) $49.80

Gain to date: 2.7%

Original entry point:

Buy at $48.48, 30 July 2020

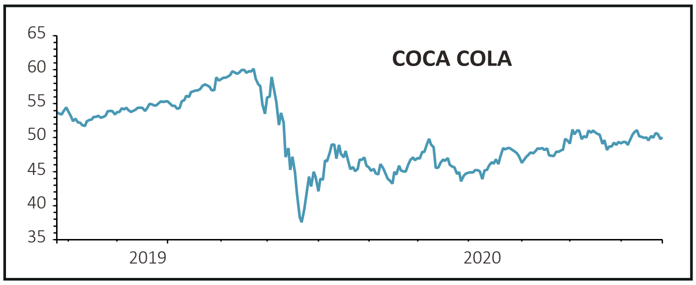
SOME OF THE froth was knocked off of **The Coca-Cola Company's (KO:NYSE)** shares in the recent Wall Street sell-off, though we're pleased to see they broke $50 beforehand following our summer 'buy' call on the beverages behemoth and our trade remains 2.7% in the money.

Encouragingly, the James Quincey-steered drinks colossus's third quarter earnings beat expectations with a boost from elevated at-home demand, even as the pandemic weighed on away-from-home volumes.

For the third quarter to September, organic sales softened 6%, yet that represented a dramatic improvement from the second quarter's 26% decline and net sales dropped 9% to a better than expected $8.65 billion.

The New York-listed giant behind the world's most recognisable soft drink has cut costs and is slimming its drinks portfolio, cutting drinks like *Tab* in order to focus on best-selling brands.

We continue to like Coca-Cola as a compelling recovery and total returns play, given its proven pedigree in surviving challenging periods and emerging stronger.



SHARES SAYS: ↗
We're staying sweet on The Coca-Cola Company. Keep buying.

TEXAS INSTRUMENTS

(TXN) $147.81

Gain to date: 29.2%

Original entry point:

Buy at $114.42p, 21 May 2020

ASML

€367.48

Gain to date: 39.1%

Original entry point:

Buy at €264.6, 23 April 2020

THE SEMICONDUCTOR space continues to reward carefully vetted stocks despite the weight of concern around coronavirus this year.

ASML, the Dutch supplier of crucial equipment to semiconductor giants like Samsung Electronics, TSMC and Nvidia, marginally beat analyst expectations for the third quarter, upped its prosed dividend payout and relaunched its share buyback programme.

ASML grew revenue 32.5% year-on-year, with net income up 69.4% as margins expanded. Both figures handily beat analyst expectations. While the stock has eased back from over €400 on what was decent if unexciting guidance, management are known for their caution when looking forward.

Microchips manufacturer **Texas Instruments** has been similarly soggy since its own third quarter update on 20 October which also outstripped expectations. The Dallas-based company earned $1.45 a share on sales of $3.82 billion in the September quarter, versus analyst forecasts of $1.27 a share on sales of $3.43 billion, although the earnings figure dipped 3% year-on-year.

We pitched both as robust long-term technology plays in the face of adversity and this view has, so far, been vindicated.

SHARES SAYS: ↗
Still both buys for the longer term.

DIVIDENDS AND THE PANDEMIC: WHERE ARE WE SEVEN MONTHS ON?

Covid-19's widespread financial damage includes an unparalleled hit to company dividends. Meaning more tough times for income investors. But the situation varies across sectors. It's not all bad news. Charles Luke, Investment Manager of Murray Income Trust PLC, shares the latest on dividends – including signs of stability and renewed activity.

On 10 March, John Menzies was the first company to suspend its dividend due to the coronavirus. A raft of others followed. In the UK, 47 of the FTSE 100's companies reduced, suspended or cancelled their dividends. And at least 100 of the FTSE 250's companies did the same. Never before have we seen such widespread action at once.

It's an obvious concern to investors. Dividends and dividend growth play a critical role in achieving sustainable income and long-term returns. Many studies show that the greatest proportion of total returns come from dividends and their reinvestment. But while the overall statistics on dividend cuts and delays are unprecedented, it's not all bleak. Many companies have been able to stick to their dividend strategy despite the coronavirus crisis. And quality, sustainable income is out there, if you know where to look.

Companies acted for various reasons

There were several reasons behind the decision to cut or delay dividends. For some companies the decision was forced, for others it was financially critical, while it was a welcome relief in a few cases. For many companies, it was purely cautionary – to preserve cash in the incredibly uncertain economic climate.

The Bank of England's Prudential Regulatory Authority told banks not to pay dividends. Meanwhile, those companies that used the government's financial assistance packages could not justifiably follow this with dividend payouts to shareholders.

On the flipside, some companies such as Imperial Brands and Shell took advantage of the opportunity to lower dividends. This was especially the case if they had been over-distributing, had too much debt, or needed the cash for other investment needs.

So a very varied picture across sectors. Let's take a deeper dive into the dividends situation.

A mixed bag

In real estate, how different

subsectors performed very much depended on the purpose of the property. Lockdown resulted in the closure of many physical retail units so this area saw deep cuts to dividends. However, some companies were able to support or even increase their dividends. For instance, companies with self-storage or urban logistics assets, such as Safestore or LondonMetric, benefited from resilient demand and the growth of online retailers.

Hardest hit

It's no surprise that the travel and leisure sector was one of the worst hit areas during lockdown. No revenue versus high fixed costs meant there were extensive dividend cuts across the sector, including companies such as Carnival and Whitbread.

Oil and gas, which had been over-distributing dividends previously, also made widespread cuts. But several headwinds are buffeting the sector. Lockdowns resulted in an unprecedented fall in global demand for oil, which led to oversupply and nowhere to store it. This meant owners of certain types of oil had to pay to find a home for it, which led to the most unusual situation of negative oil prices. Add to that the transition to renewable energy, and the sector had no choice but to act on dividends.

Elsewhere, the UK's largest banks, including HSBC, Lloyds, Barclays and Royal Bank of Scotland, all slammed the brakes on dividends. As mentioned earlier, regulatory pressure was key but these companies face a challenging environment of low interest rates and likely increased loan impairments.

Maintaining dividends

It wasn't all cuts or delays though. Some companies maintained their dividend payouts, supported by strong demand, robust balance sheets, flexible cost bases and recurring or needs-driven revenues.

A strong iron ore price supported mining companies. Rio Tinto, among others, was able to pay out. The majority of healthcare and pharmaceutical companies also maintained payments. This included AstraZeneca, GSK and Smith & Nephew.

And it was, relatively speaking, business as usual for some sectors. This included telecoms, utilities and food producers. Vodafone, National Grid, SSE and Unilever all dished out their dividends. Beverage giants Diageo and Coca-Cola Hellenic did the same. They were helped by strong off-trade business (the sale of drinks in supermarkets for example, to be consumed at home) partly offsetting weakness in ontrade (e.g. drinks sold in hotels and restaurants).

Where are we now?

While the fog of Covid-19 is clearing in some areas, enormous economic uncertainty remains. Many management teams are waiting on signs of the virus and economic activity stabilising further, and to understand the impact as furlough schemes end. And many will prioritise repaying government support and additional borrowings over payments to shareholders. Even when they reinstate dividends, it may not be at the same level as previously. Priorities have changed for most companies.

But there are signs of encouragement. We're seeing some company management becoming more confident about reinstating their dividends. Sometimes it's a case that they were overly cautious at the height of the crisis. Or it could simply reflect the fact that some sectors have barely been affected by the crisis - demand within the insurance sector has remained robust throughout the crisis, for example.

Income investing can still work

There's no doubt that income investing has had a difficult 12 months. First, there was the collapse of a high-profile fund and departure of a well-known investment manager. Then Covid-19 – a hammer of human and financial distress – seemingly swung out of nowhere. It's been a huge blow to dividends.

But this doesn't point to the demise of income investing. It can still work – you just need to find the right companies to deliver sustainable income growth.

The search for sustainable income

At Murray Income Trust, we've always maintained a view that income investing should never be about chasing high yields. It should be about long-term sustainability and dividend growth.

It's simple. To grow your dividends, you need to grow your earnings. And good quality companies can be better placed to do that. They're also more likely to deliver on their dividend growth aspirations and pay special dividends.

A quality strategy is all the more important in these unprecedented times; low growth, low interest rates, high debt. Corporate profits will be under pressure for the foreseeable future. So it takes a careful, research-intensive approach to find the most resilient investments.

The right companies…

An income approach based on quality needs dependable

companies with strong balance sheets. Those that can continue to grow their business, reinvest in it, partake in merger and acquisition activity, and grow their earnings year on year. These quality businesses are more likely to be able to pay dividends, even when conditions change or are challenging. Of course dividends aren't always guaranteed, even if a company is growing year on year.

Similarly, we focus on companies with compelling long-term structural growth stories, perhaps with global brands or valuable intellectual property. In the current environment, some of the strongest companies should be able to grow stronger. Earnings growth in a low growth world is likely to be prized more highly than ever. So companies with sustainable competitive advantages and pricing power will benefit disproportionately.

…in a diversified mix

The pandemic has affected different sectors in different ways – everything from severe loss to sudden growth.

Diversification, as always, is crucial. This can be achieved using different sectors but also a range of mid and large-cap stocks. It's about ensuring that investment is not overly dependent on any one sector, trend or economic scenario.

Fundamentals and patience

The more you know the better, as in-depth knowledge can help to manage investment risk. It's important to understand a company's business model, how it manages its environmental, social and governance (ESG) factors, its competitive advantages and management team.

But gaining a clear picture of a company and what may change means combining several thorough approaches. Experienced analysts and ESG experts doing proprietary research and meeting face-to-face with company management – while also carefully considering the views of independent experts. The more you know, the more likely you are to see potential improvements and work with companies to achieve them.

As always, a long-term view is important. Human nature is to react to short-term panic, perhaps to chase lower-quality companies with the chimera of higher dividend yields. At Murray Income Trust, we believe that this rarely works. We seek quality companies that can stay the distance – those that will give us access to the many potential advantages of income investing for our clients.

The potential advantages of a quality income approach:

- dividends can be a key driver of total returns over time
- in a world of low numbers, UK dividends can be attractive versus other equity markets and asset classes
- companies with strong business models and robust balance sheets may benefit disproportionately
- more sustainable returns with a lower risk profile – high-quality companies are more likely to deliver their dividend aspirations and provide special dividends
- diversified income streams that are less cyclically exposed and compare favourably versus the concentrated dividend profile of the broader market
- potential for additional income via options that support income resilience, an independent income stream and an attractive yield.

Companies selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.

Is the fanfare for Fundsmith justified?

As the firm approaches its 10-year anniversary we examine what went right and ask if it could have done better

In typically pugnacious style, when launching **Fundsmith (B41YBW7)** ten years ago with a personal investment of £25 million of his own cash veteran City dealer Terry Smith called the UK fund management industry 'broken', accusing it of over-trading, fund proliferation, closet indexing and over-diversification.

He promised to 'run the best fund ever' and bring retail punters 'a method of investment which they have not been able to access before', all with no up-front or performance fees. He also promised to try to ensure that the amount of capital gains tax investors paid was 'as large as possible' thanks to his investment success.

A decade on, has Fundsmith measured up to these bold claims and, say it in hushed tones, could it have done better?

WHAT IT SAID ON THE TIN

Fundmsith promised to invest without reference to a benchmark and to only own a maximum of 30 stocks around the world, in businesses which didn't face 'obsolescence' through technological change.

While not identifying which stocks his fund would pick, Smith was clear he wanted companies with direct to consumer business models and longevity, such as food, beverage and tobacco firms, and that he wouldn't be tempted by 'hot' stocks: 'We are conviction investors. It requires real emotional discipline not to chase the latest fad.'

He promised to be a long-term, buy and hold investor, only owning stocks which would compound in value over the years. When necessary, his firm would also challenge companies where it felt capital allocation decisions were being wrong made or executive pay was wrongly structured.

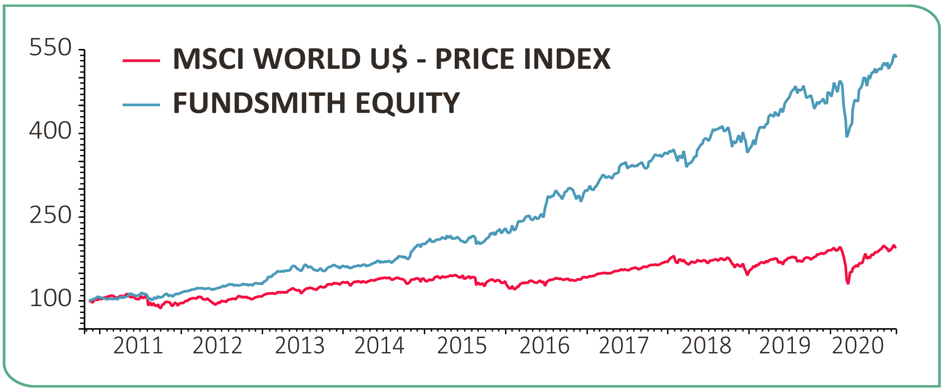
WHAT INVESTORS GOT

Fast-forward 10 years and Fundsmith has certainly given investors a capital gains tax headache. Anyone who put £10,000 into the retail accumulation shares at inception would be looking at a holding worth more than £50,000 today according to Bestinvest, while investing £100 every month over the same period would have built a nest egg worth £32,000.

In terms of average annual return, net of costs, few investors have been able to hold a candle to Fundsmith over the past decade. A total return of 445% since 1 November 2010 is more than double the 215% generated by the MSCI World Index and equates to a compound annual growth rate of 18.6% on average.

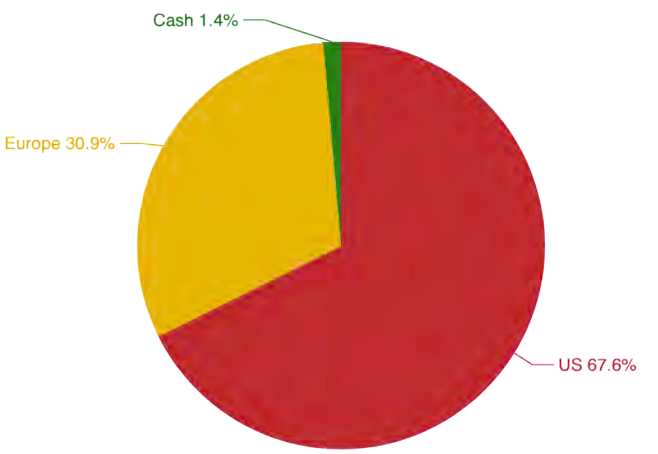
Growth hasn't always been even though. The 2010 out-turn, published on the Fundsmith website, was a gain of just 6.1%, and 2018 saw a gain of just 2.2%. In contrast, last year's

Fundsmith: Re-rating of quality growth stocks vs MSCI World



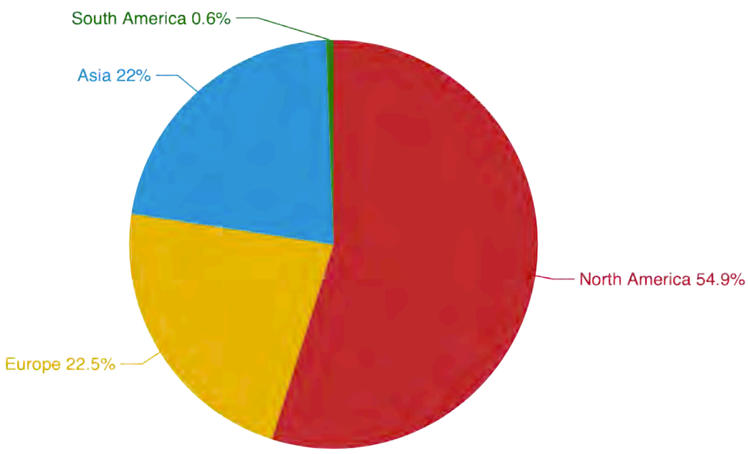
Fundsmith has no exposure to Asia unlike rivals like Scottish Mortgage

Fundsmith - geographic breakdown



Source: Fundsmith, as at 30 September 2020

Scottish Mortgage - geographic breakdown



Source: Baillie Gifford, as at 31 March 2020

gain of 25.6% was the highest since inception.

Nor has success happened by accident. The firm's oft-repeated mantra of 'buy good companies, don't overpay, do nothing' has worked extremely well over the past decade for a number of reasons.

FOLLOWING WINDS

Late 2010 may not have been the ideal time to launch a fund business, but even so it was fairly evident the clouds from the financial crisis had begun to clear and the global economy was getting back on its feet, so it certainly wasn't a **bad** time to launch.

Moreover, managers who only buy good companies have been well rewarded this past decade as investors have put an ever-increasing premium on growth, while interest rates have remained abnormally low, reducing the discount rate and increasing the theoretical terminal value of 'long-duration' investments.

As Smith has observed in his annual shareholder letters, his stocks – like all 'quality' stocks – have tended to see their valuations rise more than their earnings over the years, a phenomenon crudely referred to as PE (price to earnings) expansion.

Arguably, the pandemic has only strengthened the outlook for growth companies which in turn has seen their valuations rise even further this year.

Absent the pandemic, and had the global economy rallied in a co-ordinated way causing inflation to rise, and with it interest rates, the performance of 'quality growth' companies might have been very different.

Also, Fundsmith has a huge competitive advantage thanks to its much longer investment horizon than most of its competitors and the fact it can run its winners, one of the secrets to amassing genuine wealth. For example, it isn't unusual for the best-performing stocks in the fund, such as Microsoft or Paypal, to be the same from one year to another.

COULD IT HAVE DONE BETTER?

It may seem miserly to ask, but we have to wonder whether Fundsmith could have done better still. By deliberately eschewing certain sub-sets of the market, has it missed out on even higher growth?

For instance, while it favours growth companies with intangible assets like strong brands, dominant market shares, installed bases and so on, it tends not to buy into 'innovation' or invest in developing markets.

As a result, and also maybe as a result of the furore among shareholders over its purchase of Facebook shares, over the last five years the fund has missed out on the remarkable share-price performance of stocks like Alibaba and Tencent, unlike rivals such as **Scottish Mortgage Investment Trust (SMT)**.

By **Ian Conway**
Senior Reporter

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At WisdomTree, we pride ourselves in providing top-class investment vehicles to our investors giving you the tools you need to navigate markets in the best way possible. WisdomTree offers the broadest range of Short and Leveraged ETPs (S&L ETPs) globally, covering most asset classes in both unleveraged and leveraged formats (-5x to 5x). Such S&L ETPs are really the investor's Swiss Army Knife, they can be used in a large spectrum of market scenarios and can help you achieve a wide range of investment goals:

+ Expressing tactical views and positioning your portfolio for specific scenarios.
+ Hedging other assets in your portfolio to enhance the overall risk return profile of your investments.
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+ Creating complex investment strategies that are usually only accessible to large, professional investors.

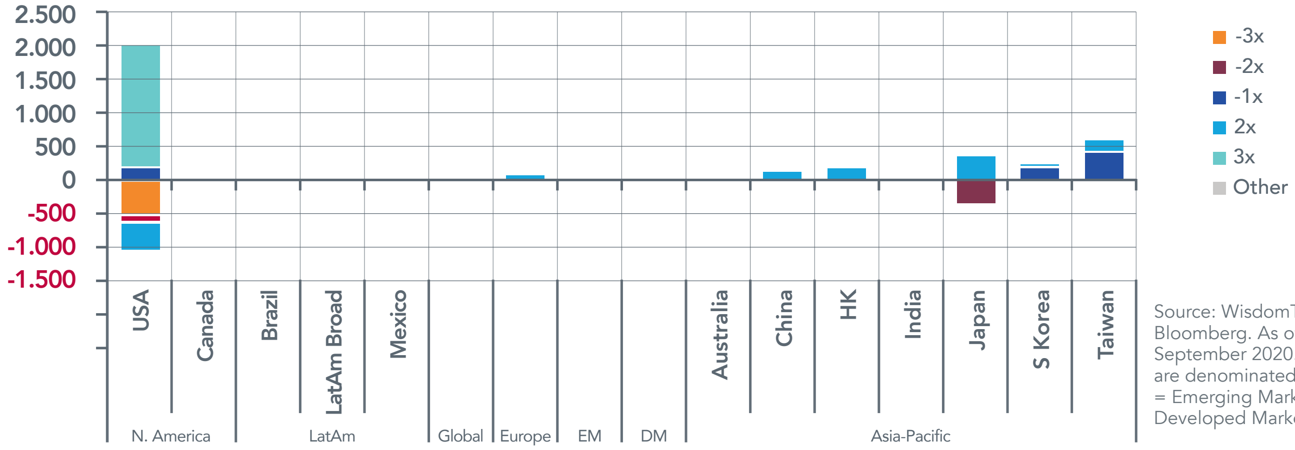
For example, looking at the upcoming US election, markets have been speculating for weeks on the impact on assets of the different possible scenarios from a Blue Wave to President's Trump reflection.

However, deciding what to trade and why is only one part of the investment process, one important part if not the most important part is to decide how to implement the trade. The efficiency of the implementation of the trade will, in most cases, decide how successful the trade is. In this case, investors could use S&L ETPs to express their tactical views on the US equity markets, US Tech stocks or the US dollars in a capital efficient way by using S&L ETPs like long leveraged or short leveraged products.

Similarly, thinking about the end of the year and the potential deal/no-deal scenario around Brexit, a UK investor could also consider using S&L ETPs to hedge its holdings in foreign assets (denominated in dollar, euro or any other currency) against the potentially sharp moves in the British Pound.

As always, investment knowledge is key. In the WisdomTree Short and Leveraged ETPs Global Flow Report that we publish on a monthly basis, it is possible to follow the mood of Short and Leveraged investors over time. This September for example we have observed that in US equities, investors have on average divested from their leveraged short products in favour of investing in leveraged products making the sentiment largely bullish. It will be interesting to see what happens this month with the upcoming election.

Global Equities September 2020 Flows - Asset Flows by Leverage Factor



Source: WisdomTree & Bloomberg. As of 30 September 2020. All figures are denominated in USD. EM = Emerging Markets. DM = Developed Markets.

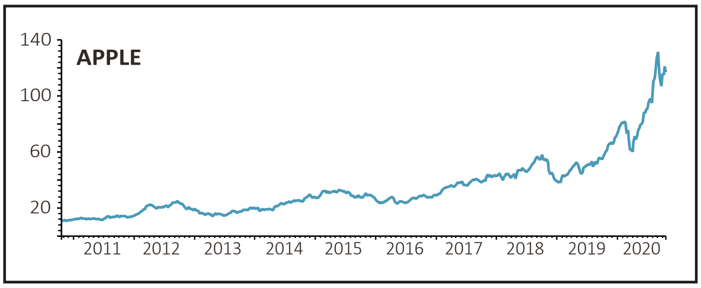
On a final note, it is worth remembering that like any powerful tools, S&L ETPs have to be used with caution and sound knowledge of their behaviour and intricacies. With that objective in mind, WisdomTree has recently published the "**7 things to remember when investing in Short and Leveraged ETPs**" that aims to provide savvy investors the keys to better understand these products and use them to their full potential.

▪ For more information, please visit WisdomTree's Short & Leveraged Centre

$2 trillion Apple is worth its premium price tag

Services, wearables and 5G should continue to drive increasingly reliable growth

Californian-based Apple is the most valuable company in the world, worth just shy of $2 trillion. It has been generating fantastic returns for investors for a long time and it enjoys a very loyal customer base. A £5,000 investment 10 years ago would today be worth £61,180 if you had reinvested all dividends.



It's fair to say that 2020 has been another knockout year for Apple despite the Covid-19 outbreak, with a 56% share price gain year to date. Apple has comfortably outstripped the tech heavy Nasdaq Composite's 26% gain this year and smashed the widely tracked S&P 500 index's 5% advance.

But since the start of September the Apple share price has stalled, falling from record $134.18 highs to now trade at $116.87. With that pullback in mind many investors will be wondering if Apple shares are a buy right now. We think they are.

MAKING APPLE TICK

The Apple investment story is easy to understand. Customers buy a device, get hooked into Apple's services ecosystem and keep coming back for more. In a December 2018 survey by Kantar, 90% of US iPhone users said they planned to remain loyal to future Apple devices.

Apple now has more than 550 million paid subscribers across its services portfolio. The company expects to reach its 600 million paid subscribers target before the end of calendar 2020.

Co-founder Steve Jobs returned to run Apple in 1997 and oversaw a winning streak of innovations that included the iMac, iPod, iTunes, iPhone, iPad and the App Store.

The biggest driver of Apple's modern success is the iPhone, a game-changing smartphone that has sold well over 2.2 billion units since its launch in 2007, although we can't get exact numbers since the company stopped making unit sales volumes public a few years ago.

That decision was controversial, and some fund managers complained that it was a regressive move from a corporate transparency perspective. Some sceptics also wondered if it had been designed to disguise a long-term slowing of iPhone sales growth as users hold on to their handsets for longer between upgrades.

In the first three quarters of the financial year

Apple's 2019 revenue streams (to 30 Sep)

	$ billions
iPhone	$142.2
Services	$46.3
Mac	$25.7
Wearables, home and accessories	$24.5
iPad	$21.3
Total net sales	**$260.17**

Source: Apple

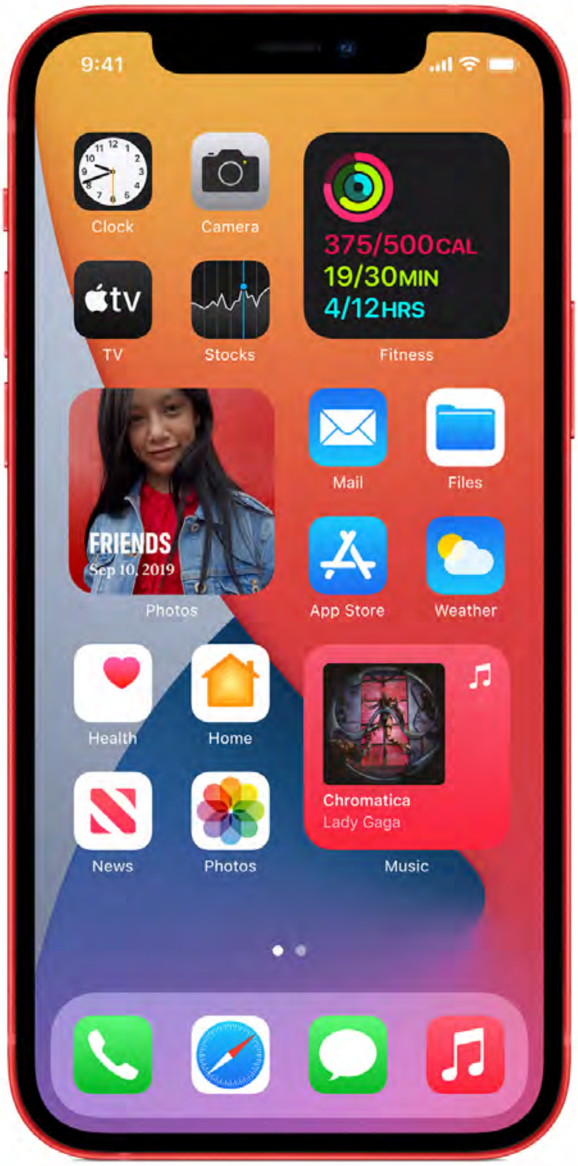
ending 30 September 2020, iPhone revenue growth totalled 8% in the first three months, -7% in the second quarter, followed by 1.9% growth in the three months to 30 June. That's disappointing (although you have to take Covid-19 into consideration) but Apple could be on the brink of a major upgrade cycle with its first 5G iPhones which launched on 23 October.

SUPERFAST 5G READY

The 5G-enabled family of iPhone 12s include 5.4-inch, 6.1-inch and 6.7-inch displays and starting prices ranging from $699 to $1,099 (or the equivalent in pounds for UK buyers). The iPhone 12 is thinner, smaller and lighter than the iPhone 11. The base iPhone 12 is also $100 more than its iPhone 11 equivalent, an important measure in assessing upsell potential from its loyal users.

The four handsets launched feature a new design, a variety of changes to the camera on the rear, more processing power, among other features. The top of the range Pro models have even more extras, including a new rear-facing LiDAR scanner which uses depth sensing for photo and video applications, including faster autofocus in low light situations. It opens up new possibilities for augmented-reality experiences.

Apple has also introduced the HomePod Mini smart speaker that should give Apple better competitive footing against market leaders Amazon and Google.



OPPORTUNITIES FOR GROWTH

If iPhone growth continues to slow investors should look to two other revenues streams to give sales and profits a boost: services and wearables.

These are the main reasons why Apple's share price enjoyed such a strong run earlier this year as the market started to appreciate there is still massive potential for the company to boost earnings for years to come.

In the June quarter, Apple's services revenue rose 15% to $13.2 billion, continuing a long-run trend. Services include the App Store, AppleCare (insurance), iCloud (data storage), Apple Pay, Apple Music, Apple TV+ and Apple Arcade (gaming).

To make it easier for users to access more services the company has now introduced a subscription bundle called Apple One, putting it on the right track to rapidly grow reliable and predictable subscription income and become less hooked on device sales.

The idea behind Apple One is to leverage its most popular Apple Music and iCloud engines to drive higher take-up of newer and lesser used services. For example, a current Apple Music ($10 monthly) and Apple TV+ subscriber ($5 monthly) with 50 Gigabytes of iCloud storage ($1 monthly) would collectively be paying $16 a month, with each one billed separately.

The basic Apple One package ($15 monthly) includes all three services plus Apple Arcade gaming. This makes it a no-brainer for customers while Apple gets its users far more deeply entrenched within its ecosystem and gets more people on its underused services. The $30 premier version adds more storage, Apple News+, and the newly announced Apple Fitness+.

This should reduce customer churn and boost average revenue per user, currently estimated at only $4 a month.

It's very much a long game move but one that should justify the stock's higher rating over time because of the low marginal cost to Apple.

MORE AVENUES

Meanwhile, Apple's Wearables, Home and Accessories unit saw sales jump 17% to $6.5 billion in the June quarter. This unit includes the Apple Watch, AirPod wireless earbuds and Beats headphones. It also contains the Apple HomePod wireless speaker and other miscellaneous gadgets and services including Apple Fitness+.

Apple's focus on autonomous vehicles and augmented reality/virtual reality (AR/VR) technologies presents additional growth opportunities. These are fast emerging as lucrative opportunities and Apple has acquired several smaller specialist businesses with expertise in AR hardware, 3D gaming and VR software.

EYES ON FOURTH QUARTER AFTER FORECAST BEAT

Apple will report fourth quarter and full year results on 29 October with analysts looking for $0.71 earnings per share and $64.16 billion revenue for the last three months, based on Refinitiv consensus forecasts.

The company earned the equivalent of $0.65 a share on sales of $59.7 billion in its fiscal third quarter to June, factoring in the company's 4-for-1 stock split at the end of August. Pre-split earnings of $2.58 came against $2.04 forecasts.

Apple paid $3.6 billion of dividends in the third quarter taking the total to $10.5 billion so far this year.

Investors needn't get too hung up on fourth quarter numbers as Apple's first quarter (Oct to Dec) is far more important. As the net income bar chart shows, the company traditionally makes anywhere from a third to 40% of its core profits in this period.

TO BUY OR NOT TO BUY

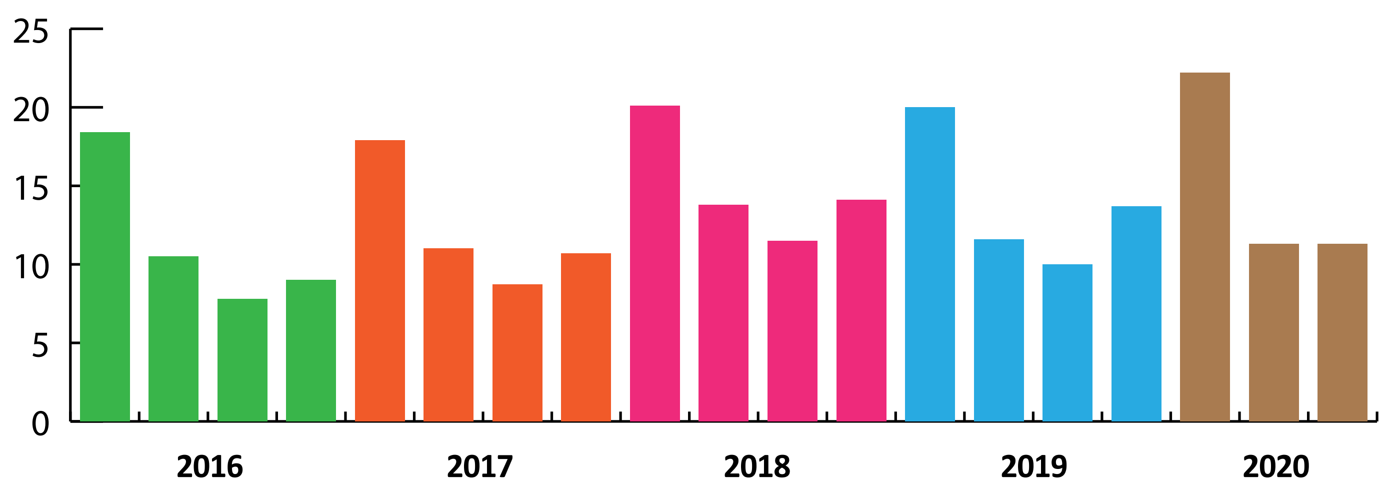
Apple's competitive advantage has been built on packaging hardware, software, services and third-party applications into sleek, intuitive and appealing devices. This expertise enables the firm to capture a premium on its hardware, unlike most of its peers such as HP or Samsung.

This 'walled garden' ecosystem makes switching away prohibitively costly and awkward for users, albeit not impossible. Adding new 5G services should drive a strong upgrade cycle and we would expect lots of new tools, services, games and apps designed with 5G in mind to feed the services growth machine.

This could also bolster operating margins beyond the 25% of 2019 and back to nearer the 30% mark of a few years ago, maybe higher.

The elephant in the room remains increasing regulatory hassles in Europe and the US where its dominance is under the spotlight. Both Spotify

Apple's quarterly net income ($bn)



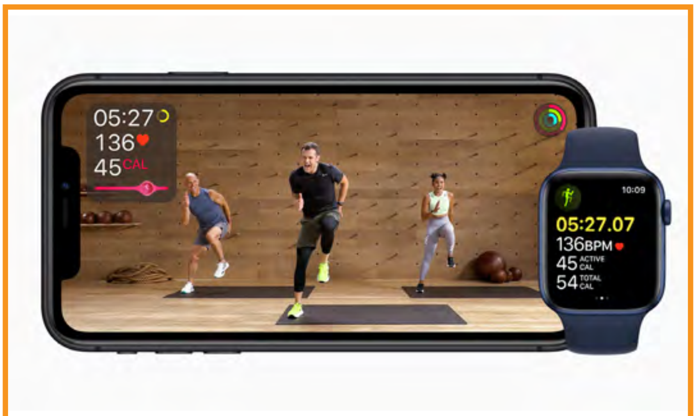
Source: Apple, Statista

and Fortnite maker Epic Games have complained about Apple's app store charges and access, and the company is also facing lawsuits in relation to health-monitoring features of Apple Watch.

It's certainly a space to watch but analysts largely believe appropriate remedies will be found that satisfy all parties without undermining Apple business model to any great degree. Interestingly, 26 of the 39 analysts covering the stock, according to Refinitiv, still have buy ratings, and just three suggest selling.

APPLE IS A CASH MACHINE

There are also risks around hardware becoming increasingly commoditised, lengthening replacement cycles but we think these are compensated by Apple's bulletproof balance sheet and massive cash flows.



Apple's key quality metrics trend

	2019	2018	2017	2016	2015
Gross margin	**38%**	**38%**	**39%**	**39%**	**40%**
Return on equity	**56%**	**51%**	**37%**	**37%**	**46%**
Free cash flow ($bn)	**58.9**	**64.1**	**51.8**	**53.5**	**69.8**

Source: Refinitiv

Analysts forecast $70 billion of free cash flow for the year to 30 September 2021, a measure than has topped 100% of net profits in each of the past five years

Return on equity has topped 50% in the past two years while return on invested capital is forecast to touch 50% in the year ahead.

We believe Apple's shares remain a very attractive long-term investment.

Why Buffett has taken a shine to Apple

Warren Buffett, the world's most famous investor, once shunned technology stocks because he said he couldn't understand them. That view changed a few years ago and his Berkshire Hathaway conglomerate is today the Apple's biggest shareholder behind funds group Vanguard, with a 5.73% stake worth around $115 billion.

The stake in Apple represents nearly half of Berkshire Hathaway's portfolio (49.1%) by value, according to company filings, because it oozes many of the characteristics that Buffett so loves.

These include long-term consistent earnings growth, evidence of moats around its business, large scale share buybacks that show Apple management believe the stock is cheap and handing shareholders consistent and growing dividends.

The one measure that we think probably stands out to the Sage of Omaha is Apple's cash flow profile. Buffett likes companies that finance themselves conservatively yet don't require heavy capital expenditure on items like plant upgrades or research and development.

By **Steven Frazer** News Editor

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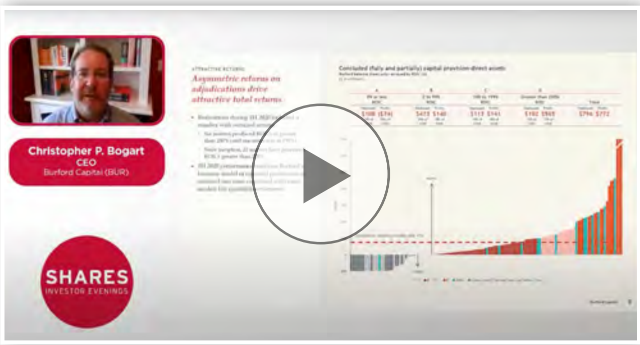

Burford Capital (BUR) – Christopher P. Bogart, CEO

Burford Capital is a leading global finance and investment management firm, focused on law. Burford is publicly traded on the London Stock Exchange.

Inspiration Healthcare Group (IHC) – Neil Campbell, CEO

Inspiration Healthcare Group is a global supplier of medical technology for critical care, operating theatre and home healthcare applications. Our mission is to provide high quality innovative products to patients and caregivers around the world.

Surface Transforms (SCE) – Dr Kevin Johnson, CEO

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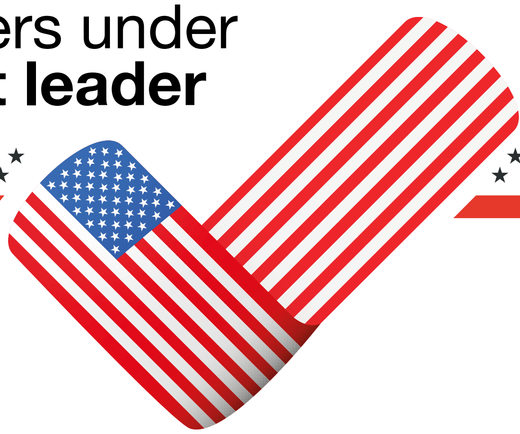
TRUMP vs BIDEN

Winners and losers under **America's next leader**



By **Yoosof Farah** Reporter

When America picks a new president next week, it's more than likely to have an impact on your investment portfolio whatever the outcome.

US voters go to the polls on 3 November to decide whether Republican candidate Donald Trump deserves another four years in office, or whether the Democrat's Joe Biden should be elected the next US president.

The general consensus seems to point to three likely outcomes. Firstly, a Biden landslide where the Democrats keep the House of Representatives and take the Senate, which would allow Biden to push his agenda through Congress a lot more seamlessly.

Nate Silver, the American statistician who's made his name forecasting US elections, gives Biden a 10% lead in the national polls and an 84% chance of winning the electoral college, the system which helped Trump win the last election despite losing the popular vote to Hilary Clinton by 2.87 million votes.

A second plausible scenario is a Trump win, though barely anyone thinks it would be a landslide so the Republicans in this case would likely hold the Senate while the Democrats would keep control of the House of Representatives, in which case it would be almost 'as you were'.

The last outcome, which investors fear the most, is a contested election where it's a close call and either side disputes the result.

WHAT EACH SCENARIO MEANS FOR THE STOCK MARKET

Three scenarios and what they mean

1 **BIDEN WINS**
- Sell off in some stocks, particularly tech.
- Rally in green/clean energy stocks.
- Higher interest rates.

2 **TRUMP WINS**
- Stock market volatility increases, mostly due to another four years of disruption to global order.
- But not before a relief rally in markets.
- Increased US-China tensions.
- Two houses of Congress split (Republicans control the Senate, Democrats the House of Representatives), meaning little fiscal stimulus ability.

3 **CONTESTED OUTCOME**
- Stock market sell off due to uncertainty.
- Spike in volatility.
- Weaker US dollar.
- Higher gold prices

> *"No matter who wins, there's going to be a stimulus package that's going to have a focus on infrastructure. Both sides agree that this will ultimately help industrials, materials and the more cyclical market sectors"*
>
> **Tony Dwyer, Canaccord Genuity's chief market strategist**

As for what's likely to happen on the stock market, in summary, if Biden wins, given his policy announcements, it's likely that green energy stocks could rally, oil and gas stocks will take a hit, big tech could suffer, financials are likely to fall and marijuana stocks could go higher.

If Trump wins, expect a relief rally from the Nasdaq and S&P 500, while the oil and gas sector will jump and US small-caps could also bounce, but there's likely to be a selloff in healthcare and Chinese tech stocks.

If the result is contested, most likely there'll be a widespread market selloff, higher volatility, lower earnings multiples for the majority of stocks and a rally in the gold price.

A precedent for this comes from the 2000 election, which was unresolved until early December when the Supreme Court ordered a stop to the Florida recount following a month long legal dispute. The S&P 500 dropped 9% before George W Bush was declared victor in early December.

However, arguably the more divisive nature of politics two decades on means a contested result could have more far-reaching consequences. To date Trump is yet to commit to the peaceful transfer of power which has been a bedrock of US democracy since its inception.

Under both candidates, stocks exposed to infrastructure are expected to do well as Trump and Biden have each committed to a big infrastructure spending plan to spur an economic recovery after the coronavirus pandemic.

INFRASTRUCTURE SPEND LOOKS LIKELY REGARDLESS

Canaccord Genuity's chief market strategist Tony Dwyer says that despite the vast differences between the candidates driving an unpredictable outcome, there is one certainty.

'No matter who wins, there's going to be a stimulus package that's going to have a focus on infrastructure. Both sides agree that this will ultimately help industrials, materials and the more cyclical market sectors,' he says.

It's likely this would be a boon for equipment rental firm **Ashtead (AHT)**, as well as building materials supplier **CRH** and plumbing and heating product provider **Ferguson (FERG)**.

This was visible for example on 16 June when the share prices of all three increased between 5-8% after reports emerged the Trump administration was preparing a near $1 trillion infrastructure proposal, reserving most of the money for traditional infrastructure work, such as roads and bridges, but also setting aside funds for things like 5G wireless infrastructure and rural broadband.

It could also help construction company **Balfour Beatty (BBY)**, which has a big division in the US and has made its name as a specialist in the traditional hard infrastructure projects that will still be key post-election to spur America's economic growth.

WHAT ARE THE POLLS SUGGESTING

At the moment a Biden 'clean sweep' seems generally to be considered the most likely outcome,

Probabilities on US election outcomes as at 21 October

1	D,D,D	Democrat clean sweep, policy change	62%
2	D,R,D	Biden, status quo, orderly paralysis	21%
3	R,D,D	Trump, status quo, disorderly paralysis	9%
4	R,R,D	Surprise Trump win, but status quo	3%
5	D,D,R	~~Biden wins and Dems take Senate and yet House is flipped~~	3%
6	D,R,R	~~Biden wins and yet House is flipped~~	1%
7	R,D,R	~~House is flipped, but so is Senate~~	0%
8	R,R,R	Republican sweep, policy acceleration	0%

White House, Senate, House of Representatives

Source: fivethirtyeight, Jefferies

but remember the opinion polls called the US election wrong in 2016, with Clinton leading in almost all pre-election nationwide polls at the time.

Eleanor Creagh, a market strategist at Saxo Bank, points out the real-world margin of error has been close to 6% for some state polls and thinks the probability of a contested outcome 'remains high'.

She says many market participants are in 'wait and see mode.... conviction is low and investors/traders are treading water ahead of the election. The race could be far tighter than the polls are indicating'.

If he does win, Biden's main economic policies are to raise the minimum wage and invest in green energy, things which are likely to go down well with two types of traditional Democrat voters – young people and blue collar workers.

As part of his 'Build Back Better' plan, Biden plans to raise the minimum wage in the US to $15 an hour, something most likely to benefit young people working in the retail and hospitality sectors that would be affected the most by this.

GREEN NEW DEAL

But the most eye-catching part of that plan is to spend $2 trillion on infrastructure and clean energy, in a so-called 'Green New Deal' – an echo of the policies introduced by president Franklin Roosevelt in the wake of the Great Depression nearly a century ago.

The aim would be to deploy all the cash within the next four years. This is designed to appeal to working class union workers, who perform most of those jobs in green manufacturing and building infrastructure.

The money would go on traditional infrastructure projects like rail, roads and bridges, as well as projects for 'clean, American-made electricity' and the construction of around 1.5 million new 'sustainable' homes and housing units, as well as the retrofitting of four million buildings to modern sustainability standards.

Jefferies analyst Chris LaFemina says that if renewable energy and things like electric vehicle charging points turn out to be a key part of the plan, demand for metals in the US would 'materially increase'.

LaFemina says this scenario would likely lead to higher prices for copper, nickel and aluminium as supply constraints – especially in copper and nickel – will limit the mining industry's ability to bring online capacity in response to stronger demand.

> ***"If renewable energy and things like electric vehicle charging points turn out to be a key part of the plan, demand for metals in the US would 'materially increase'"***
>
> **Chris LaFemina, Jefferies analyst**

He adds the market discounts commodity prices at or below current spot levels, so this scenario is largely not taken into account in mining shares today.

In addition, part of the cash would be spent on innovation to drive big cost reductions in clean energy technologies, including battery storage, negative emissions technologies, the next generation of building materials, renewable hydrogen, and advanced nuclear, with a plan to 'rapidly commercialise them'.

Hydrogen stocks have risen markedly after policy and funding announcements from governments, and any commitment from Biden towards the sector should be become president (particularly if the Democrats take both Houses of Congress) would likely be a catalyst for further share price growth.

On the London market, the stocks in the sector are **AFC Energy (AFC:AIM)**, **Ceres Power (CWR:AIM)** and **ITM Power (ITM:AIM)**, though AFC and ITM are still pre-revenue and none have ever turned a profit. A safer way to potentially play this sector would be through FTSE 100 chemicals group **Johnson Matthey (JMAT)**, which is exploring the development of hydrogen fuel cells.

THREAT TO BIG TECH

Big tech would probably take a hit under Biden though. The veteran Democrat has pledged to roll back on Trump's tax cuts and says he'll increase corporate income tax from 21% to 28%.

A part of this also involves what some have called the 'Amazon tax', a minimum 15% tax for all companies with revenue of over $100 million – a clear indication of who that could affect.

In addition an antitrust subcommittee of the Democrat-controlled House Judiciary Committee released a 449-page report excoriating Amazon, Facebook, Apple and Google owner Alphabet for what it calls systematic and continuing abuses of their monopoly power. Recommendations from the report include ways to limit their power, force them out of certain areas of business and even a break-up of some of them.

> *"Biden's policies involve what some have called the 'Amazon tax', a minimum 15% tax for all companies with revenue of over $100 million"*

Analysts at RBC say the tax changes alone would negatively affect the US tech sector, while analysts at Jefferies point out the banking sector would also be hit.

As well as those who hold the big tech names, those who hold an S&P 500 exchange-traded fund (ETF) beware, as RBC forecasts that Biden's tax plans would bring down the S&P's earnings per share (EPS) by around 9%. While Jefferies estimates that for some companies, every 1% rise in corporate tax can impact EPS by 1.5%.

If Trump gets re-elected, it's expected the US will continue along the path of deregulation and lower taxes for corporates and high-income households, which would no doubt be welcomed by the market.

TRUMP WIN TO BOOST OIL & GAS INDUSTRY

The Republican would also be a boon for oil and gas stocks, which rallied earlier this month after he recovered from coronavirus, given the US' withdrawal from the Paris climate agreement, something which will only be rubber stamped if Trump wins next month.

Most of Trump's economic policies are similar to his four years in office up to this point. Unlike Biden, he plans to continue taking a hard-line stance on China and 'end reliance' on the country for manufacturing, offering tax credits to entice American firms to move factories back home and out of China.

It's worth noting that various presidents, particularly Trump, have liked to talk about how much the stock market has gone up on their watch and often use that in their re-election campaigns in a bid to sway voters.

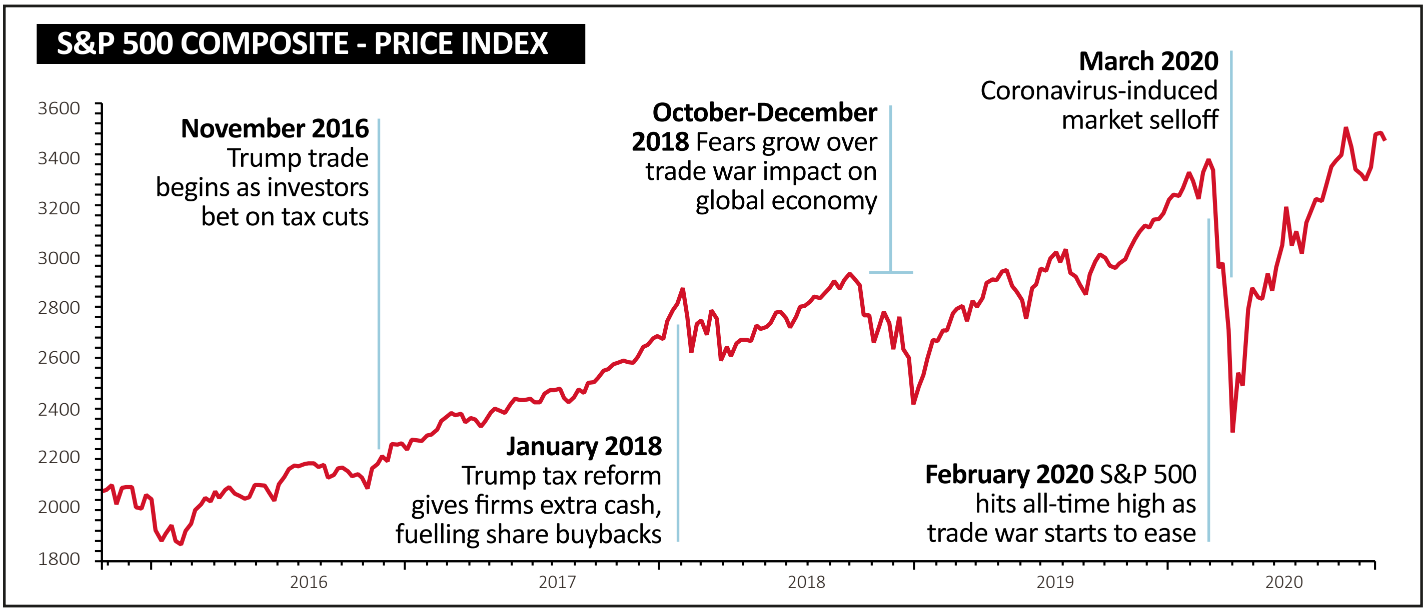
USING THE MARKET TO PREDICT THE OUTCOME

But research from the Socionomics Institute in the US found no historical difference in stock market performance between Democrat and Republican presidents, and interestingly, the researchers found that while you can't use the person who gets elected to predict the stock market, you can use the stock market to predict who gets elected.

In a paper from 2012, researchers from the institute found that the three-year net change in the stock market is a better presidential re-election indicator that GDP, inflation and unemployment combined. They say that's likely because the market better reflects social mood.

Either way it's likely that shares – in London, across the pond and globally given America's influence – will rally after the election, regardless of who wins, as long as the outcome is not contested, with the unwinding of hedges made by investors and the reduction in uncertainty alone seeing markets trade higher in the event of a clean outcome.

But given uncertainty is the one thing investors absolutely hate, you can bet your bottom dollar that stock markets will plunge if the outcome is in doubt for a prolonged period.



WHAT TO BUY...

IF TRUMP OR BIDEN WIN

ASHTEAD (AHT) £29.49

Equipment hire firm **Ashtead (AHT)** has long been considered one of the top UK quality stocks, and has a stellar track record of growth having generated a 3,120% total return over the past 10 years.

Understandably there are questions as to whether it can keep up its incredible growth. But with both candidates in the US election committed to spending big on infrastructure, and Ashtead making the big bulk of its earnings in the US through its Sunbelt business (a specialist in infrastructure), it's arguably one of the best placed stocks on the London market whatever the outcome.

Some analysts caution the company is overvalued relative to its prospects for growth and return on capital employed, but others think the price is still good value given the firm dominates its markets and is expected to continue gaining market share, something which would put it in a great position for an infrastructure boom.

IF BIDEN WINS

NEXTERA ENERGY (NYSE:NEE) $302.67

American utility giant **NextEra Energy (NYSE:NEE)** would be a clear beneficiary from a Biden victory, particularly if the Democrats take both houses of Congress and Biden can push through his green infrastructure spending plans.

No power company in the US generates more from wind and solar than NextEra and its NextEra Energy Resources division, which builds solar and wind farms and sells the power to others, is one of the biggest renewables companies in the world.

For 2021, NextEra Energy is increasing its financial expectations ranges by $0.20 and now expects adjusted earnings per share to be in a range of $9.60 to $10.15, while for 2022 and 2023 it expects to grow 6% to 8% from the expected increased 2021 adjusted earnings per share. A Biden victory and renewable energy spending plan would most likely only see this increase further.

ISHARES GLOBAL CLEAN ENERGY (INRG)

Clean energy is set to be one of the main beneficiaries under a Biden presidency, and one exchange-traded fund (ETF) which could capture a lot of that upside is **iShares Global Clean Energy (INRG)**.

The ETF has already had a great year, rising 85% year-to-date as investors bet on Biden winning, a clear indication of investor sentiment towards the sector should the Democrat actually win.

But its constituents, the 30 large caps which make up the S&P Global Clean Energy index, are also exposed to the structural growth story of renewable energy globally.

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.

This ETF does have a high total expense ratio of 0.65% year, but this is still less than a lot of active funds that haven't performed anywhere near as well.

IF TRUMP WINS

ISHARES CORE S&P 500 UCITS ETF (CSP1)

The S&P 500 has hit a record high under Trump's presidency and the big tech names which have the index's gains have benefited from his policies.

If Trump gets re-elected, there's likely to be a relief rally in markets and notwithstanding the possible impact of potentially deteriorating economic fundamentals on the stock market, there's a reasonable chance the S&P 500 could continue its upward rise under Trump's watch.

US stock markets are also notoriously efficient so the ability for an active fund manager to add value is limited. A better option for investors in the large-cap US space is to go down the passive route.

iShares Core S&P 500 (CSP1) could be the best option here, given its very low total expense ratio of 0.07% a year and the fact it holds almost $40 billion of investors' money, meaning the bid-ask spread when looking to buy or sell the ETF would be very tight.

ARTEMIS US SMALLER COMPANIES (BMMV576)

US small caps are expected to get a lift under another four years of a Trump presidency, with his inward-facing agenda, renewed tensions with China and promise to boost domestic manufacturing all likely to benefit smaller companies at the expense of large-caps.

A stronger US dollar, which could be a corollary of a Trump win, would also make large-cap exporters less appealing to big investors and tilt them towards the smaller domestic-facing stocks who aren't as affected by the greenback's fluctuations.

Artermis US Smaller Companies (BMMV576) is the stand out pick here for investors looking to get exposure to this space.

The fund has a strong performance record and has delivered an annualised return of 14.7% over the past three years compared to just 3% for its Russell 2000 benchmark index. It has also weathered the coronavirus crisis and is currently up 12.7% year-to-date, compared to a 2.2% decline from its benchmark.

It has a reasonable ongoing charge of 0.87% a year, and has a highly experienced manager in Cormac Weldon who has over two decades experience of investing in US stocks.

WFH: Is it the death knell for offices?

Some real estate investors believe the successful working from home experiment during this crisis will lead to a long-term decline in demand for offices. We think this is premature.


By ***Jeff O'Dwyer****, portfolio manager Schroder European Real Estate Investment Trust and* ***Nick Montgomery****, portfolio manager, Schroder Real Estate Investment Trust*

One of the more mundane aspects of the coronavirus has been the sudden evacuation of offices and mass adoption of home working. In the US it is estimated that as many as 40 to 50% of people are now working mainly from home. In 2019 this figure was just 5%. The shift has been repeated across the world, as governments have asked people to stay indoors.

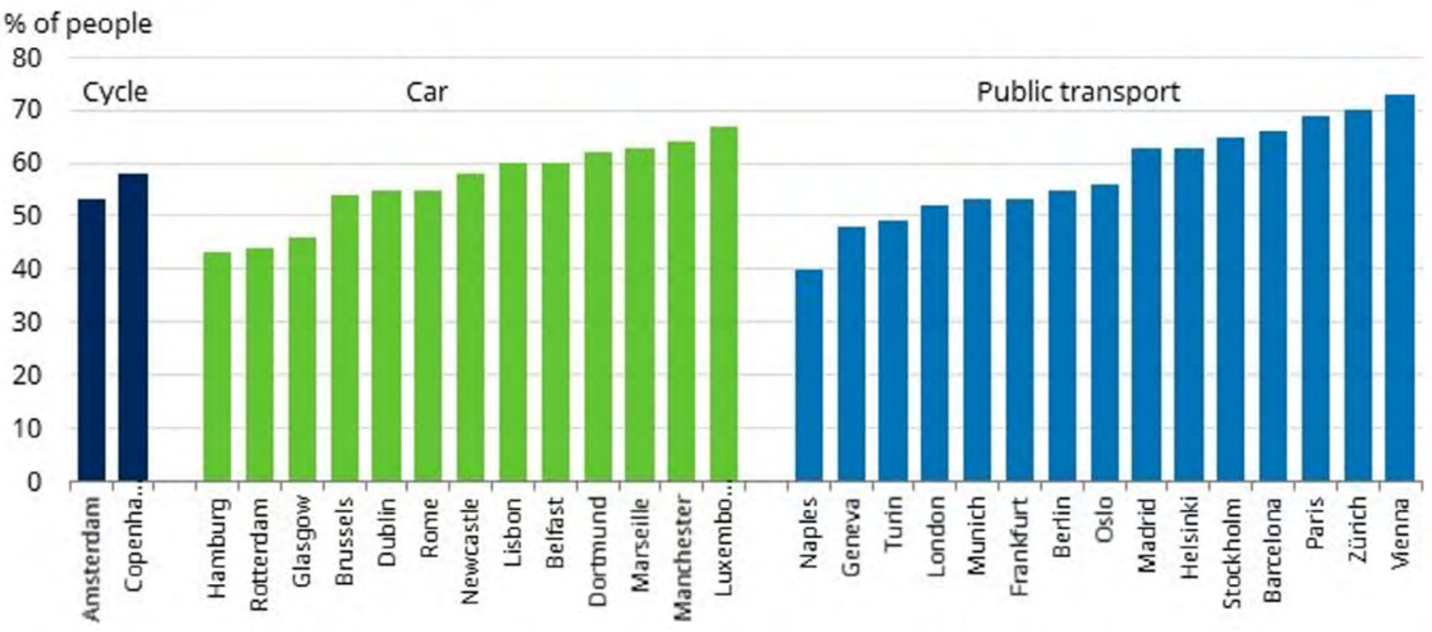
Millions of people are now working on their kitchen table or sofa, using email and conference calls to communicate with colleagues and clients. The use of video conferencing services such as Microsoft Teams, or Zoom has sky-rocketed. The simultaneous collapse in air travel has meant that in May, the market capitalisation of Zoom – which only started in 2012 - passed that of the world's seven biggest airlines combined.

The key question for real estate investors is whether this successful experiment with home working will now lead to a step change in occupier behaviour and a structural decline in office demand?

Fewer people, but more space needed

Of course, the need to comply with rules on social distancing means that companies are unlikely to cut their office space as soon as lockdown rules are relaxed. In theory, businesses

MAIN METHOD OF TRAVELLING TO WORK, BY CITY



Source: Eurostat, 2017

might actually need more office space per person. However, that assumes that companies can afford to rent additional space, which is debateable in the current economic environment. It also assumes that most staff can travel safely to the office without using public transport. That might be possible in Amsterdam, Copenhagen, Luxembourg, and Manchester where most people either cycle, or drive to work, but is unrealistic in major cities like Berlin, London, Paris, or Madrid where traffic congestion and limited parking means that the majority of commuters have no alternative to public transport.

Instead, the real issue for most businesses is how many staff they can accommodate safely within their existing office. The answer varies according to the design of the building and whether floors are open-plan, or cellular, but space planners estimate that most offices can probably only safely accommodate between 25% - 40% of staff.

In addition to social distancing, businesses also need to install hand sanitisers, remove landline telephones, arrange regular deep cleans and consider other measures such as increasing air humidity, upgrading air filters, adding more bike racks, temperature checks at entrances and mobile apps which track people within the building.

What about a "distant" future?

What will happen once the coronavirus is brought under

control, either by a vaccine, or by an effective treatment? Will companies encourage staff to continue working from home and cut the amount of office space they occupy?

Recent headlines suggest some companies have already decided to downsize their offices. Facebook and Twitter have both announced plans for a permanent shift to more remote working and Barclays and Morgan Stanley are known to be reviewing their office requirements. Companies have a big incentive to cut their office use. Bills for rent, service charges, utilities, are all meaningful costs. Staff also benefit by spending less on commuting and having more time at home. The average one way commute in both the UK and US takes half an hour. Furthermore, even a small fall in the number of cars can lead to a significant improvement in traffic flow and fewer cars means cleaner air (at least while most cars have internal combustion engines).

Yet, if remote working is such an obvious win-win for both businesses and their staff, why were companies so slow to adopt it before the coronavirus? The pressure on companies to economise is nothing new. Email and video-conferencing have existed for 25 years, albeit the technology could be unreliable in its early years.

Part of the answer may have been to do with control, and concerns that less conscientious staff would take advantage of remote working. Being seen in the office can also help employees. There is some evidence that staff who routinely work from home suffer from being "out of sight and out of mind" and are less likely to get promoted and experience slower pay growth.

How you work, versus where you work

Probably the main reason that so many organisations continue to occupy offices is productivity. Despite all the advances in technology, the office is still the best place to communicate with colleagues, spark new ideas, provide training, share values and meet with clients.

Face-to-face meetings are critical to building relationships and establishing trust. Moreover, people are social animals who enjoy networking. Studies suggest that people who work mainly from home often feel isolated and risk becoming demotivated about work.

In addition, many people like the physical separation between work and home. Younger staff who live in shared accommodation, or a small flat, may prefer to be in the office, particularly if it is centrally located and close to other amenities like gyms, bars and shops.

Indeed, many companies - including tech giants like Apple and Google - have invested heavily in new offices over the last few years. The office is now another ingredient which companies use to attract and retain staff, on top of salaries and other benefits. Some companies that adopted remote working earlier, like IBM, have subsequently reined in the practice.

Don't write off the office yet

On balance, we think it is premature to assume that the office is dead, given its enduring advantages. Some businesses will be tempted to continue with large scale remote working after the pandemic and cut their office space. But we expect that the majority of occupiers will revert to prior working patterns, albeit it more people may work one day a week at home.

In our view, new technologies such as blockchain, robotic process automation and voice recognition probably pose a bigger threat to the office, as they reduce the number of people working in call centres and back office administration. However, the demand for offices in city centres and close to universities should continue to increase, driven by the growth in tech, life sciences and professional services.

To find our more detail about the Schroder Real Estate Investment Trust click here.

To find our more detail about the Schroder European Real Estate Investment Trust click here.

For more information on Schroder Real Estate and Schroder European Real Estate Investment Trusts and the full range of investment trusts at Schroders, subscribe to our newsletter here.

How to mitigate emerging market governance risks

Areas like board independence are seeing improvement as markets begin to mature

Investing in emerging markets involves encountering a different set of risks than those experienced in developed countries, including when it comes to governance.

This reflects both the regulatory framework for capital markets in emerging market countries and the structures of ownership which are more prevalent in these countries. Governance is improving as these markets mature, with measures like board independence broadly heading in the right direction.

A report by Melsa Ararat and George Dallas for the Global Corporate Governance Forum encapsulates the situation neatly. 'Corporate governance remains a key risk factor for investors in emerging markets and an important determinant of portfolio investment decisions,' it notes.

'This is the case at both the country level, where rule of law, regulatory quality, and corruption are key drivers for country-level risks, and at the firm-specific level, where controlling shareholders (state, families, or other financial or industrial groups) play a decisive role and are a source of strength or weakness. These risks are relevant to equity investors and fixed-income investors.'

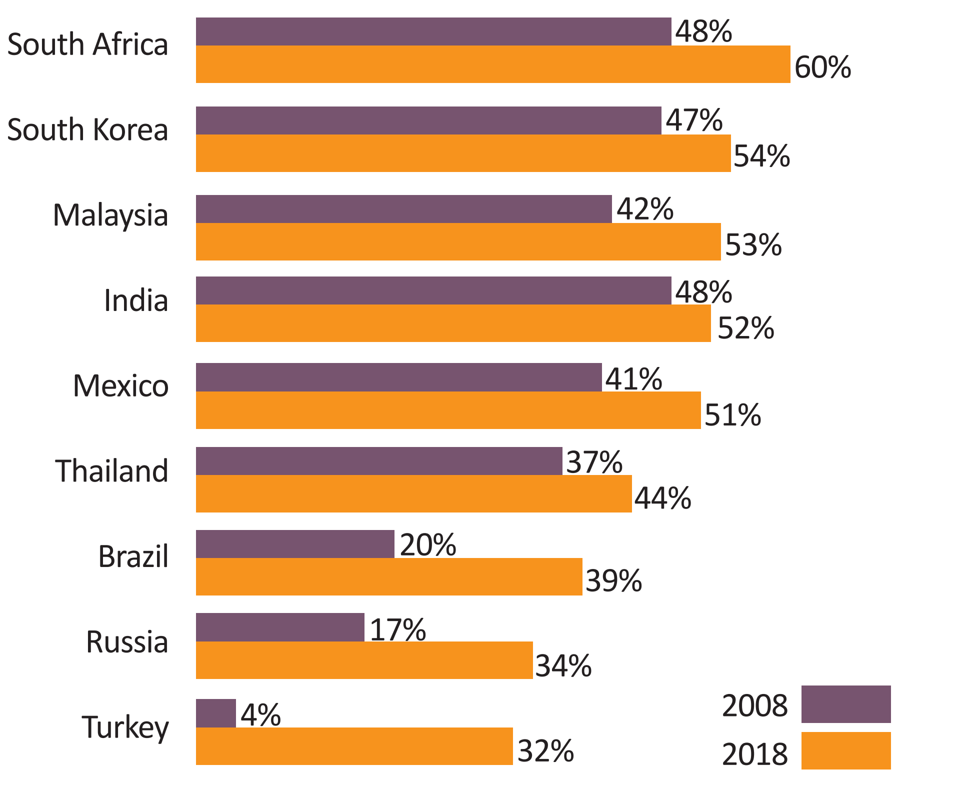
Most individual investors would invest in emerging market firms' equity or bonds through funds and the institutions behind these products can play a part in addressing governance risks.

Ararat and Dallas say risks can be mitigated by informed voting and engagement of investors with companies and regulators.

A 2019 report on corporate governance by Institutional Shareholder Services executive director Subodh Mishra said: 'Despite the significant corporate governance challenges shareholders face in emerging markets, they have several tools in the repository to address potential concerns.'

Steps highlighted by Mishra include doing due diligence on ownership structures and items such as related party transactions.

Increasing board independence in emerging markets. % of independent directors



Source: ISS Analytics, as defined by company.

Emerging markets: Views from the experts

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

1. BRAZIL

Brazil has been among the hardest hit by the Covid-19 pandemic, just behind the United States and India in the number of reported cases. However, we have started to see the number of new cases in Brazil start to decline. Ironically, we believe that the government's decision against implementing a country-wide lockdown at the onset of the pandemic has reduced the likelihood of a second wave. Heavy government spending and monetary policy easing have helped bring some stability to the economy. Moreover, Brazil has continued to implement key reforms despite political noise. Interestingly, Brazil's stock exchange itself has a strong sustainability agenda, while environmental, social and governance (ESG) principles are not only implemented within the exchange itself, but also promoted in the Brazilian stock market broadly. E-commerce is another exciting investment theme, with several large players competing in the online space. As in other countries, the Covid-19 crisis has accelerated the adoption of internet-based retailing in Brazil.

2. HEALTH CARE IN CHINA

The Covid-19 pandemic has underscored the importance of health care in China, reinforcing existing structural trends that could drive a new wave of innovation in the country. Multiple factors are propelling domestic drug and medical device development including rising healthcare demand, an ageing population, growing lifestyle diseases and rising income, coupled with government efforts to strengthen the health care system. In addition, the growing numbers of overseas-educated Chinese scientists and entrepreneurs returning to the country constitute an abundant pool of homegrown talent. Together with flourishing capital markets, favorable policies and motivated talent, a vibrant ecosystem is potentially taking shape.

3. COMPANY ENGAGEMENT

Company engagement remains a crucial part of emerging market (EM) investing. Bringing about better corporate behaviour and a better understanding of companies' responsibilities toward all stakeholders are efforts we continue to push in our stewardship of client capital. The tone of engagement in EMs has shifted in recent years: companies that formerly took a narrow, hard-nosed approach to returns are adopting more accommodative measures. In our view, this 'delta' of improving ESG in EMs is a further tailwind supporting the secular outlook for the asset class as the world emerges from this crisis.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Porfolio Managers

Chetan Sehgal
Singapore

Andrew Ness
Edinburgh

TEMIT is the UK's largest and oldest emerging markets investment trust seeking long-term capital appreciation.

RUSS MOULD
AJ Bell Investment Director

The factors that could make value outperform growth and tech

Growth has held sway for a decade but will this continue?

Tesla wiped the floor with analysts' consensus forecasts for its third-quarter results and Netflix missed, to get the reporting season off to a mixed start for momentum-fuelled technology stocks.

Netflix's shares sagged and Tesla's advanced only modestly to again raise the issue of valuation and just whether there is so much good news baked into these stocks that they may find it hard to make further headway, at least in the near term.

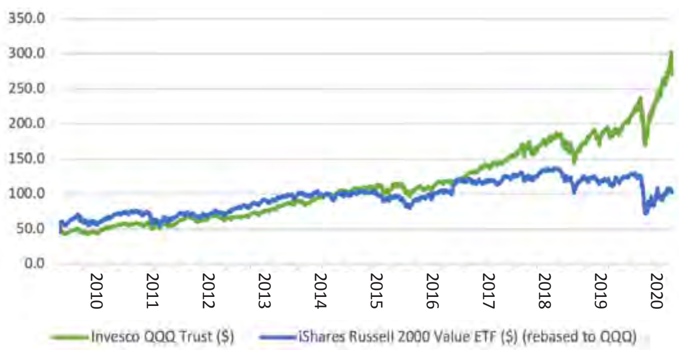
In this context, Netflix's fourth failure to break through the $550-a-share mark is particularly eye-catching, even if the temptation to run with the narrative that technology stocks are relatively immune to the pandemic and worthy of premium valuations because of the relative scarcity of consistent earnings growth right now is quite understandable.

ONE-WAY TRAFFIC

This in turn begs the wider question of whether now is the time to (once again) address the outperformance of 'growth' stocks relative to perceived 'value' names. After all, growth stocks in the US have shown 'value' stocks a clean pair of heels over the past decade and since 2017 in particular.

This can be seen by analysing the performance of the Invesco QQQ Trust, an exchange-traded fund (ETF) traded in the US and designed to track and deliver the performance of the heavyweight NASDAQ 100 index (minus its running costs), relative to the fellow US-listed iShares Russell 2000 Value ETF, which seeks to do the same for a basket of around 1,400 American small-cap value stocks:

'Growth' has outperformed 'value' to a stunning degree over the past decade



Source: Refinitiv data

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

Since January 2010, the iShares Russell 2000 Value ETF is up by 135% in capital terms, for a compound annual return of 8.2% - so it is hard to argue that value has 'failed' as a strategy. What is clear is that growth has simply done so much better, offering a 521% return, or a compound annual growth rate of 18.5%, as benchmarked by the Invesco QQQ Trust.

The performance gap between the two stands at a decade high.

But it may surprise less experienced investors to learn that the last decade's stellar outperformance from growth has only just begun to cancel out the prior decade's grinding period of marked underperformance relative to value, taking 2000's launch of the iShares Russell 2000 Value ETF as a starting point.

The period 2000-2010 belonged unequivocally to 'value' stocks

Source: Refinitiv data

That miserable ten-year showing followed the bursting of the tech, media and telecoms (TMT) bubble, so investors in tech and growth stocks now need to ask themselves whether they should fear a repeat.

WATCH INFLATION

Valuation alone is never a catalyst for out-or–underperformance, but it is the single biggest determinant of long-term investment returns (and a decade seems like a suitable definition of long-term).

If tech earnings keep growing and surprising on the upside, if interest rates stay low, if inflation stays subdued and the Facebooks and Apples

of this world use the combination of product innovation and acquisitions to maintain and even deepen their powerful competitive advantages, then many investors will be tempted to dismiss valuation as an irrelevance.

But the trouble could start if regulators begin to take a hand, earnings disappoint (as Big Tech does not prove to be immune to the pandemic after all or the law of large numbers means it simply becomes harder to generate strong percentage growth figures) or the wider economy starts to accelerate and inflation picks up.

None seem likely now but that is why growth has done so well relative to value.

If a Covid-19 vaccine is quickly and successfully developed and distributed, then stocks which are seen as 'immune' from the pandemic may be less in demand and seen as less worthy of a premium valuation.

Equally, if growth and inflation pick up, then investors may not be so inclined to pay such premium multiples for growth companies, if rapid earnings increases can be acquired much more cheaply along downtrodden value, cyclical plays like industrials, financials and consumer discretionary plays.

Moreover, an increase in inflation could force government bond yields higher, even if central banks decline to raise interest rates and let inflation run hot, as per the US Federal Reserve's new 'average' inflation target.

RUSS MOULD
AJ Bell Investment Director

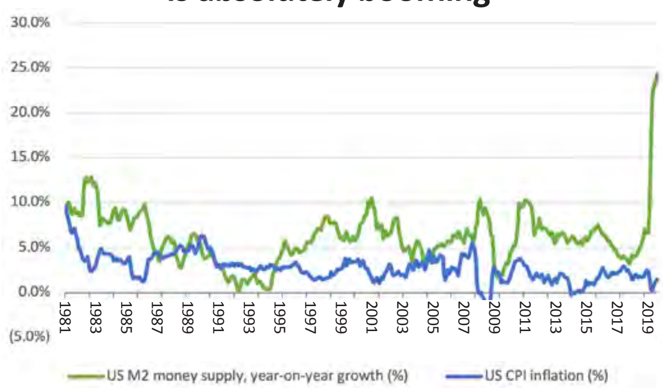
'Value' stocks may need rising bond yields to turn the tide

Source: Refinitiv data

Prior periods of rising 10-year US treasury yields have coincided with attempted rallies in 'value' names, so perhaps a return to economic growth and inflation could be the trigger for a sustained period of underperformance from 'growth' and 'tech' stocks relative to value ones.

And while the concept of rising inflation may seem fanciful for now, investors should not forget that this is what central banks and governments crave to help the globe manage its crushing debts, so they may stop at nothing until they get it. The latest money supply growth figures from the US in particular are eye-popping and should be followed closely as a potential lead indicator.

US money supply growth is absolutely booming



Source: FRED – St. Louis Federal Reserve database

Three indicators that increase the chances of investment success

Checklists are a great way to make sure you haven't missed anything obvious about a stock

In investing, the more positive factors you have working in your favour, the better the likely results.

For this reason with every potential investment it is worth totting up winning factors in a checklist.

In this article we reveal three fundamental indicators which have proven their worth over the years and could provide a low risk way of tipping the investment odds in your favour.

THE POWER OF THE CHECKLIST

Famed side-kick of Warren Buffett, Charlie Munger once wrote, 'no wise pilot, no matter how great his talent and experience, fails to use his checklist'. Checklists were popularised by Atul Gawande in his book, *The Checklist Manifesto*. They provide simple reminders for things that everyone knows they should do, but which in practice are often missed.

SEEK OUT RISING REVISIONS

When analysts revise their earnings forecasts upwards it is usually a positive sign that the company is performing better than expected. Shares with rising

revisions tend to outperform other shares.

The reason is based on behavioural dynamics which can be neatly summed up as 'bad news travel fast, but good news travel slowly'. It can take a number of weeks for improving earnings estimates to be priced into share prices, allowing the savvy investor an opportunity to profit.

Average one month change in earnings revisions for next two financial years

	Market Cap (£m)	Revision (%)
Halfords	453	70
DX Group	106	42
Plus500	1,620	42
888 Holdings	981	37
Air Partner	39	30
Hotel Chocolat	452	15
Watches of Switzerland	988	22

Source: Stockopedia, Refinitiv. Data as at 22 October 2020.

We screened for companies receiving larger than average revisions over the last month using Stockopedia.

Bike and car Accessories Company **Halfords (HFD)** has been a major beneficiary of the pandemic with increased demand for bicycles as more people decided it was safer to cycle to work rather than take public transport. Demand was also influenced by government schemes that help finance bike purchases.

The fact that Halfords is still receiving some of the highest upgrades across the UK market months after the start of the pandemic suggests analysts are still behind the improved fundamentals.

One surprising name on the list is parcels company previously struggling **DX Group (DX.:AIM)**, perhaps confirming that the company's turnaround plans are gaining traction. First-half results showed a return to profitability and the company is now debt free.

The firm said the parcels market continues to grow strongly providing it with opportunities to increase volumes and expand margins.

DIRECTOR BUYING IS A POSITIVE SIGNAL

Director buying can send a powerful signal to other investors and like earnings revisions the news can travel slowly, allowing alert investors to get on-board.

There is supporting academic evidence with studies showing that buying shares with heavy director buying can be rewarding.

The *Shares* website is a good source of director dealing information while every Thursday we report on the most significant deals over the prior week. Click on the tools tab, then director deals-analysis tab before selecting the most significant deals from the drop-down menu.

Non-executive director Andy Bird at educational publisher **Pearson (PSON)** purchased £2.5 million worth of shares at 495p on 29 September. Fashion company **Superdry (SDRY)** founder Julian Dunkerton purchased £1.1 million worth of shares at 135p on 21 September.

The biggest purchase by value over the last three-months was made by **Ryanair (RYA)** chief executive Michael O'Leary who participated in the firm's £400 million rights issue by spending €16 million buying shares.

LOOK FOR FIRMS PAYING DOWN DEBT

By reducing debts a greater proportion of a company's cash flow is available for the benefit of shareholders. Assuming nothing else changes, profits rise as debt interest falls. This also de-risks the business from a balance sheet perspective, creating a win-win.

Kipling cakes maker **Premier Foods (PFD)** offers a good example, net debt has been reduced by a fifth over the last five years, halving interest costs and resulting in free cash flow improving by a whopping 129%.

Another is specialist social care and education services group **CareTech Holdings (CTH:AIM)** which is in the process of reducing the debt it took on to purchase competitor Cambian for £372 million in 2018.

At the recent (21 October) pre-close trading update the company said strong cash conversion had reduced net debt by £18.5 million in the six months to 30 September. It reiterated it was on target to reduce the net debt-to-EBITDA (earnings before interest, taxes, depreciation and amortisation) ratio to below three-times for the year ending 30 September 2021.

According to broker WH Ireland forecasts, net debt will fall by £18.5 million over the next two-years to £250 million which represents 2.5 times 2022 forecast EBITDA.

PUTTING IT ALL TOGETHER

If you find a stock which has one or, even better, multiple of these factors in its favour it could represent an interesting opportunity.

After all should a company be in a position where it is reducing its debt, enjoying earnings upgrades and directors are loading up on stock this is likely to be a pretty powerful catalyst for outperformance.

However, you also need to balance these positive factors with any negatives and risks that you identify too to ensure you are getting a full perspective on the investment case.

By **Martin Gamble**
Senior Reporter

Don’t give up on finding the best rates for cash savings

It’s still worth shopping around despite the low rate environment

The Bank of England’s interest rate committee meets on 5 November to decide whether it needs to inject more money into the economy.

The outlook has deteriorated since they last got together in September, with Covid-19 restrictions becoming more widespread, and the Government looking to wean the labour market off financial support. But with rates at 0.1%, there’s not much room for manoeuvre.

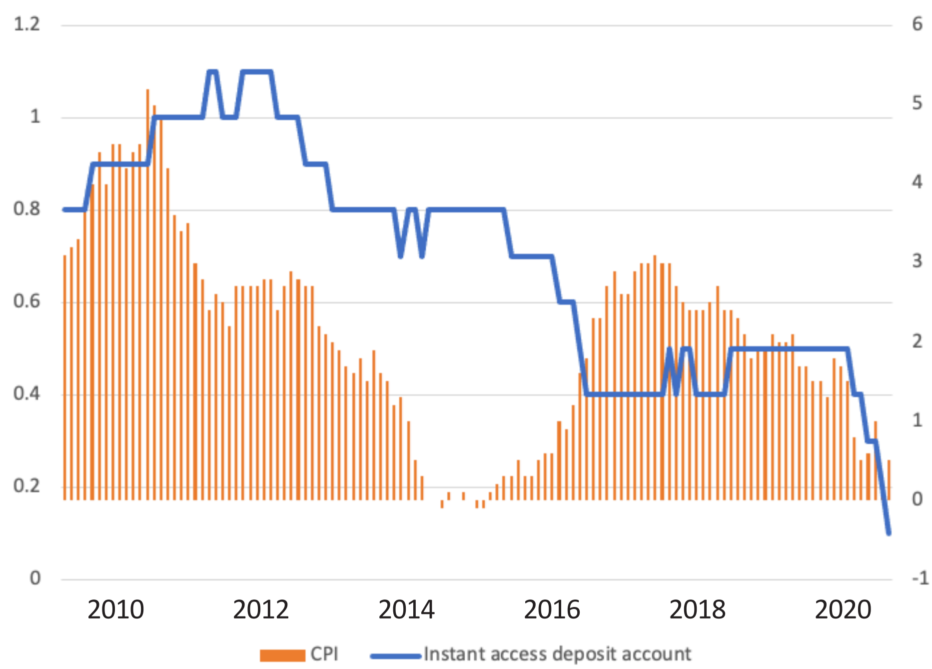
More quantitative easing will probably be the first port of call for the Bank of England, but it is noticeably warming markets up to the idea of negative interest rates.

It’s extremely unlikely that banks would charge customers on their deposits if the main Bank of England rate turned negative. But it may mean interest payments dry up even further, remarkable as that may sound.

The average interest rate on cash deposits currently stands at just 0.1%, and it’s barely climbed above 1% in the last 10 years. Even the popular NS&I savings platform is cutting the interest rate on its Direct Saver from 1% to 0.15% in November.

While inflation is also low, with CPI at 0.5%, these accounts are still losing their buying power. The economic picture is challenging, so it looks like near-zero rates are here to stay for the foreseeable future.

Cash v Inflation



Source: ONS, Bank of England

STEPS TO TAKE

Savers can’t pick the economy up by its bootstraps, or influence the Bank of England, but there are a few things they can do to make their life a lot better. First is to think about what savings they need in the short term, up to five years, and what money they can afford to tuck away for five to 10 years or longer.

Short-term rainy-day savings should go into cash, because the market can be too risky if you don't give it time to deliver.

Your current account is likely to offer a poor rate, if it pays interest at all, so you should make sure you don't keep any more than you need to in there.

Instead find a dedicated savings account and shop around for the best rate. Now that's unlikely to set your pulse racing, but it's a tangible improvement you can make.

It also pays to consider locking some of your cash away in a fixed-term savings product, because you'll likely get a higher interest rate.

Indeed by taking a portfolio approach to your cash, having some in instant access, some locked up for six months to a year, and some locked up for longer, you can harvest better rates while maintaining the flexibility you need.

COMPENSATION LIMITS

It also pays to be aware of the £85,000 limit on compensation covered by the Financial Services Compensation Scheme for each bank with whom you hold an account. UK banks are heavily regulated and have lots of checks in place to make sure they are solvent, but in the unlikely event your bank goes bust, the FSCS will only compensate you up £85,000.

If you're lucky enough to have more than this amount sitting in cash, it makes sense to spread your eggs between numerous different institutions, just in case.

FINDING TOP RATES

A recent addition to the UK savings landscape is the emergence of new cash supermarkets, also known as cash savings hubs.

These portals give you access to savings accounts from various banks in one place. AJ Bell has recently launched a new cash hub service and others on the market include Raisin and Flagstone.

It's a way in which you can choose between competitive savings accounts as these services should offer some of the best rates on the market.

Once you've opened up an account with the hub provider and held your money in the requested savings account either for a fixed term or given the required notice, you can then switch to another savings provider via the cash hub without any hassle.

LONGER TERM STRATEGY

While savers should try to squeeze whatever gains they can get out of those short-term savings, they should also give some thought to the money they can afford to put away for longer.

This is where the stock market comes in. While returns can swing wildly year to year, over the long term the stock market can be a reliable performer. You can even smooth out some of the volatility by investing monthly, thereby buying in through the peaks and the troughs.

Where possible, it can also pay to wrap your investments within an ISA, so you don't have to pay capital gains or income tax. In a low growth, zero-interest rate environment, every little helps.

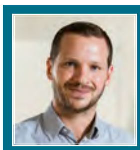
DISCLAIMER: AJ Bell is the owner of Shares magazine. Editor Daniel Coatsworth owns shares in AJ Bell

By **Laith Khalaf**
Financial Analyst

How much does the lifetime allowance go up each year?

Our resident expert looks at the limits on what you can put into your pension

Do we know how much will the lifetime allowance increase by next year? Am I right in thinking it goes up in line with inflation every year?
Derek



Tom Selby
AJ Bell
Senior Analyst says:

The lifetime allowance is the cap on the amount you can build up in a pension over the course of your lifetime before it imposes tax charges to penalise you for the growth of the fund.

Each time you trigger a 'benefit crystallisation event', you will use up a proportion of your available lifetime allowance.

There are a number of benefit crystallisation events that can occur in someone's lifetime, including taking your 25% tax-free cash, entering drawdown or reaching age 75.

You can read more about benefit crystallisation events and the lifetime allowance in general here.

For years the lifetime allowance was subject to regular cuts, from a high of £1.8 million in 2011/12 to £1 million in 2017/18. Since then it has been pegged to Consumer Prices Index (CPI) inflation and currently stands at £1,073,100.

The Government has previously used the CPI figure from September to determine the following year's lifetime allowance, implying next year it will rise by 0.5%.

However, to complicate things further the Government has used slightly different calculations each year to determine the lifetime allowance figure.

For the current tax year (2020/21) it used the increase in CPI to 3 decimal places in September 2019 to determine the lifetime allowance (there are documents hidden away on the Office for National Statistics website which show the value of CPI to 3 decimal places). This figure was then rounded up to the nearest £100.

Assuming the same methodology is used for the next tax year (2021/22) the lifetime allowance should increase by £5,800 to £1,078,900, allowing most people to generate an additional £1,450 in tax-free cash.

WHAT ARE THE ALTERNATIVES FOR PEOPLE AT RISK OF BREACHING THE LIFETIME ALLOWANCE?

While a lifetime allowance of over £1 million might sound like a king's ransom, for a healthy 65-year-old who took their maximum tax-free cash entitlement it would buy a single-life annuity paying less than £28,000 (assuming full tax-free cash entitlement is taken) – a decent income but below the average salary in the UK.

If paying more into your pension would put you at risk of breaching the lifetime limit – and remember that any investment growth you enjoy could also see you hit with a lifetime allowance charge – you could consider topping up your ISA contributions instead.

ISAs benefit from an annual allowance of £20,000, offer tax-free investment growth and can be accessed tax-free whenever you want.

There are also other vehicles, such as Enterprise Investment Schemes and Venture Capital Trusts, which offer tax benefits, although the investments available through such schemes tend to be higher risk.

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.

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Using return on capital employed to identify quality stocks

How to calculate the metric and what it means

In previous parts of this series we have looked at a range of valuation metrics, many of which are a good starting point when researching a stock.

To delve a little deeper into a company's genuine worth there is merit in reaching for a measure that is often employed by fund managers and investment analysts – the return on capital employed (ROCE).

To generate value for its shareholders a business should be looking to generate a ROCE which is consistently ahead of its weighted average cost of capital (WACC).

Translated into plain English this means it needs to make a bigger return on the money spent funding the business than the average cost of that funding (from both debt and equity).

A good rule of thumb is that a ROCE of 15% or more is reflective of a decent quality business and this is almost certain to mean it is generating a return well above its WACC.

HOW TO CALCULATE THE ROCE

A ROCE is made up of two parts – the return and the capital employed. The most widely used measure of return is operating profit.

A ROCE is made up of two parts - the return and the capital employed. The most widely used measure of return is operating profit

The capital employed bit is the money needed to keep a business running and can be measured by combining shareholders' funds with debt liabilities. (Though there are alternative ways of calculating capital employed.)

Shareholders' funds, also known as total equity or shareholders' equity, encompasses all a firm's assets both tangible (such as a factory) and intangible (anything from a brand to a piece of intellectual property) minus any liabilities.

You can find both the shareholders' equity and a company's non-current liabilities, an effective proxy for its interest-bearing debt, in the annual accounts statement.

WHAT DRIVES A HIGH ROCE?

Companies with a high ROCE often have relatively modest capital requirements to fund their growth. This might be because their business is largely

APPLYING THE ROCE TO A REAL-WORLD EXAMPLE

Refuse specialist **Biffa (BIFF)** reported a statutory operating profit of £74.1 million for the 12 months to 27 March 2020. In the same set of results, it reported total equity attributable to shareholders of £144 million and non-current liabilities came in at £627 million.

CALCULATE THE RETURN
Operating profit = £74.1 million

CALCULATE CAPITAL EMPLOYED

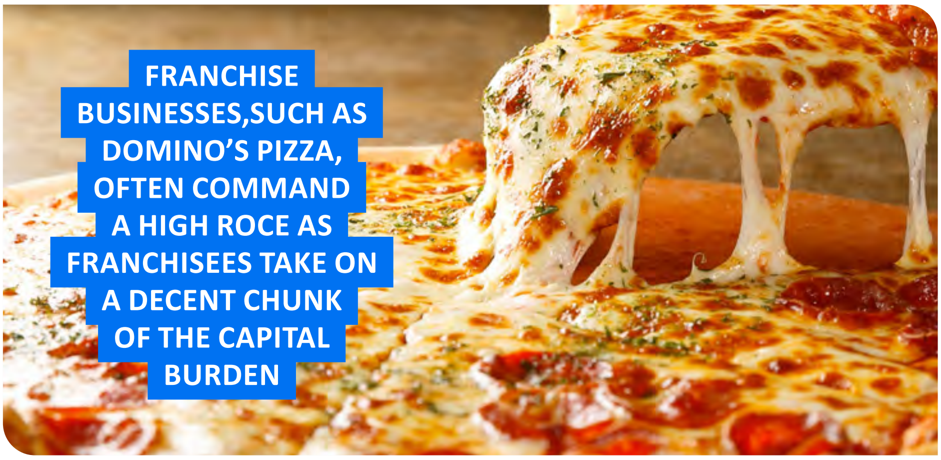
- Shareholders' equity = £144 million
- Non-current liabilities = £627 million
- Shareholders' equity + non-current liabilities = £771 million

PUT IT TOGETHER
£74.1 million/£771 million = 0.096 x 100 = 9.6%

ROCE = 9.6%

These figures add up to a ROCE of 9.6%. This level seems logical as dealing with rubbish is not likely to be area which generates premium returns. In this context Biffa's ROCE is acceptable.

If we used the adjusted profit figure of £95 million instead, which strips out items like restructuring costs and write-offs linked to acquisitions, then the ROCE comes in at 12.3%.



conducted online so it doesn't have the overheads associated with, for example, maintaining and adding to a physical footprint. Online second-hand car marketplace **Auto Trader (AUTO)** is one example.

Franchise businesses, such as **Domino's Pizza (DOM)**, often command a high ROCE as franchisees take on a decent chunk of the capital burden. The higher returns generated by these businesses often attract a premium valuation.

If a ROCE is rising it tells you one of two things about a business. The return is going up faster than the amount of capital employed, or the capital employed itself is being reduced.

Boosting the return could be achieved by the launch of a successful new product or service which doesn't come with lots of additional costs or thanks to a change in strategy. Reducing capital employed is a question of cost cutting or potentially scaling back the amount invested in the business.

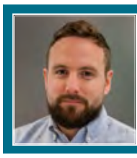
The problem with reducing investment in the short term is it often stores up costs for the future as investment is required to maintain a strong competitive position or keep up with industry changes.

Even if the increase in ROCE is driven by advancing returns this can draw competition, attracted by the bumper returns on offer, which in turn puts pressure on what a firm charges its customers as it reacts to the competitive threat.

SUSTAINING STRONG RETURNS

For this reason investors should not look at the ROCE for a single year in isolation but should instead examine the performance on this measure over a five or 10-year period to ensure the figure is not being flattered by a one-off bit of lucrative work or by significant costs being taken out of the business.

To deliver sustainably high returns a company likely needs to operate in a market which has strong barriers to entry and/or enjoy advantages like scale, brand strength or intellectual property which can help it see off any rivals.



By **Tom Sieber**
Deputy Editor

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KEY

- Main Market
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- Fund
- Investment Trust
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- ETF
- IPO Coming Soon

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

30 October: Oncimmune. **2 November:** Brighton Pier, Lok'n Store. **3 November:** Associated British Foods, Cap-XX, UP Global Sourcing. **4 November:** Gattaca. **5 November:** Bowleven, RDI REIT.

Half year results

30 October: BiON, Comptoir. **3 November:** Warehouse REIT. 4 **November:** Stobart. **5 November:** AutoTrader, Aveva, Sainsbury's, Trainline, Wincanton, Wizz Air.

Trading statements

30 October: AIB, ConvaTec, Gamesys, NatWest, Seplat Petroleum, Vivo Energy. **2 November:** Hiscox. **4 November:** Smurfit Kappa. **5 November:** Amryt Pharma, AstraZeneca, DWF, Hansard Global, Howden Joinery, Lancashire Holdings, RSA, Superdry.

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