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MARKET RALLY:

Vaccine news is great for investments

FTSE INCOME FAVOURITES

TIME FOR A RETHINK?

PLUS

STARBUCKS IS READY TO ROAST THE COMPETITION

AJ BELL TARGETS BEST OF ESG INVESTING WORLD WITH NEW FUND

Investors right to be more enthusiastic about the future

The big reaction to vaccine news is justified – up to a point

Investors have just seen the wildest day for markets in a very long time thanks to encouraging news about a Covid-19 vaccine. Many people have taken the view that we now have a fix for the coronavirus crisis and a panacea for the global economy.

We are certainly more enthusiastic about the outlook and this is a major step forward for markets and society. Yet it is important to appreciate that markets could still be influenced by other factors and that includes ones that could weigh on share prices.

The latest results from the vaccine being developed by US pharmaceutical giant Pfizer and Germany's BioNTech have completely surpassed expectations. At 90%, the reported efficacy against the virus is well above the 50% threshold required for a vaccine to be approved.

And the apparent success of this vaccine, which in fairness is yet to be fully signed off by regulators, is an encouraging sign for the other vaccine developments following in its wake.

No doubt there will be challenges with distribution but the market reaction to date is probably just a hint of what will happen if or when Covid-19 vaccines start getting rolled out at scale.

In this sense the market's response on 9 November was rational, even if it may have overshot slightly. In the words of Alastair George, chief investment strategist at research firm Edison: 'While it will still be some time before social restrictions can be lifted, investors are skipping to the end of the pandemic movie.

'With a favourable climax to the US presidential election behind us, 2020's risks have diminished significantly. In our view, the market rally is firmly backed by the rapidly improving outlook for 2021.'

Investors should still consider a downside scenario. Certainly, the victory for president-elect Joe Biden is seen as market-friendly, particularly given the likely constraints placed on an agenda of corporate tax increases and regulation by a Republican senate.

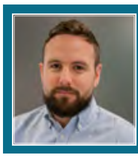
However, if Donald Trump's challenge of the result escalates and/or he pursues some kind of scorched earth policy in the White House prior to his departure it could be a source of considerable uncertainty and turmoil in the US at least until inauguration day on 20 January 2021.

Also, there are still no guarantees on a vaccine which should probably be a big weapon in the arsenal in the fight against coronavirus rather than a silver bullet.

A notable feature of the reaction to the latest vaccine developments has been a shift away from growth towards value and a rotation out of lockdown victors into lockdown victims, and so investors could have seen parts of their portfolio fall in value during the recent market surge if they owned these lockdown winners.

This should not alarm people invested in the shift towards a digital economy. There is a distinction to be drawn between businesses for whom the Covid-19 crisis provided a one-off boost – for example, companies in the testing arena – and those for whom the pandemic accelerated existing trends.

Growth in online shopping, for one, may slow but is not going to disappear just because we have the promise of a potential return to normality. This will be a 'new normal' not a pre-Covid landscape.



By **Tom Sieber** Deputy Editor

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CFA UK Publication of the Year CFA UK Journalism Awards 2019

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Where we stand after markets' vaccine boost

Taking a look at the sectors which shone and those which struggled

The near-5% gain for the FTSE 100 on 9 November reflected news of extremely positive results for the vaccine being developed by Pfizer and BioNTech.

This was the biggest gain since the index surged 9.1% on 24 March when investors reacted to a rescue mission by central banks during the wild trading seen at the outset of the global pandemic. Even this, more modest, November movement ranks among the 10 highest one-day percentage gains for the index.

In the spring there was considerable uncertainty on the path out of the coronavirus crisis and just how damaging it might be. Now the situation on both these variables is a little clearer and that helps explain why market rallied so strongly. Although it is not quite true to say the market has come full circle.

HAS THE FTSE FULLY RECOVERED?

As we write the FTSE 100 is still 15% below its pre-Covid levels – we take 20 February as being when investors really began to price in a material impact from the pandemic.

In contrast, the S&P 500 which, thanks to a combination of the US presidential outcome and the vaccine news, broke new record highs this week.

The gains across the Atlantic were less substantial than those enjoyed by the FTSE 100 and that hints at the changes in stock market leadership we are seeing in the wake of Pfizer's big announcement.

LOSERS BECOME WINNERS AND VICE VERSA

While Wall Street is dominated by the big technology companies, the UK market has plenty of the old-world economy in its ranks, many of which have seen their valuations smashed on the rocks of the Covid crisis.

These beaten down 'value' stocks were suddenly in fashion and we saw some quite spectacular moves, while tech, which sits very much in the 'growth' category, and traditional safe havens like government bonds and gold were sold off.

Best and worst performing sectors on vaccine breakthrough

FTSE 350 Sector	Performance 9 Nov '20 (%)
BEST PERFORMERS	
Life Insurance	14.2
Oil Equipment, Services & Distribution	13.9
Oil & Gas Producers	13.2
Aerospace & Defense	12.5
Travel & Leisure	12.3
WORST PERFORMERS	
Pharmaceuticals & Biotechnology	-0.6
General Retailers	-0.8
Food & Drug Retailers	-2.7
Technology Hardware & Equipment	-3.8
Leisure Goods	-7.6

Source: SharePad

Tech has been one of the few places to find earnings growth in 2020 and so investors have been happy to pay high prices in this area. Many investors now look to be taking the view that some of the worst-performing stocks this year now have a greater chance of earnings recovery, which means they can find growth at a cheaper price and so tech becomes less appealing as valuations start to become more important.

TRAVEL REBOUND

Drilling down to specific sectors, travel was clearly a big winner including British Airways owner **International Airlines Group (IAG)** which enjoyed intra-day gains of 40%.

Aircraft engine maker **Rolls-Royce (RR.)** continued the dizzying ascent it has enjoyed since addressing its own financial problems with a recent £2 billion rights issue. Hotels, as well as leisure and hospitality businesses, also soared on hopes they might be able to return to more normal levels of business in the not too distant future.

However, as the graphic shows many stocks remain some way below the levels they were trading at before the pandemic erupted, demonstrating just how far they have fallen in 2020.

OTHER SECTORS RISING

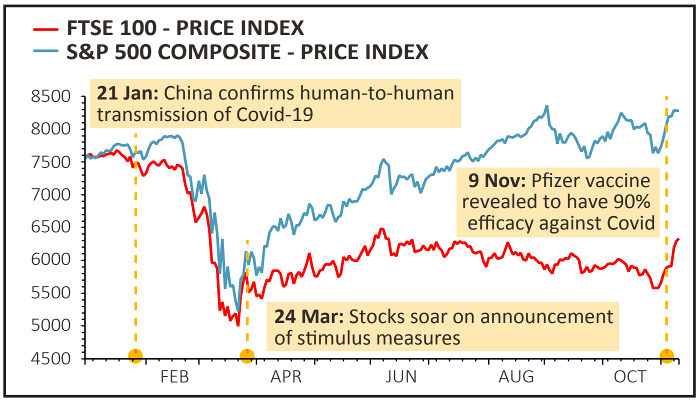
Oil majors **BP (BP.)** and **Royal Dutch Shell (RDSB)** were also in demand as oil prices spiked, though again both their share prices and the Brent crude benchmark remain way below pre-Covid levels.

Housebuilders were fired by hopes of an improved economic picture as well as surprisingly punchy guidance from **Taylor Wimpey (TW.)** that 2021 would be materially ahead of expectations – confidence underpinned by an order book up from £2.7 billion a year earlier to £3 billion. Real estate investment companies, particularly those with exposure to shops and offices, also soared.

LEFT BEHIND IN THE RALLY

Perceived lockdown winners like **Just Eat Takeaway (JET)** and DIY-firm **Kingfisher (KGF)** were losers on the day. The biggest faller in the FTSE 100 was online groceries firm **Ocado (OCDO)** which fell 16.1% to £22.83.

Consumer goods giant **Reckitt Benckiser (RB.)**, which had done well earlier this year after receiving a boost from demand for health and hygiene products, also gave up some of its recent gains.



Source: Shares, Refinitiv

WHAT HAPPENS NEXT?

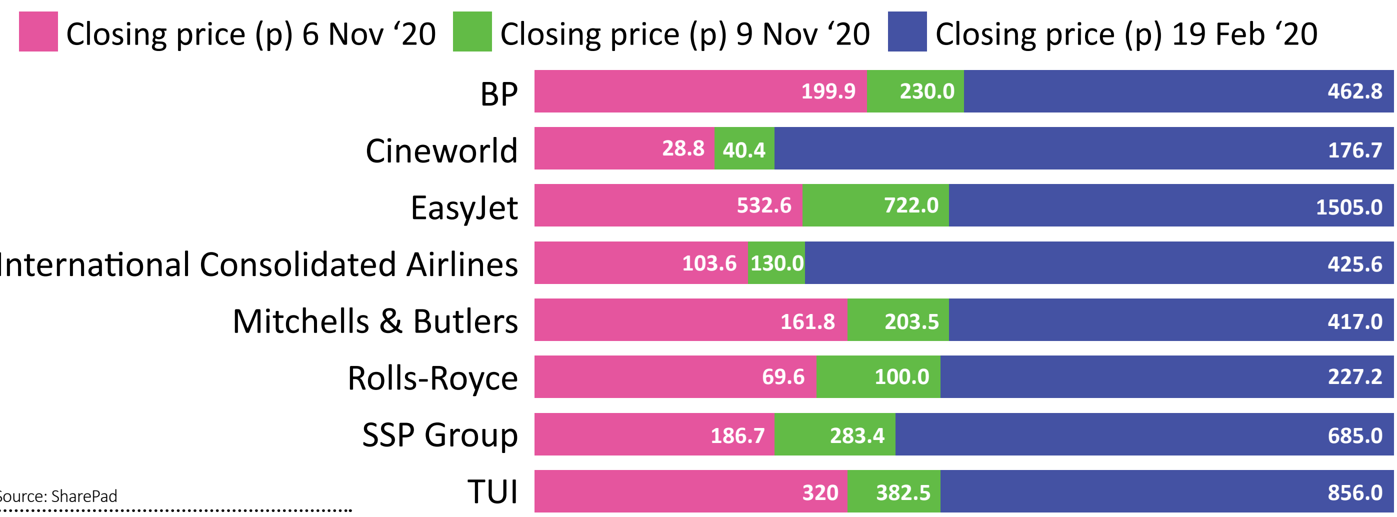
Let's assume the most bullish assumptions are true and there will be a return to some normality by the spring. With very loose monetary policy in play and a possible spending splurge by those consumers which still enjoy a disposable income, there is the possibility of inflation increasing fairly rapidly.

This might see central banks execute a handbrake turn as they look to gain control of rising prices and begin withdrawing stimulus or even increasing ultra-low rates. In this article we talk about the investments which could do well if inflation returns.

Conversely, if there are unexpected delays in the development and distribution of the Pfizer vaccine and others potential vaccines, will investors be patient, or will they look to sell Covid-impaired names once more?

One must also consider the unresolved risks which persist around Brexit and the transfer of power in the US.

Only a partial recovery - how selected stocks clawed back some losses on vaccine news



Source: SharePad

Is the vaccine news a game-changer or just a good start?

The next steps for Pfizer and other drug trial news to watch

There are high expectations for Pfizer and BioNTech to win with their Covid-19 vaccine following the latest trial update which triggered a global stock market rally and installed hope in people around the world.

The two companies will collate data until the third week of November before submitting to the regulators for approval. Safety is very important given the scale of deployment with potentially billions of perfectly healthy people being given the vaccine.

Assuming more data confirms the 90% effectiveness of the vaccine there are other considerations as more news arrives over the coming weeks.

The first big question is for how long the vaccine will provide immunity because there is no guarantee that vaccine-induced immunity will be any better than that afforded by infection.

Second, the science behind this vaccine is known as mRNA and it has never been commercialised which means no one knows for sure how to manufacture it at scale. The technology involves injecting a blueprint of the vaccine into the cells of the body so that they can make copies of the vaccine.

The vaccine needs a cold storage supply-chain because it has to be stored at minus 80 degrees centigrade. The lack of available cold refrigeration infrastructure, especially in poorer areas of the globe, may hinder distribution of the vaccine.

According to Shore Capital it is unclear at this point whether the study included patients with severe symptoms which is very important because if it didn't it would mean the vaccine can so far only make mild cases more mild and not prevent hospitalisations.

Pfizer has targeted production of around 50

million doses for 2020 and 1.3 billion next year. Various countries have already secured agreements with Pfizer including the UK with 30 million doses. Shore Capital points out that because two doses are required and assuming wastage this would only cover around 12 million patients. It takes 28 days from the first injection to attain immunity.

The broker notes that the world will need more than one vaccine because a range of sub-groups are likely to respond differently to vaccines. Mark Brewer, analyst at FinnCap, argues that global herd immunity requires 60% to 70% of the population to become immune which given the huge numbers involved could take years to achieve.

In short, don't expect the economy to open up quickly even if a vaccine is approved.

Two late-stage trials with results expected in the next few weeks are University of Oxford's and **AstraZeneca's (AZN)** study of compound AZD1222 and Moderna's vaccine candidate mRNA-1273.

Both these studies include patients with severe Covid-19 symptoms and so a positive result may be more meaningful in terms of reducing hospitalisations.

Investors reposition portfolios after Biden win

The election victory has made it easier to spot the likely winning trades

Joe Biden's projected victory in the US presidential election has given certainty to stock markets over the future of the world's largest economy.

Democrat candidate Biden has edged out the Republicans' Donald Trump, though it looks like Congress will remain divided with the Democrats taking control of the House of Representatives and the Republicans the Senate.

Both Biden's victory and the likelihood of a divided Congress have many implications for investors.

For starters it's good news for those who hold any of the big tech stocks, or a tracker or exchange-traded fund (ETF) following the tech-heavy Nasdaq and S&P 500 indices.

The likes of Amazon, Apple, Facebook and Google owner Alphabet rallied when the result became clear, which on the face of it seems somewhat perplexing given that Biden wants to reform US antitrust law, a move which is designed to curb the power of the tech giants and break their monopolies.

He's also planning to raise corporate tax, with an eye specifically on the likes of Amazon and Apple, something which would have a significant negative impact on such companies' earnings per share, one of the key metrics used by Wall Street analysts.

But a divided Congress means this is going to be harder to achieve, with a Republican-controlled Senate unlikely to roll back on the legislation put in place during their time in power.

Having rallied significantly ahead of the election, clean energy stocks again gained ground when it became clear Biden would win, with the Democrat pledging to rejoin the Paris agreement and invest in low-carbon technology to help the US reach net zero by 2050. But the likelihood of a split Congress means recent gains have been limited, and both Biden and the clean energy sector face headwinds from the Republican Party both nationally and at state level.

Meanwhile miners are set to be more in demand from investors again, as a more predictable trade policy under Biden should reduce tensions with China and other countries and remove some of the headwinds facing commodities like iron ore and copper.

In addition, reports before the election suggested Biden's campaign told miners it would support them if they boosted production of the metals needed to make electric vehicles, solar panels and other products crucial to his climate plan.

A return to more conventional governance and lower geopolitical risks – as well as a smaller than expected stimulus package – will reduce demand for the greenback as a safe haven asset. This should benefit emerging market equities the most.

Historically investors have pulled money out of the US when its currency is weak and reinvested the proceeds into emerging markets where the returns of local currency-denominated equities and bonds look better in dollar terms.

Latest takeovers focus on two specific groups of stocks

Activity is spread across diverse sectors from insurance to biotech to gaming, suggesting a healthy appetite for UK companies

Takeovers are gathering pace, with many involving foreign companies seemingly keen to take advantage of cheaper valuations on the UK market.

We see a common theme across the deals – bid targets are either businesses that have reached a point in their career where future growth might be hard to achieve on their own, or businesses that believe they would be more successful as part of a larger group.

A £7.2bn offer for UK insurer **RSA (RSA)** from a consortium of Danish insurer Tryg and Canada's Impact Financial represented a 50% premium to the market price before the news came out.

The continuing consolidation of the insurance industry and need for scale appears to be one of the factors behind the move, although no doubt valuation also played a part, with the shares trading on a single-digit price to earnings ratio before the news became public.

RSA had become a more profitable business by selling the weaker parts of the group, but it faced a big hurdle in trying to grow on its own.

Racing car developer and publisher **Codemasters (CDM:AIM)** is in favour of selling itself to US gaming products company Take-Two Interactive Software. The share and cash approach, equal to 485p per share, represents a slender looking 11.5% premium.

The news took the market by surprise as Codemasters seems to be having a lot of success on its own. Take-Two argues it can bring benefits to Codemasters' performance leveraging its global distribution and core operating expertise in publishing.

Shore Capital believes the company's unique position in the market, key relationships and

upward growth trajectory puts it in a strong position to secure future growth by itself. It highlights China's Tencent and US firm Activision Blizzard as other potential suitors.

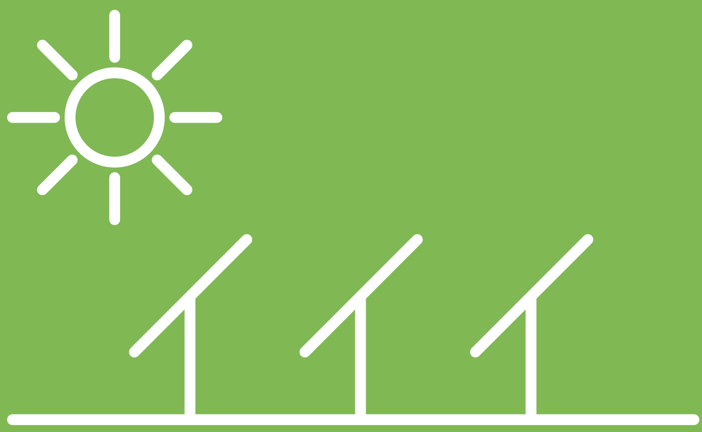
The structure of the offer which comprises 120p in cash and 0.02834 new Take-Two shares per Codemasters share may complicate matters for some UK shareholders, opening the prospect for an all-cash deal to win the day.

Biotechnology is another area bubbling with M&A activity as exemplified by venture capital firm **Arix Bioscience (ARIX:AIM)** receiving a $2.75 billion cash bid for portfolio company VelosBio from US giant Merck last week. The sale is expected to deliver a 12-times return on Arix's original £12 million invested capital.

A few days before, **Horizon Discovery (HZD:AIM)** received an all cash 185p per share offer from US firm PerkinElmer at a 108.3% premium while blood flow monitoring company **LiDCO (LID:AIM)** received an all-cash offer of 12p per share representing a 77.8% premium from Nasdaq-listed Masimo Corporation.

The strategic rationale in the latter two cases seems to be based on gaining quicker access to global distribution opportunities and accelerating commercial development.

INVESTING IN CLEAN ENERGY



AND ENERGY STORAGE

FOR LONG TERM INCOME

GRAVIS CLEAN ENERGY

Gravis

McDonald's beats expectations but Beyond Meat bombs

Hot on the heels of food companies reporting, next week brings numbers from big US retailers

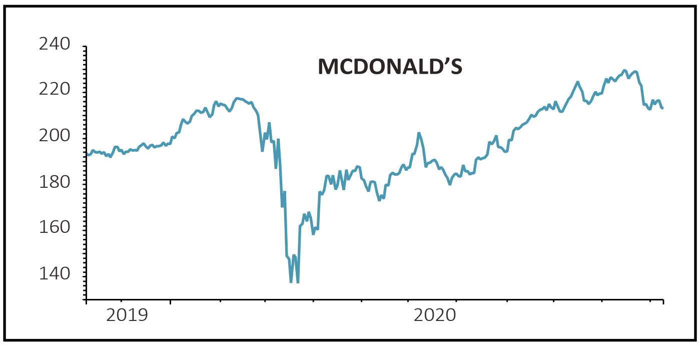
The world's biggest fast-food chain, McDonald's served up third quarter sales slightly ahead of forecasts and said it would launch various new initiatives to help it gain market share.

Global revenues for the last quarter were down 2% to $5.42 billion, fractionally above market estimates but a major improvement on the 30% plunge of the previous quarter. Its shares ended 1.5% lower on the day (9 Nov) despite the wild gyrations in markets caused by the Pfizer news.

The firm predicted it would return to single-digit growth next year, helped by the launch of a new Crispy Chicken Sandwich which would help it compete with chains such as Popeye's, and revealed it would debut a new 'McPlant' range of plant-based products to take on rival Burger King.

That news sent shares of plant-based food maker Beyond Meat down 8% in early trading, which was compounded after the market close when the firm posted a surprise operating loss for the third quarter on much lower than expected sales. In after-market trading the shares ended down a whopping 29%.

Beyond Meat said its gross margin had fallen from 35.6% to 27% in the third quarter year-on-year as it has been making higher trade discounts as it fights growing competition. Inventory also increased from $81.6 million at the end of 2019 to $132.3 million which either means it is preparing for a big increase in demand or, perhaps more realistically, demand hasn't been as strong as expected.



Next week sees earnings from Tyson Foods, the world's biggest producer of beef, pork and poultry, which launched its own plant-based range in 2019. Fast-food chain Jack in the Box last month unveiled its 'Unchicken' sandwiches using Tyson's pea protein-based product.

Also reporting next week are bellwether retail stocks Home Depot, Target and WalMart.

Bricks and mortar retail stocks have outperformed the S&P 500 this year as they have adapted to the switch to online spending, although none come close to Amazon's 70% gain year-to-date.

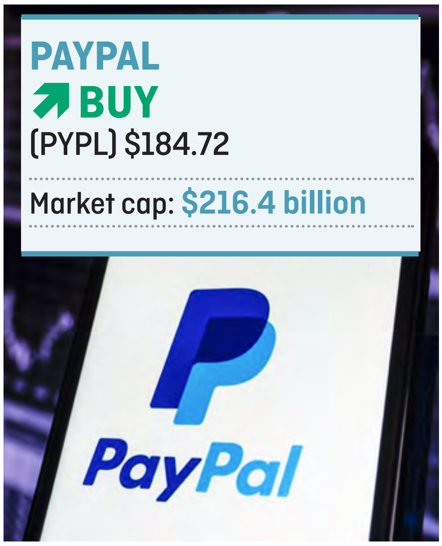
US earnings expectations have shrunk generally with profits for the broad consumer discretionary sector of the S&P forecast to contract by 33% in the third quarter, and the outlook for the crucial fourth quarter isn't that rosy with a recent Deloitte survey pointing to a 7% fall in holiday spending.

Home Depot, which has cashed in on the demand for home décor during the pandemic, has already started its Black Friday campaign with big reductions across many of its lines.

Target and Walmart, which sell groceries alongside general merchandise, have also started reducing prices to tempt shoppers to buy early, while Walmart continues to take counters off the board, putting its Argentinian business up for sale after completing the disposal of its UK subsidiary Asda.

Make your play for discounted payments star PayPal

The business lies at the heart of several mega-trends set to power the share price



PAYPAL
BUY
(PYPL) $184.72
Market cap: $216.4 billion

Investors are rejecting many highly-rated stocks off the back of Joe Biden's presidential victory and promising coronavirus vaccine news is seemingly putting a rally for more reasonably priced growth equities on the table.

High-quality and reasonably valued tech names like PayPal are in the relative doldrums, which presents an opportunity.

This is a great time for ordinary investors to jump on one of the world's best payments plays. San Jose-based PayPal was the first digital payment company of scale, and it is probably the most familiar to readers, but this is an intensely competitive space with new entrants emerging all the time.

For example Stripe, the private digital payments provider popular with start-ups, was only set up 10 years ago by Irish brothers Patrick and John Collison, but was valued last year at $35 billion.

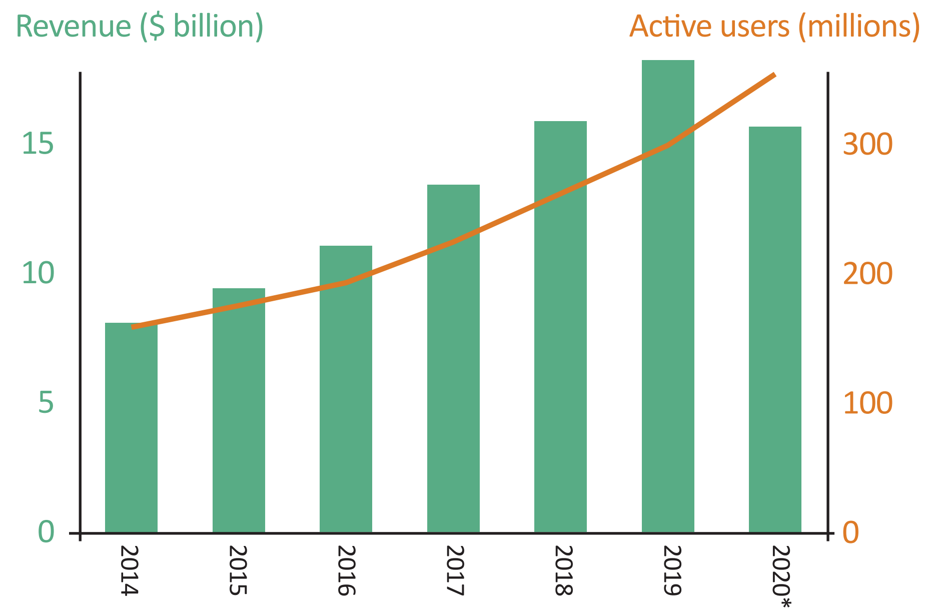
Yet PayPal remains the dominant digital wallet provider with more than 20 million online merchants signed up. To put that into perspective, Facebook has only half that number of merchants advertising across its ecosystem, Square says it has about 2 million while Worldpay has 400,000.

Paypal's main attraction is removing the need to find your credit or debit card when making an online purchase. People casually browsing are more likely to buy something if they know it's just going to involve a few clicks without the hassle of finding their physical wallet. Paypal is also attractive because it has a pay after delivery or in 14 days facility for qualifying users, meaning people who are skint can buy items before pay-day.

Better technology infrastructure, smarter phones and the emergence of digital wallets has created a boom in the digital payments industry.

According to Verdict data, around 720 billion digital transactions will be made in 2020, up from 641 billion in

Paypal's growth in revenue and users



Source: PayPal, Statista. *Nine months 2020

2019. That could be worth more than $4.4 trillion this year, if market and consumer data firm Statista is right. Compound average growth is forecast to run at 17% a year over the next five years, projecting nearly $8.3 trillion of digital payments by 2024.

By then, Verdict estimates that we'll be making in excess of 1.1 trillion transactions globally, over smartphones and other connected gadgets.

ACCELERATED BY COVID

The global Covid-19 pandemic has greased the wheels of transition and accelerated the switch for millions, says Stephen Yiu, chief investment officer at Blue Whale Capital and lead manager of the **Blue Whale Growth Fund (BD6PG78)**, with payment platforms and merchants using dirt cheap debt to pay for digital investment, playing right into PayPal's hands.

The company reported earnings of $1.07 per share in third-quarter 2020, beating consensus by 13.8%, and improved 41% year-on-year. Net revenues of $5.46 billion also outpaced estimates of $5.40 billion, up 25% on Q3 2019.

Revenue was driven by rampant total payment volumes (TPV), one of the firm's key performance indictors in the eyes of Blue Whale analysts.

Third quarter TPV hit $246.7 billion, reflecting year-over-year growth of 36%, when currency fluctuations are stripped out, thanks to increasing net new active accounts and more strong performance by its QR code-powered Venmo credit card and strong merchant services.

MULTIPLE COMPETITIVE ADVANTAGES

Importantly, this eco-system is protected by multiple competitive advantages, such as its trusted reputation with consumers, huge partner network and seamless access across the digital landscape. Many new products and upgrades are in the pipeline, ensuring the company stays at the cutting edge of the industry.

Alongside overall user growth and transactions per users, which tell investors how many new people are joining the ecosystem and how important the app is, PayPal saw 22% year-on-year growth in total active accounts with 15.2 million added in Q3, taking the total to 361 million.

Consider that the US population is 330 million and there are another 447 million people in Europe, it shows the opportunity, and that's without factoring in the obvious target markets of India and Asia.

Payment transactions per active account were roughly flat at 40.1 (up 1%), although this figure was probably depressed partly by new users who are likely to rely on the app less early on than long-run users. PayPal tends to be used roughly once a week but it sees its future as an everyday app, like WhatsApp, AliPay and Visa/Mastercard.

Once it gets there, Blue Whale's Yiu sees the company expanding its ecosystem beyond payments and loans by bundling other fintech services, like insurance, savings, pensions, mortgages and more.

At first glance this potential comes at a hefty premium. PayPal stock trades on 40.8 times December 2021 consensus

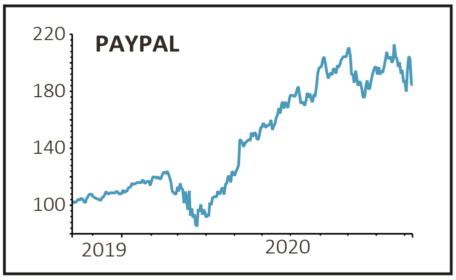
earnings per share (EPS) of $4.53.

But judging the valuation on a single metric is a mistake, often cheaper stocks are priced at a discount for very good reasons (ie, they're not very good businesses or investments)

Other things to consider include EPS growth, which has averaged 23% a year since 2015, and is expected to continue on this kind of trajectory in the coming years, on top-line growth between 15% and 21%.

Net profit margins have also been rising, from 16.8% in 2016 to an anticipated 21.2% this year, for a 27% operating margin, up 400 basis points in third quarter year-on-year. Analysts see PayPal's operating margins moving steadily towards 30% and beyond in future years.

It is at the heart of several mega-trends (digital payments, online shopping, for example) reckoned to be in their early days. Stocks with clear ways to capitalise should be highly rated, and on this basis PayPal represents an excellent opportunity for longer-term investors.



Time for a comeback? This Asian fund has attractive qualities

Aberdeen Standard Asia Focus enables investors to access high-quality Asian small caps at a big discount

Risk-on appetite returned to markets following the US presidential election result and encouraging news on a Covid-19 vaccine, which augurs well for equities across Asia, the vast geographic region which remains well positioned as the powerhouse of global growth.

Flush with regional bargains is investment trust **Aberdeen Standard Asia Focus (AAS)**, trading on a 15.2% discount to net asset value which suggests significant re-rating potential if performance picks up.

This investment trust aims to maximise shareholders' total return over the long haul by investing in a high-conviction portfolio of exciting and well-researched Asian smaller companies in the economies of Asia and Australasia, excluding Japan.

Seasoned Asian equities expert Hugh Young co-manages the investment trust alongside Gabriel Sacks. Using their on-the-ground advantage, they scour the market for high-quality small cap gems valued at US$1.5 billion or below.

Their focus is on finding market leaders with sustainable earnings growth and resilient balance sheets that are hitched to Asia's dynamic growth themes including greater demand for healthcare, technological advancements, and online shopping.

ABERDEEN STANDARD ASIA FOCUS

BUY

(AAS) £10.31

Market cap: £328 million

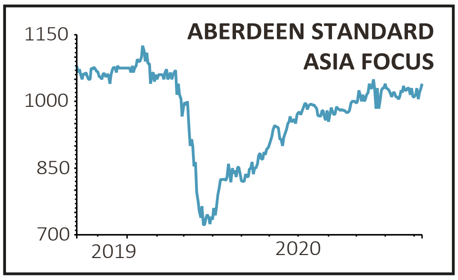
A portfolio overhaul initiated by Young at the board's request drove outperformance in 2018 and 2019, although net asset value fell 13.6% in the year to July 2020, underperforming the 2.5% decline of the MSCI Asia Pacific ex-Japan Small Cap Index.

During this tough period, small caps were largely out of favour as the market focused on large caps, China and technology, while the net asset value decline was exacerbated by the portfolio's structural gearing and relatively lighter exposure to China and Korea, nations which handled the pandemic better than peers and had greater flexibility to boost spending to support their citizens.

Shares believes there is potential for a significant uptick in performance at Aberdeen Standard Asia Focus, a diversified portfolio invested in such companies as Singapore-listed testing group AEM and Taiwan's largest online retailer MoMo.com.

Investors are also buying exposure to Singapore's Raffles Medical, an expansionist hospital and clinic provider, and Sri Lanka's largest conglomerate John Keells.

Dividend growth has been strong in recent years; last year's final dividend was increased by 3.6% to 14.5p and the trust also declared a special dividend of 4.5p and sits on significant revenue reserves. One bear point worth noting is the ongoing charges figure of 1.09%, a touch above those of the two other trusts in the Asia Pacific Smaller Companies sector.



PREMIER FOODS

(PFD) 97.65p

Gain to date: 135.6%

Original entry point:

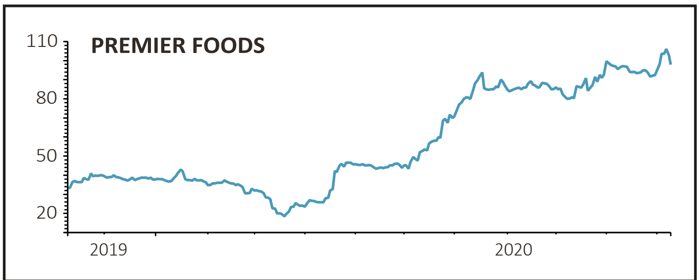
Buy at 41.45p, 23 April 2020

OUR BULLISH APRIL call on Mr Kipling cakes-to-Bisto gravy maker **Premier Foods (PFD)** is now a tasty 136% in the money, with the balance sheet-boosting sale of its stake in bread brand Hovis and an upgrade to its full-year trading profit outlook following tasty first-half results providing the latest positive morsels of news.

Results for six months to 26 September showed strong sales growth amid market share gains in all categories. It delivered excellent cash generation with net debt falling by £88 million year-on-year to £383 million, as increased marketing investment behind its brands and more meals being consumed at home drove sales.

Following progress in accelerating leverage reduction along with proceeds received from the Hovis deal, Premier Foods also announced a new medium-term net debt-to-EBITDA target of approximately 1.5 times.

Shore Capital reiterated its 'buy' rating and upgraded its full year 2021 forecasts to pre-tax profit of £110.2 million and earnings per share of 10.4p. Those estimates look conservative, as Premier Foods should thrive during 'lockdown 2' and the important winter period ahead as the virus stokes supermarket spend, and leave the shares looking modestly valued on a prospective price to earnings multiple of 9.4.



SHARES SAYS:

The shares suffered from profit taking on results day (10 Nov), yet we see no reason to sell. Stick with Premier Foods.

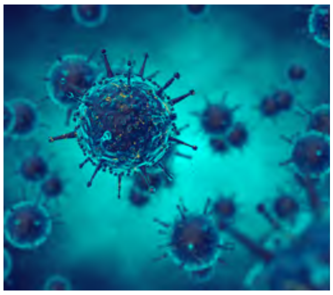
NOVACYT

(NCYT:AIM) 670p

Gain to date: 6%

Original entry point:

Buy at 632p, 8 October 2020

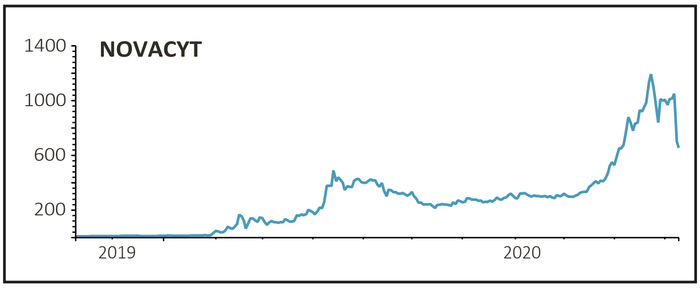


SHARES IN **NOVACYT (NCYT:AIM)** have dropped by a third in value on news that the Pfizer-BioNTech Covid-19 vaccine candidate was found to be 90% effective against the virus without any evidence of major safety concerns.

To put the latest development into context, Shore Capital analyst Adam Barker described the news as a 'remarkable feat and a testament to the swift mobilisation, expertise and tireless efforts of the global scientific community'.

In the short-term the impact on testing volumes for Novacyt is not affected by the vaccine announcement according to broker Numis which has kept its earnings forecasts unchanged.

The longer-term attractions of Novacyt are predicated on the increasing strategic importance of diagnostic testing and the company becoming a key partner to the NHS. In this regard Numis notes that Novacyt is 'well positioned' for the Governments' £22 billion two-year National Microbiology Framework project which was published last week.



SHARES SAYS:

With more vaccine-related news expected over coming weeks the shares will likely remain volatile, but the longer-term attractions remain in place. Still a buy.

SMURFIT KAPPA

(SKG) £31.28

Gain to date: 6.4%

Original entry point:

Buy at £29.40, 1 October 2020

A STRONG THIRD quarter update showed that **Smurfit Kappa (SKG)** had recovered well from Covid-related disruption earlier this year and a second interim dividend implies that management confidence is growing.

The company achieved third quarter earnings before interest, tax, depreciation and amortisation (EBITDA) of €390 million. Nine-month revenues reached €6.3 billion while EBITDA was €1.12 billion, achieving a margin of 17.8%.

With its business strongly weighted towards fast-moving consumer goods companies, Smurfit Kappa is well positioned to benefit from enhanced growth and accelerating trends in e-commerce.

Adapting to new ways of working, remotely and within its operations the packaging company said it was working on opportunities to increase operating efficiencies.

Assuming no dramatic change to working practices, the company expects to deliver full-year EBITDA in the range of €1.46 billion to €1.48 billion, around 1% to 2% above analysts' consensus estimates prior to the announcement.

'That it can deliver all-time high margins in the teeth of a pandemic is impressive,' says broker Davy. 'That it is willing to reward shareholders and employees reflects the confidence in its financial position and the future. This is confirmed by its full year guidance, which seems typically prudent. The current valuation of the stock does not reflect this resilience or the improving dynamics in the industry.'

SHARES SAYS: ↗

A solid update, keep buying.

FINDING INCOME IN A DIVIDEND DROUGHT: A CONTRARIAN APPROACH

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

Why income investors should look globally

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

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

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

A contrarian approach can pay dividends

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

The Scottish currently has a dividend yield of around 3.3%, which is one of the highest in our AIC peer group. What's more, the Company recently announced that it will increase its regular dividend for the year, despite the dividend drought.

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

A dividend reserve – the benefit of long-term thinking

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

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

9 November 2020

RISK WARNING

Please remember that past performance may not be repeated and is not a guide for future performance. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations. You may not get back the amount you invest. The Scottish Investment Trust PLC has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns for shareholders. However, should markets fall these borrowings would magnify any losses on these investments. Investment trusts are listed on the London Stock Exchange and are not authorised or regulated by the Financial Conduct Authority. Please note that SIT Savings Ltd is not authorised to provide advice to individual investors and nothing in this article should be considered to be or relied upon as constituting investment advice. If you are unsure about the suitability of an investment, you should contact your financial advisor.

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Starbucks is ready to roast the competition

The coffee company is both a growth and income stock and looks a post-Covid world winner

One of the simple investment tenets of legendary American fund manager Peter Lynch is 'only buy what you understand'; in other words, the greatest stock picking tools at your disposal are your eyes, ears, common sense, and, in some cases, even your taste buds.

If you find it tough to live without a company's product or service, said company should probably be on your investment watch list, even if the shares look pricey.

Take coffeehouse colossus Starbucks, for example. Many customers are hooked on its Americanos and Cappuccinos and its stores have evolved into gathering places where shoppers and commuters go to collect their daily Flat White, Peppermint Mocha or Pumpkin Spice Latte, and become cafes they frequent in order to chat, meet up or even work.

The Covid-19 pandemic has dramatically reduced footfall to its sprawling global portfolio of stores and has cost the coffee company billions in lost sales due to temporary store closures, reduced opening hours and reduced customer traffic.

And yet Starbucks' two biggest markets, the US and China, are rebounding more rapidly than anyone might have expected from the pandemic.

STARBUCKS CORP - KEY STATS

Listing: NASDAQ

Ticker: SBUX

Share price: $95.88

Market capitalisation: $112.5 billion

Forecast dividend yield: 1.9% (source: Sharecast)

President and chief executive: Kevin Johnson

'The positive momentum we've seen across our business - combined with the new level of resilience we've built for the future - give us confidence for a full recovery and sustained growth in the years ahead'

Patrick Grismer, CFO, Starbucks

Traffic remains more muted than in more normal times, yet customers are also spending on bigger drinks in a bid to raise their spirits and Starbucks is also seeing greater sales of higher-priced cold drinks and plant-based options too.

ALL ABOUT THE BUCKS

The story dates back to 1971, when Starbucks emerged as a roaster and retailer of whole bean and ground coffee, tea and spices with a single store in Seattle's Pike Place Market.

Named after the first mate in Herman Melville's *Moby Dick*, the Starbucks moniker evokes the romance of the high seas and the seafaring tradition of the early coffee traders. Its ubiquitous logo is also inspired by the sea, featuring a twin-tailed siren from Greek mythology.

Starbucks went public in 1992 at a $17 per share issue price (that's $0.53 per share when adjusted for subsequent stock splits), meaning investors who backed the float at the time have made serious money. So how does Starbucks bring in the bucks?

Seattle-headquartered to this day, present-day Starbucks is a coffee roaster and retailer of specialty coffee with operations spanning more than 80 global markets.

Guided by its president and CEO Kevin Johnson, Starbucks has north of 32,000 company-operated and licensed stores and counting. Besides being the world's preeminent purveyor of coffee, Starbucks makes money by selling everything else that goes with a coffeehouse experience – premium teas and pastries, sandwiches, grain bowls and oatmeal as well as other delectable treats.

Pop into one of its outlets and you'll also see an array of coffee and tea brewing equipment, mugs and accessories, packaged goods, books and gifts.

And the Nasdaq-listed giant also generates revenue by licensing its trademarks through channels such as licensed stores, grocery and foodservice. Besides the flagship 'Starbucks Coffee' brand, it sells goods and services under brands including Teavana, Seattle's Best Coffee, Evolution Fresh, Ethos Water and Starbucks Reserve.

Starbucks' expanding global store count

Quarter	Grand total
Q4 2020	32660
Q3 2020	32180
Q2 2020	32050
Q1 2020	31795
Q4 2019	31256
Q3 2019	30626
Q2 2019	30184
Q1 2019	29865

Source: Starbucks

FULL OF BEANS

Admittedly, Starbucks is a premium-priced stock trading on 31.9 times 2021 forecast earnings, yet Covid-19's economic shutdowns are likely to have weakened major rivals and delivered a crushing blow to small coffee shop independents around the world, many of which will never re-open.

That means there is a massive market share opportunity ahead for Starbucks when a vaccine arrives and the world opens up. And Starbucks appears to be a business full of beans with a compelling revenue recovery story already underway.

Results for its fourth quarter topped analysts' estimates on both the revenue and profit lines with net sales dropping 8% to a better-than-feared $6.2 billion.

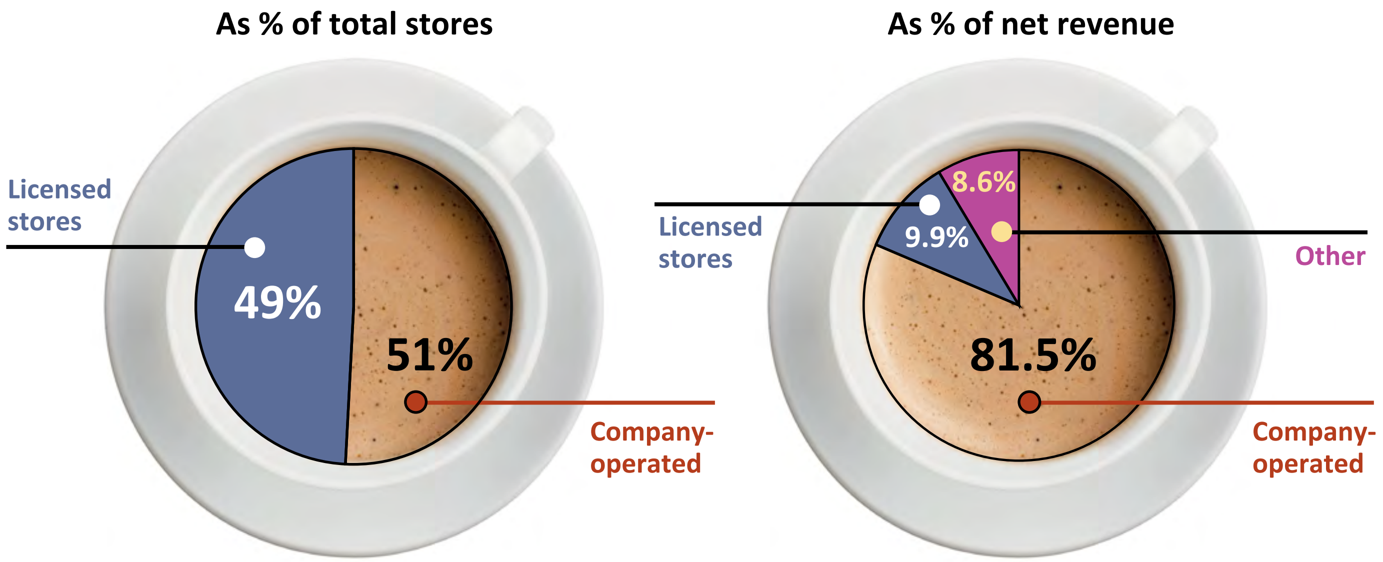
In the US, Starbucks closed the fourth quarter with a comparable store sales decline of 4% for the month of September.

That marked a dramatic improvement from the 60% decline experienced at the height of the pandemic. For September in China, comparable store sales were up 1%, building on the positive momentum seen in the third quarter.

Johnson said he was 'very pleased with our strong finish to fiscal 2020, underpinned by a faster-than-expected recovery in our two lead growth markets, the US and China.

'These results demonstrate the continued strength and relevance of our brand, the effectiveness of the actions we've taken to adapt to meaningful changes in consumer behavior and the

SPLIT BETWEEN COMPANY OPERATED AND LICENSED STORES

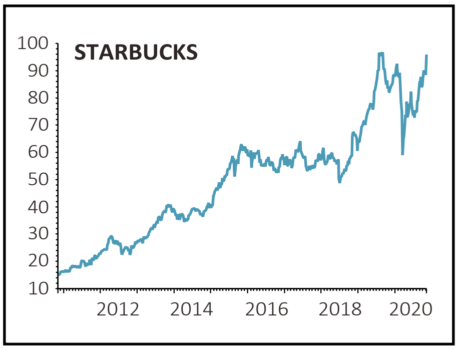


Source: Starbucks, data for the 12 months to 27 September 2020

extraordinary efforts of our green apron partners to serve our customers and communities in challenging circumstances.'

At the end of Q4, roughly 98% of Starbucks' global company-operated store portfolio was open, with 97% in the US and 99% in China, not to mention 99% in Japan and 97% in Canada. And approximately 93% of its global licensed store portfolio was up and running too.

The coffee roaster even issued an outlook for full year 2021 , predicting stronger growth than that forecast by Wall Street. Johnson and his team guided to global like-for-like store sales growth of 18%-to-23%, with 27%-to-32% like-for-like growth forecast in China, where the company expects to open a net 600 new stores as its global expansion continues.



DELIVERING ON DIGITAL AND DIVIDENDS

Starbucks' unwavering investment in its industry-leading digital platform is keeping it two or three steps ahead of what's left of the competition, allowing customers to have their favourite drinks delivered to them. Expanding initiatives such as the ability to order via an app and come to a store for collection are helping to drive its sales recovery.

For instance, in the fourth quarter, roughly 75% of its US sales volumes were generated via drive-thru and mobile orders and the company also saw a rebound in the number of active Starbucks Rewards members, which grew 10% year-on-year to 19.3 million members in America alone.

Anyone who thinks Starbucks has gone ex-growth is patently wrong. And the stock should interest income investors too. While many companies elected to suspend their dividends when the dreaded pandemic arrived, Starbucks decided to continue with a progressive shareholder reward, a testament to its financial strength.

It will shortly pay (27 Nov) a $0.45 quarterly dividend, an increase of 10%, to shareholders, marking the tenth consecutive annual dividend increase from the cash generative business. Buy the shares.

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

FTSE INCOME FAVOURITES:

Time for a rethink?

By **Ian Conway**
Senior Reporter

When we analyse the performance of high-yielding stocks, more often than not investors tend to **lose** more on the value of their holdings than they receive in dividends, which begs the question why own them in the first place? This is particularly relevant to companies in the FTSE 100 which are widely perceived by investors to be rock solid sources of income.

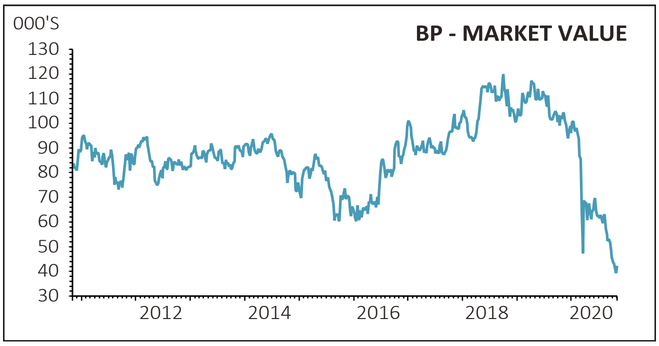
Classic examples of companies which have destroyed more of their investors' capital than they paid out in dividends are oil producers and banks.

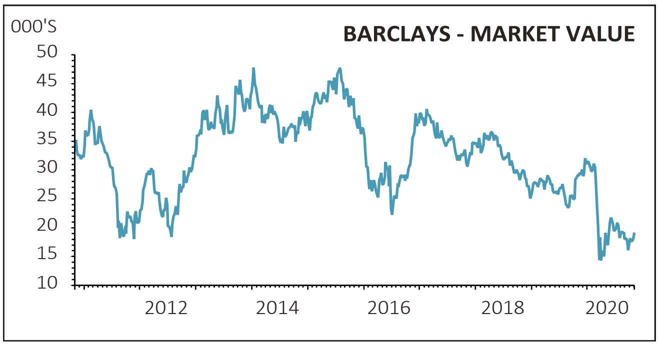
Shareholders in **BP (BP.)** for example have seen the company's market value fall by £50 billion, or more than half, over the last 10 years compared with total dividend payments of just over £45 billion, excluding this year's payout, leaving them collectively poorer to the tune of £5 billion according to analysis by AJ Bell.

10-year FTSE 350 sector returns and dividend yields

Sector	10yr returns	12m div yield
Leisure Goods	382%	1.4%
Technology Hardware & Equipment	311%	2.3%
Electronic & Electric Equipment	291%	2.6%
Forestry & Paper	225%	1.1%
Software & Computer Services	185%	1.4%
Household Goods & Home Construction	167%	1.6%
Industrial Engineering	129%	1.3%
General Industrials	108%	2.2%
Average		**1.7%**
Gas, Water & Multi-Utilities	10%	4.6%
Electricity	10%	5.1%
Tobacco	-6%	3.0%
Mining	-28%	2.9%
Fixed-Line Telecommunications	-38%	2.4%
Oil & Gas Producers	-54%	6.9%
Banks	-58%	6.3%
Average		**4.5%**

Source: Sharepad, Stockopedia





Shareholders in **Barclays (BARC)** have had an even worse time, seeing the firm's market value shrink by £20 billion in the last decade while dividend payments have totalled £7.4 billion according to AJ Bell, resulting in a net loss of close to £13 billion.

Many popular income stocks on the FTSE 100 have disappointed with earnings in recent years which has led to weaker share prices. It also seems inevitable that many companies will have to rethink their dividend policies for 2021, if they haven't already done so.

In the case of the major banks, which were barred from paying dividends by the Prudential Regulatory Authority, in order to ensure they have enough capital to continue to lend to companies during the pandemic, future dividend payments are likely to be much lower than in the past. **HSBC (HSBA)** has already warned shareholders to expect any future dividend to be 'conservative'.

With a second wave of virus infections hitting Europe and the US and threatening to slow economic growth, central bankers are under pressure to keep interest rates at record lows and there is even talk of negative interest rates. This would not only reduce the yield on bonds and fixed-income securities, it would support the notion of lower yields on stocks.

WHAT DOES THIS ALL MEAN?

All these factors suggest it is time for investors to rethink a) their portfolio holdings and b) how they generate income from an investment portfolio.

Too many people are clinging on to the hope that some of the popular FTSE 100 stocks for income will get back to historical dividend payment levels. We'll discuss six sectors later in the article and offer suggestions on whether you should stay or get out.

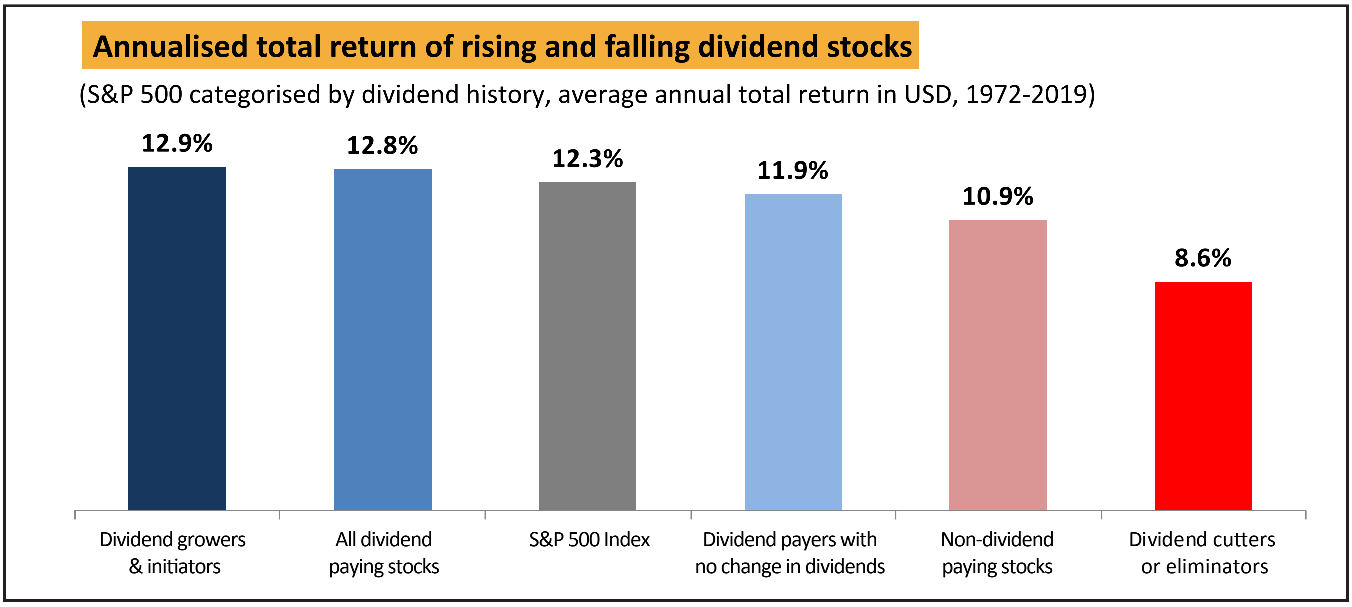
We also present the argument that anyone needing income should consider picking stocks that can deliver good capital growth and then selling down chunks of shares to generate an income, instead of simply chasing high yielding stocks.

Before we get to those issues, let's consider the role of the dividend.

IN DEFENCE OF DIVIDENDS

Ian Mortimer and Matthew Page, managers of the **Guinness Asset Management Global Equity Income Fund (BVYPNY2)**, published a recent report arguing that dividends *do* matter.

Looking at the benefits of investing in dividend-paying companies and the comfort dividends provide in periods of market distress, they claim dividends deliver a 'gradual but



Source: Bloomberg, Guinness Asset Management

potent contribution to long-term returns' as well as helping counter the effects of market falls and inflation.

They argue that dividends are proof of a company's progress in as much as they are 'hard cash'. Profits, as the saying goes, are a matter of opinion, while dividends are paid in actual pounds and pence.

Dividends 'instil efficient capital management in mature businesses', leaving 'no room for vanity projects or frivolous uses of capital' they claim. Dividend-paying companies begin each year by deciding the payout and *then* think about how best to use the rest of the free cash flow generated by the business.

According to the managers, dividend payments serve to identify companies that are disciplined and efficient in their capital allocation and cash flow management.

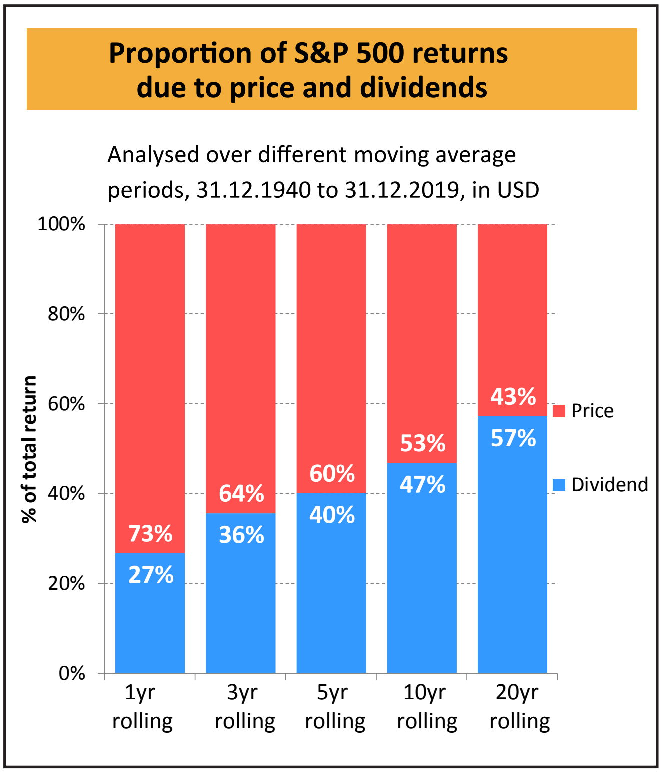
They use the annual returns of different categories of S&P 500 companies, from 'dividend growers and initiators' through to 'dividend cutters or eliminators', over the period from 1972 to 2019 to argue that dividend payers outperform the market on a total return basis.

While early-stage companies need cash to establish themselves, and need to reinvest in their businesses to take advantage of growth opportunities, once they become mature it is 'entirely sensible' that they allocate cash 'only to those projects where they can achieve high returns, and give the rest back to shareholders,' according to the Guinness managers.

LONG-TERM RETURNS

There is no doubt that over the very long term dividends deliver a proportion of total return which grows considerably over the life of an investment. Over a 20-year holding period, the managers claim that dividends account for an average 57% of total returns.

Dividends also provide a long-term hedge against inflation, as payouts tend to rise faster than consumer prices.



Source: Bloomberg, Guinness Asset Management

In periods of low economic growth, the proportion of total returns provided by dividends becomes even more important. According to the managers, in the 1940s and the 1970s, dividends accounted for over 75% of total returns.

However, these total return numbers are based on dividends being reinvested and the power of compounding, which only works over the very long term.

Investors who are looking for dividends as a source of income – for example to pay their bills or allow them to enjoy a comfortable retirement – aren't interested in reinvesting or compounding. They want the cash now.

CONTRASTING VIEWS

Fundsmith chief executive Terry Smith, in the opposite corner, believes investors should *never* buy stocks for income. In an interview with *Fund Insiders Forum*, he says: 'Dividends aren't at all important to us. You should invest in equities for the greatest total return you can get – that's the growth of the share price plus any income, and if you need to spend some money sell some of your holdings, which I know isn't rational to some people but I assure you is the correct way to do this.'

Smith believes the ideal company doesn't pay a dividend. He remarks: 'If a company can make a 30% return on capital why would you want it to pay a dividend? By and large you can't make a 30% return on capital, so you want the company to retain the earnings and generate that return for you.'

Chuck Akre, founder of Akre Capital Management, also believes dividends don't matter and that companies should reinvest their cash earnings. 'With an outstanding re-investor at the helm even an ordinary business can become a remarkable compounding machine. In the long run, the rate at which the value of a business compounds will approximate its returns on reinvestment.'

If a business generates a return of 20% and reinvests all retained earnings without paying dividends, its capital and earnings will both grow at 20% per year and its market price should grow at the same rate as long as the opportunity to continue generating high returns continues. Moreover, investors effectively get a tax deferral on the gains

Dividends aren't at all important to us. You should invest in equities for the greatest total return you can get

Terry Smith
Fundsmith chief executive

because they are retained within the company, not paid out.

Akre argues that 'dividends are the route to average returns', while reinvestment is the route to above-average returns. 'Markets recognise and put a high price on businesses with high returns on invested capital. The price a shareholder pays for a wonderful business is typically a substantial multiple of the actual capital invested in that business,' he says.

'Unfortunately for the dividend-centric investor, it is this ratio of market price to invested capital that dictates the returns available to shareholders on any earnings paid out as dividends.'

Which raises another question: if a company can't find opportunities to reinvest its cash at above-market returns, and pays out large dividends instead, should you own the shares in the first place?

BUFFETT DOESN'T PAY DIVIDENDS

The world's best-known investor, Warren Buffett, likes companies that pay dividends, yet his investment firm Berkshire Hathaway has only ever paid a dividend once, in 1967. Buffett joked he must have been in the bathroom when the decision was made.

Today Berkshire holds a record high of $142.8 billion in cash, cash equivalents and US Treasury bills in its insurance and other businesses, yet it still doesn't pay shareholders a dividend.

The firm accepts that short-term interest rates on cash and Treasury bills will remain low and says 'our earnings from such investments over the remainder of 2020 will be substantially lower than in 2019. Nevertheless, we believe that maintaining ample liquidity is paramount and we insist on safety over yield with respect to short-term investments.'

In his 2012 shareholder letter, Buffett devoted almost three pages to the topic of dividends and whether they make sense. His core argument, in contrast to Guinness's Mortimer and Page, is that 'a company's management should first examine reinvestment possibilities offered by its current business – projects to become more efficient, expand territorially, extend and improve product lines or to otherwise widen the economic moat separating the company from its competitors' before considering any other uses for its capital.'

Berkshire's own priority with available funds 'will always be to examine whether they can be *intelligently* deployed in our various businesses'.

Next, it searches for acquisitions. Buffett admits his acquisitions haven't always added value, but 'overall, our record is satisfactory, which means that our shareholders are *far* wealthier today than they would be if the funds we used for acquisitions had instead been devoted to share repurchases or dividends.'

Finally, Berkshire uses funds to repurchase shares when they are trading at 'a meaningful discount to conservatively calculated intrinsic value'. In the second quarter of 2020 the firm used $6.7 billion of cash to purchase its own shares. Buffett calls disciplined repurchases 'the *surest* way to use funds intelligently: it's hard to go wrong when you're buying dollar bills for 80¢ or less.'

BUFFETT STILL SMILING

Instead of taking dividends out of the firm, Buffett has steadily reduced his personal holding in Berkshire over time, cashing in on the increase in book value, its greater earnings power and the market-price premium on the shares.

Despite selling down his holding, its current book value 'considerably exceeds' the value of his original stake. 'In other words, I now have *far* more money working for me at Berkshire even though my ownership of the company has materially decreased.'

Maybe it's time that investors who think dividends are the only form of income took a leaf out of Buffett's book. Invest in good companies, allow them to reinvest their income to create more value for shareholders, let their book value and market value rise over time, and take money out in an opportunistic way.

ANOTHER WAY?

If you don't like that idea, you'll need to be pickier with the stocks you buy for income. One way is to split the universe into three camps.

The first is to look for companies that throw off a lot of cash and generate high returns on capital, but don't need all the cash for growth so there could be a good chance the excess is paid to investors.

The second is to lump together companies that generate cash but have limited growth opportunities. They may have higher dividend yields but probably won't keep pace with inflation.

The third group is where returns on capital are falling and the ratio of free cash flow to dividends is tight. This can be categorised as an income trap.

Let's now dive into six of the sectors most popular with income investors backing FTSE 100 companies.

BANKING

BANKS? NO THANKS. Banks have historically been fertile ground for income seekers, but it seems likely that 2019 was the high-water mark for dividends.

The sector was already struggling to turn a profit before the pandemic due to weak loan demand, historically low interest rates and narrowing net interest margins. Add to that a spike in provisions for bad loans, due to the sudden contraction in the economy – UK GDP shrank by 20% in the second quarter, more than any other European country – and the potential for dividends and buybacks became even slimmer.

The Prudential Regulatory Authority, keen to ensure the banks kept lending to support the economy, told them to suspend dividends and buybacks until the end of this year. While the door is open to a resumption of payouts next year, **HSBC (HSBA)** has already warned shareholders that dividends are likely to be much lower than they have been used to.

INSURANCE

INSURERS ARE A better bet. While insurance companies were urged by the Prudential Regulatory Authority to 'pay close attention to the need to maintain safety and soundness' of their balance sheets, leading to the cancellation of most final dividends for 2019, the industry is well capitalised and payouts are likely to resume at much the same levels as before the pandemic.

Insurance is also less cyclical than banking, with most of us renewing our annual house or motor policy without question, even if that means shopping around using price comparison websites.

Among the major players, **Aviva (AV.)** is bolstering its capital with the £1.6 billion sale of a majority stake in its Singaporean life business, and last week declared a dividend on its cumulative preference shares.

Legal & General (LGEN), which bucked the trend by paying both a final 2019 dividend and an interim 2020 dividend, said at the half-year stage it would set a final dividend which was 'prudent'.

The sector also looks cheap, hence last week's takeover bid for **RSA (RSA)** at close to a 50% premium. We would buy both Aviva and Legal & General for income, with the stocks trading on 8.4% and 8% prospective yields respectively, according to SharePad.

TOBACCO

TIME TO MAKE some hard decisions about tobacco stocks in your portfolio. The sector was once considered a dependable source of income, with cigarette manufacturers prized for their strong brands, pricing power and high margins, but the sector's defensive attractions have lessened due to declining incidences of smoking and increasing political and regulatory concerns, including over vaping.

Both **British American Tobacco (BATS)** and **Imperial Brands (IMB)** have invested heavily in less harmful next generation products (NGP), though it will be a while before this investment pays off and there is a risk NGPs could cannibalise the profitable combustible tobacco business.

Robust cash generation should help support the recently reduced dividend at Imperial, but an elevated forward dividend yield of 11.4% indicates the market isn't convinced the new level of payout is sustainable.

Geographically diverse British American Tobacco is sticking to its target of a 65% dividend payout ratio, drawing confidence from large cash flows, yet a forecast yield of 8.4% also implies investors believe the dividend could be cut.

Liberum calls British American Tobacco 'an elite group of resilient businesses who have been able to grow sales, earnings and cash flow during the challenging Covid-19 period.' However, the company's shares have halved in value in the past three years and return on equity has also dropped dramatically in this period versus pre-2017, making this a classic example of a high yielding stock losing shareholders money.

Value investors might think it is looking cheap and oversold, and nearly all the analysts covering the stock have a 'buy' rating. However, our patience is wearing thin with the business and its share price, so we're inclined to say you're better off looking elsewhere for income opportunities.

OIL & GAS

IN THE RANKING of disappointments for UK income investors through the pandemic **Royal Dutch Shell's (RDSB)** decision to cut its dividend by two thirds must sit at the top.

The company hadn't cut its payout since the Second World War, yet Covid-19 provided cover for a decision which it may have wanted to make for some time, hence a big reduction earlier this year.

A subsequent 4% increase in the dividend will have done little to ease the pain.

A 2021 yield of 4.5% based on this rebased dividend, and 9% at its peer BP which cut its own payout in half, may look optically attractive but comes with a big risk warning attached.

Both companies face some serious challenges associated with depressed oil demand and volatile oil prices along with pressure from governments, regulators and investors to transition away from fossil fuels.

The investment required to move in a greener direction will put pressure on cash flow, already squeezed by a depressed oil market, and dividend paying capacity. BP may have to go further with cutting dividends.

We are switching from a positive to negative stance on Shell in recognition that the transition to renewables is going to take a long time and the oil price has remained much weaker than we expected earlier this year. We've been negative on BP for a while and that stance hasn't changed.

UTILITIES

UTILITIES ARE A natural hunting ground for investors seeking out yield because they are perceived to have steady income streams, backed by providing essential gas, electric and water services that everyone needs.

Despite this reliability utilities have been impacted by the pandemic with many businesses using less energy and water and this hasn't been fully offset by the increase in household use from more people working from home. As such, utilities are perhaps not the complete safe haven that some investors might expect.

One standout company in the sector which puts great importance on the payment of the dividend is energy group **SSE (SSE),** currently trading on a prospective dividend yield of 6%. The group has a policy of maintaining the growth of the dividend in line with inflation, which it reiterated at the annual results in June.

In addition, the company has been refocusing on its core businesses of regulated electricity networks and renewable energy while reducing net debts and improving its balance sheet, which provides more assurance for income seekers. A good stock to own.

PROPERTY

THE BIG DIVERSIFIED real estate investment trusts (REITs) like **Land Securities (LAND)** and **British Land (BLND)** have run into trouble thanks to their substantial holdings in the structurally challenged retail space as well as an office market disrupted by Covid-19.

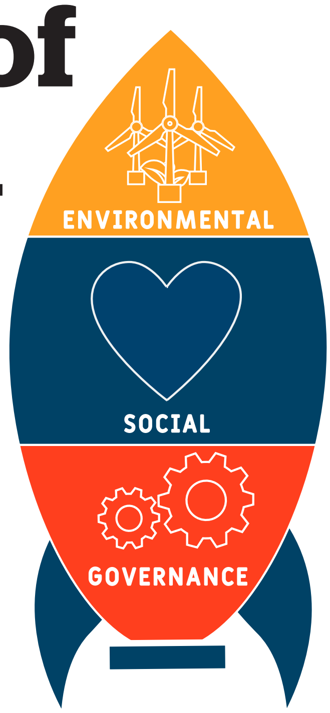
More recent FTSE 100 entrant, **Segro (SGRO)** is now valued by the market at more than these two combined.

Segro's investment in warehouses chimes with the online shopping trend which has accelerated in the pandemic. Its yield of 2.4% is smaller than its peers but has more scope to grow with the current situation, and the outlook for rent collection and occupancy is robust.

On this basis the shares look a decent option for income investors prepared to accept a lower initial yield in exchange for the potential for dividend growth.

Elsewhere, the housebuilders are beginning to return to the dividend list, having been a source generous of yields pre-Covid. The outlook is uncertain given the economic backdrop but a difference from the financial crisis is that most constituents of the sector have very strong balance sheets this time round.

AJ Bell targets best of ESG investing world with new fund



The focus is on companies with high socially responsible investment scores

Increasingly people want to put their money into companies that are doing the right thing – whether that's helping the environment, treating staff fairly or conducting business in a transparent manner. A lot of money is flowing into this space which presents both opportunities and challenges for an investor.

Greater interest means more investment products are becoming available, but investors also risk being overwhelmed with choice. Their options include picking individual stocks themselves or getting a fund manager to choose what goes in a portfolio via an actively managed fund. Investors could even consider a tracker fund that mirrors the performance of a specific index related to the theme.

Another route is to buy a fund that mixes both passive and active management and this is central to the approach taken by the newly launched **AJ Bell Responsible Growth Fund (BN0S2V9)**. It has constructed a portfolio from 12 exchange-traded funds (ETFs) each with a responsible investing tilt, providing exposure to such names as consumer goods group **Unilever (ULVR)**, Japanese electronic component specialist Murata Manufacturing and electric vehicle maker Tesla.

While the fund's 1% ongoing charges figure is higher than you'd pay if owning each ETF individually, the additional charge pays for an investment specialist to actively manage the asset allocation, changing the weightings for certain products as markets evolve and seeking better and cheaper alternatives as time goes on.

Other funds from AJ Bell have lowered their charges as their size got bigger and the same approach will apply with the Responsible Growth fund, passing on any cost benefits to the investor.

SRI NOT ESG

Eagle-eyed readers may notice that only two of the 12 holdings in AJ Bell's fund have the term 'ESG' in the product name. This may surprise some people as the words 'environmental, social and governance' are synonymous with responsible investing along with the term 'ethical investing'.

The two ETFs with 'ESG' in their name will soon be rebranded by their issuer Xtrackers upon which none of the holdings in the AJ Bell fund will carry the ESG moniker.

There is a good logic to this approach. AJ Bell's investment team have purposely looked at ETFs that follow socially responsible investing (SRI) indices created by MSCI because they have a much tighter focus on the theme, according to Matt Brennan, head of passive portfolios at AJ Bell. 'SRI and ESG are related, yet SRI goes further,' he explains.

TWIN APPROACH

Responsible investing funds typically take one of two approaches – negative screening which means excluding companies doing things deemed 'bad' by many people such as making cigarettes, or positive screening which refers to companies actively making a positive contribution to a range of ESG themes such as providing affordable healthcare. The ETFs inside the AJ Bell fund incorporate both approaches, thereby sharpening the focus even further.

Brennan says: 'The starting point for an MSCI SRI index is to exclude companies that don't have responsible investing characteristics, such as controversial business areas like alcohol, gambling, unconventional oil and gas extraction, adult entertainment, and companies that break UN global impact rules such as breaching workers' rights.

'The next step is to remove companies that don't have at least an A grade on MSCI ESG scores, the ratings ranging from AAA to CCC. Also removed are companies that are subject to controversy like Volkswagen due to its emissions scandal and BP because of the Deepwater Horizon oil spill.'

Of the remaining companies, the top 25% best scoring ones for each sector are targeted. The 25% limit avoids having very large exposure to any one sector which might achieve good scores across lots of companies.

'ESG indices typically include the top 50% best scoring companies, but SRI is deeper green than ESG by only including the top 25%,' adds Brennan.

RISK/RETURN CONSIDERATIONS

AJ Bell found five providers with ETFs based on MSCI SRI indices. It studied their relevant products and created a portfolio mainly consisting of equities with a small portion of fixed income on the side (bonds issued by ESG-friendly companies).

One might have expected an all-world product to be the core component, backed up by some country-specific ETFs as satellite holdings. However, the biggest component of the fund is US-focused **iShares MSCI USA SRI ETF (SUUS)** at 15% of the portfolio.

'The fund benefits from our optimisation process,' explains Brennan. 'You might get better risk/return characteristics with a greater weighting to certain countries than an all-world one, which explains why the US has the biggest weighting in our fund. Some individual country ETFs are also cheaper than all-world ones and is it easier to understand what you are getting.'

AJ Bell Responsible Growth fund holdings

iShares MSCI USA SRI ETF	15%
Xtrackers ESG MSCI Emerging Markets ETF	13%
UBS MSCI World Socially Responsible ETF (hedged to GBP)	13%
UBS MSCI United Kingdom IMI Socially Responsible ETF	13%
Xtrackers ESG MSCI USA ETF	10%
iShares MSCI EM SRI ETF	8%
iShares MSCI World SRI ETF	7%
UBS MSCI Pacific Socially Responsible UCITS ETF	6%
UBS Bloomberg Barclays MSCI US Liquid Corporates Sustainable ETF	5%
iShares MSCI Japan SRI ETF	4%
Amundi MSCI Europe SRI ETF	4%
iShares Smart City Infrastructure ETF	3%
Total	**100%**

Source: AJ Bell, as of 3 November 2020

WELL-KNOWN NAMES

Some of the names inside iShares MSCI USA SRI ETF include chip company Nvidia, Olay skin care and Pampers nappies seller Procter & Gamble, and Home Depot which is the largest home improvement retailer in the US.

The joint second biggest holding in the AJ Bell fund is **Xtrackers ESG MSCI Emerging Markets ETF (XESE)** at 13% of the portfolio. It provides exposure to such names as Chinese e-commerce giant Alibaba and shopping platform Meituan Dianping.

At 12.5% of the portfolio is **UBS MSCI United Kingdom IMI Socially Responsible ETF (UKSR)** which includes stakes in drug maker **AstraZeneca (AZN)** and utility **National Grid (NG.)**.

Whereas 11 of the 12 ETFs in the AJ Bell fund's portfolio have a broad SRI focus, there is one outlier in the form of **iShares Smart City Infrastructure ETF (CITY)**.

It has a specific focus on companies that provide services and solutions to build and run smart city infrastructure in a sustainable manner. Here you'll find names such as power circuits specialist Monolithic Power Systems and stone wool insulation provider Rockwool International.

DISCLAIMER: AJ Bell is the owner and publisher of *Shares magazine*. The author (Daniel Coatsworth) and editor (Tom Sieber) own shares in AJ Bell.

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WisdomTree®

TO HAVE YOUR CAKE AND EAT IT: A CASE FOR CURRENCY HEDGING GOLD EXPOSURE

Last quarter, the US dollar basket lost significant ground versus other currencies (-3.6%[1]). This weakening could be explained by the rapid increase in the US twin deficit. The "twin deficit" is the combination of:

+ the current account deficit which indicates that the country is importing more goods and services than it is exporting.
+ The government budget deficit which indicates that the government is spending more than it is earning i.e. borrowing.

In the chart below, we observe that historically big negative twin deficits have been a trigger for US dollar weakness. The chart plots the twin deficit against the US dollar basket with a three-year lag. So, if history is any guide to the future, a period of US dollar weakness may have already been set in motion. Obviously, these relationships aren't identity equations and there are many other influences on currency direction, but currently many investors are worried about history repeating itself and hence investor speculative positioning on the US dollar is deeply negative[2].

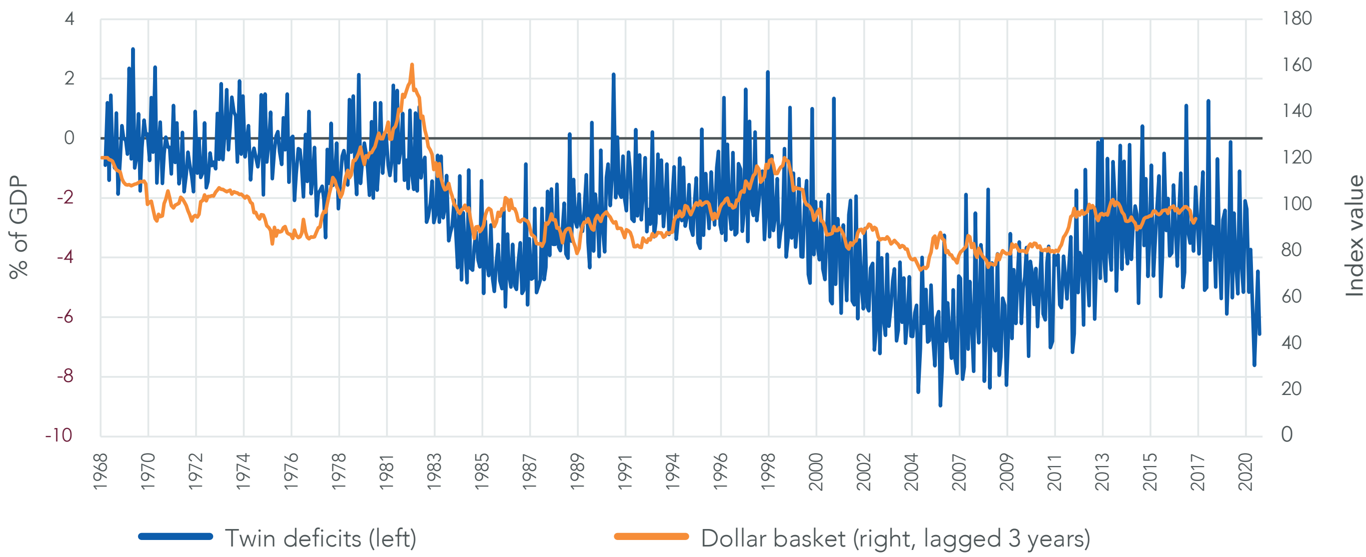
In a period of structural weakness for the US dollar, a British investor in assets denominated in US dollars, like gold, may miss out on potential gains if their investment is not currency hedged. Gold in US dollar terms gains from US dollar weakness, but holders in other currencies (unhedged) do not benefit. Currency hedging could give British investors a similar return to US investors.

Looking back at the last 17 years, we can compare the performance of an investment in Gold unhedged or currency hedged for a euro based investor. What we observe is that on average over the period from December 2003 to September 2020, when Gold was up by more than 5% in a month, Euro currency hedged investors earned 0.9% more than an unhedged investor . Similarly, when Gold was down more than -5% in a month, Euro currency hedged investors lost 2.2% more than an unhedged investor . Usually Gold and the US dollar are negatively correlated which explains the behaviour observed above.

[1]Source WisdomTree, Bloomberg, ICE. 30th June 2020 to 30th September 2020. Using the U.S. Dollar Index (USDX) which averages the exchange rates between the USD and a basket of six world currencies - Euro, Swiss Franc, Japanese Yen, Canadian dollar, British pound, and Swedish Krona.

[2]In September 2020, net speculative positioning on the US Dollar were the most short since December 2017 (The Commitments of Traders report by the Commodity Futures Trading Commission).

US Dollar and US Twin deficits



Source: WisdomTree, Bloomberg, data from January 1968 to September 2020. Dollar basket is the US Dollar against a basket of six currencies. Index value increases with Dollar appreciation. **Historical performance is not an indication of future performance and any investments may go down in value.**

▪ To learn more about investing in gold, please visit the [WisdomTree Gold Strategy Page]

Know your fund: Unusual lockdown winners boost Rathone Global

The fund has raced ahead of its benchmark thanks tech firms and vaccine makers, but also dating and pet stocks

Dating and the humanisation of pets are among the more unusual lockdown-winning themes which have helped the popular **Rathbone Global Opportunities (B7FQLN1)** shake off volatile markets and significantly outperform its benchmark this year.

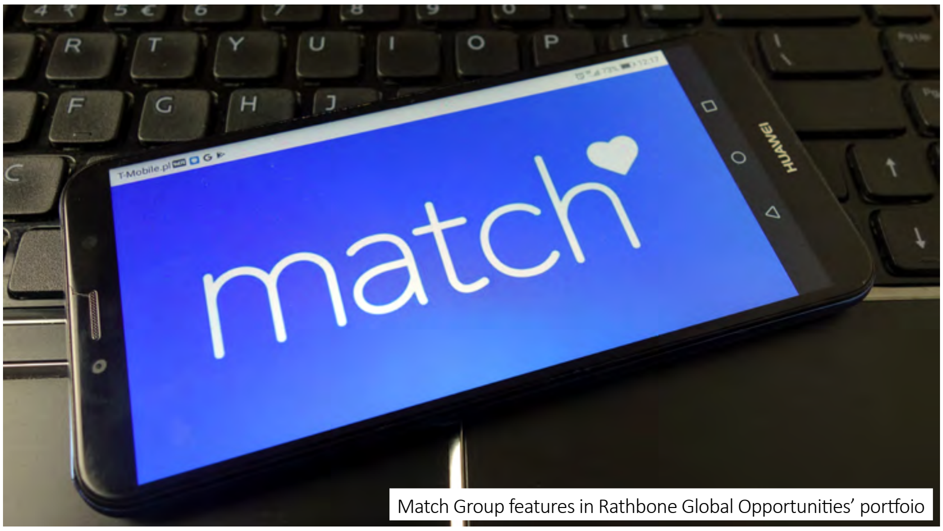
Run by Rathbone's global equity manager James Thomson, the fund has returned 28.6% this year compared to just below 6% for its benchmark MSCI All Country World Index. It has delivered a five-year annualised return of 18.5%, again well ahead of the MSCI ACWI index.

It has ongoing charges of 0.78% and overall we think this would be a good long-term holding for someone looking for exposure to global equities.

WHAT'S DRIVING PERFORMANCE

A considerable amount of its performance this year has been driven by its top holdings, including Amazon which is up over 70% year-to-date as well as PayPal, which has almost doubled, and Adobe, another tech stock having a strong year.

But another holding to have rallied has been its eighth largest holding, Tinder and Match.com owner Match Group.



Match Group features in Rathbone Global Opportunities' portfoio

Shares in the dating company are up significantly this year, and have almost trebled since hitting a low on 20 March, with its subscriber numbers and earnings per share having beaten analyst expectations for the third quarter.

Speaking to *Shares*, Thomson says Match has been a clear beneficiary of lockdown and calls the company the leader in a 'winner takes all' industry.

He explains, 'This is the way people meet each other now. Around 40% of people meet each other over the internet, up from 3% ten years ago.

'The pandemic was an interesting exercise in human psychology. When lockdown happened, people thought it was terrible, "I can't meet anyone, what's the point of doing it over video". But then the light bulb switched on and, particularly women, said "this is great, I can have a video call, see what they're like, what their house or apartment is like, without going out, without wasting my time with creeps or the wrong person".'

Thomson adds: 'It's also a liquidity story. The more successful you are, the more people sign up, and the more people sign up the more others will too as that's where they're more likely to find someone. It ends up being a winner takes all industry where the pretenders will struggle.'

BUYING OPPORTUNITY

In the midst of the pandemic-induced selloff earlier this year, which Thomson called the 'best buying opportunity of my career so far', he conducted over 100 trades and deployed a net £300 million, selling out of some lockdown losers and adding to the winners, as well as initiating some new positions.

He says, 'I added to almost everything (in the portfolio) to get that cash invested – my investors wouldn't forgive me if I didn't invest it.'

One of the new ideas added this year has been US pet food company Freshpet, another stock which has more than doubled year-to-date, with the firm expected by analysts to grow sales 36% this year and increase earnings per share by a whopping 394%.

Thomson explains: 'It plays on the growing humanisation of animals, they're no longer just a pet but part of the family. And near-term the company has also seen a tailwind from increasing pet adoption during the pandemic.'

As well as dating and the personification of pets, the fund is also exposed to some of the more conventional pandemic winners, including two companies set to benefit if and when a coronavirus vaccine is successfully developed and approved – German drug equipment maker Sartorius, and Swiss biotech manufacturer Lonza.

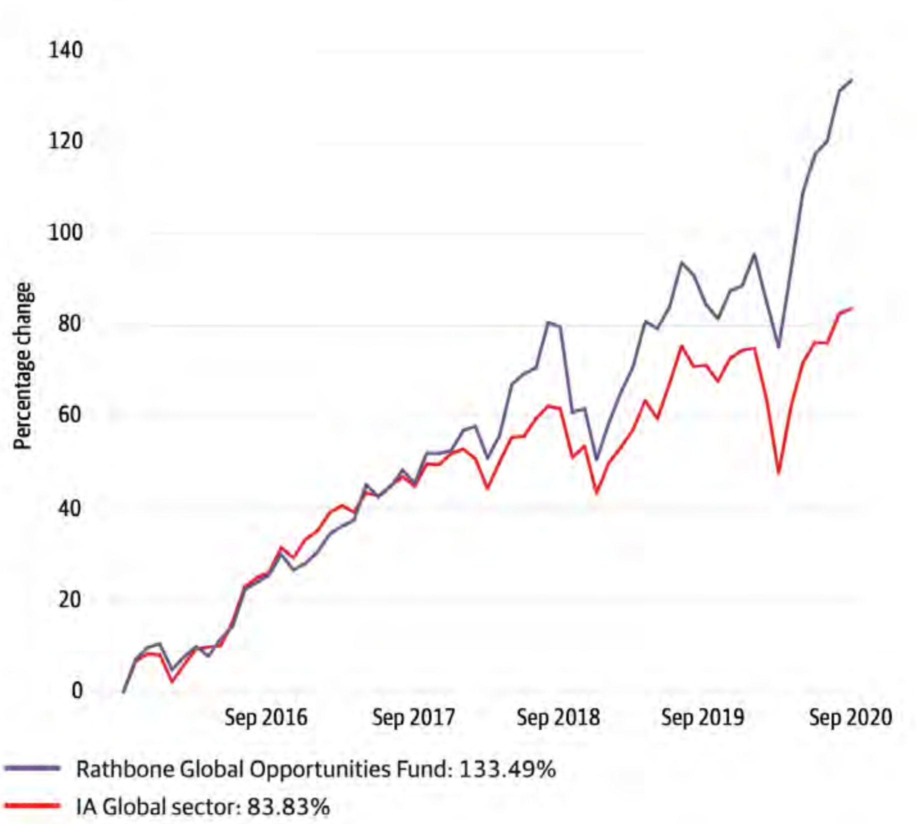
Having bought into Sartorius in 2017, Thomson says its vaccine business was actually the 'least attractive area of the business' at the time, and believes the long-term shift away from mass-produced pills towards more tailored medicine is still the main growth driver for the company.

But he says: 'Covid is the next area of super-normal growth for the company. It is involved in 80% of all the vaccines in development, so when there's a vaccine that is developed and made available, Sartorius will most likely be involved. It's a very exciting area of near-term growth for the company.'

While on Lonza, which has partnered with US biotech firm Moderna should the coronavirus vaccine it's developing be approved, Thomson adds: 'Biotech companies like Moderna, they don't make the vaccine themselves, they outsource the manufacturing to companies like Lonza.

'Lonza also has FDA approval, and when you've embedded yourself into the FDA approval process, it's very hard to dislodge you. It's a very sticky position – you'll be their partner for life.'

Five-year fund performance vs benchmark



Source: Rathbone. 30 September 15 to 30 September 20, UK basic rate in UK Sterling, percentage change. Price performance based upon bid to bid prior to 21.01.19 and single price (mid) thereafter

FOCUS ON UNDER THE RADAR GROWTH FIRMS

Thomson's style with the fund has been to look for 'under-the-radar and out of favour' growth companies, and avoid value and cyclical stocks, meaning he has zero allocation to banks, miners, insurance, utilities or telecom stocks.

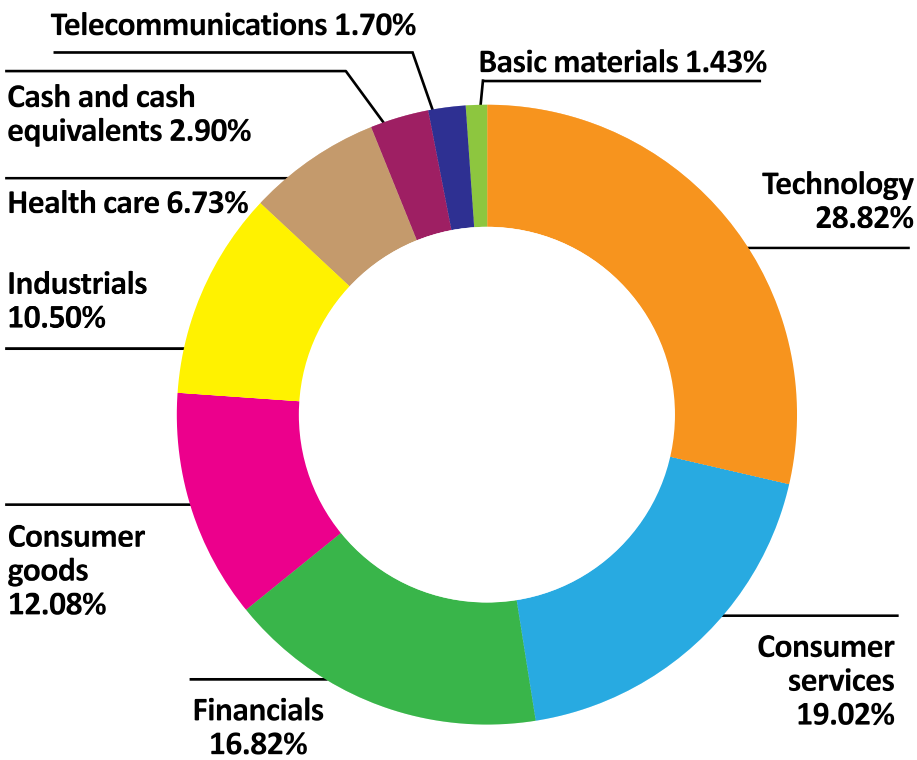
The fund has a broad range of investors in different age groups, and Thomson says the typical investor will be someone with a five-year investment horizon who 'doesn't mind putting up with inconsistent performance over some of that timeframe'.

He explains, 'I don't mean the wheels coming off, but a fund actively managed like mine will have big gaps to the benchmark and that will create lumps in performance.'

Regarding the fund's portfolio he continues: 'The fund isn't right for everyone as there will be times when it underperforms, perhaps spectacularly, when banks and miners and cyclicals bounce back and I won't be there – that will create inconsistent performance. But over the long-term, if I stick to what I'm good at that will drive better returns.'

By **Yoosof Farah**
Reporter

Sector breakdown



Source: Rathbone

Anatomy of a good company: Delivery Hero

Jamie Ross, Fund Manager of Henderson EuroTrust, provides a snapshot of the typical analysis undertaken on every company considered for the portfolio. In this case, he explains the rationale behind the inclusion of the German takeaway food delivery company Delivery Hero.

WHEN CONSIDERING AN investment for the Henderson EuroTrust portfolio, we tend not to focus on market noise or any technical factors; the main thing we are doing is trying to establish whether what we are looking at is a good company or not. This is a key part of the research process.

There tend to be many features that most good companies have in common, but there are a myriad of characteristics and features to analyse that will be unique to each and every business. By undertaking detailed analysis of the 50 or 60 companies we have on our radar (a portfolio of circa 40 positions and a watch list of 10-20 names) we try to ascertain whether a business is a good business and if so, whether now is the right time to be invested or not.

We have held a position in the German takeaway food delivery company Delivery Hero since late 2019. When we analyse companies, we focus our attention on the following five areas: ‘Potential returns and margin of safety’, ‘Quality and sustainability’, ‘Mispricings’, ‘Catalysts’ and ‘Fundamental and technical momentum’. Our analysis of Delivery Hero, which at present is an unprofitable business raised some interesting questions. How should we value a business generating negative profits and cash flow? How can an unprofitable business be a ‘good’ business? In order to build conviction in Delivery Hero as a potential investment, we spent a lot of time analysing what the business may look like in 3-5 years’ time rather than fixating on current financials.

Delivery Hero is a classic platform company; in their core business, they produce nothing themselves, but instead act as an intermediary, sitting between producers (the takeaway food companies) and consumers (you and I) and facilitating a higher volume/value of transactions than would otherwise exist. There are several features of platform businesses that we look for in our analysis and I will highlight four of these below.

SIGNIFICANT TOTAL ADDRESSABLE MARKET (TAM) OPPORTUNITY

When investing in a platform business, one of the first questions that we try to answer is: how does the current Gross Merchandise Value (GMV) compare to the TAM opportunity. Answering this question gives you a feel for how much bigger the business could theoretically be if they are successful in their chosen end market. With Delivery Hero, we see a potential opportunity. In 2019, Delivery Hero’s GMV was €7.4bn whilst their TAM (the takeaway food market in Delivery Hero’s current geographies) was >€70bn[1].

EVIDENCE OF GROWING USER NUMBERS/ TRANSACTION FREQUENCY

It is not sufficient for a platform business to have a large TAM opportunity. In addition, we look for evidence that their platform is gaining share and building scale. There are many data points that we could use to highlight how Delivery Hero are building a platform of increasing scale and usage. For example, in 2019, group order numbers increased by 80% to 666m[2], with significant growth in each and every region that they operate in. In addition, restaurant sales coverage increased by 70% in 2019 to reach a level of 500,000[3]. These two statistics highlight how Delivery Hero is building scale on both the ‘consumer’ and ‘producer’ side of the platform; an essential sign of growing success.

Janus Henderson INVESTORS

LOCALISED SCALE AND MARKET SHARE

The importance of scale and market share is especially true in takeaway food delivery where even a strong number two operator can struggle to reach profitability. This is a 'winner takes most' business. Delivery Hero have operations in 44 countries globally and are the number one player in 90% of these regions. They view market leadership as extremely important and will likely exit a market where they see no route to being the largest player. We see this consistent local market leadership as extremely important in determining long term Return on Invested Capital (ROIC).

INVESTMENT BEHIND THE BUSINESS LEADING TO IMPROVING CONSUMER EXPERIENCE

A platform business, no matter how dominant they are, must continue to invest behind the health of the ecosystem. We favour management teams who invest to improve the consumer experience rather than those who attempt to maximise shorter term margins. Delivery Hero is, in our view, a classic example of a business willing to invest at the expense of short-term profits. For example, in 2020, they set aside €200m to invest opportunistically in order to extend their leadership positions. They are investing behind rolling out their own delivery infrastructure, maintaining their best-in-class technology and in so-called 'dark-kitchens' and 'dark-stores'. This is a management team willing to see short-term pain (cash losses) for long-term gain (building a stronger platform).

As with every investment decision we make, there are many other factors that we analyse such as the quality of the management team, the approach to capital allocation, cash flow generation and the management of the balance sheet. For us, Delivery Hero ticks all the boxes as a quality, long-term focused business worthy of investment.

GLOSSARY

Gross Merchandise value: the total value of merchandise sold over a given period of time through a customer-to-customer (C2C) exchange site.
Return on invested capital: a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.
Total Available Market (TAM): the total market demand for a product or service.

[1]Delivery Hero Company Presentation, September 2020
[2]Delivery Hero Q4/FY Trading update, 2019
[3]Delivery Hero Company Presentation, September 2020

RUSS MOULD
AJ Bell Investment Director

Why Turkey could still trouble global markets

The latest turmoil in the country may be flying under the radar but it could create real problems

It may seem churlish to worry, given the enthusiastic response the markets are giving to news of the Phase III Covid-19 vaccine trial by Pfizer and BioNTech, but investors need to keep an eye on Turkey once more.

The Turkish lira is on the slide and Ankara is facing what could yet become its second economic crisis in just three years.

Thankfully the situation is not yet comparable with 2018 when the European Central Bank warned about the potential risk to those banks which had exposure to the country and the danger that Turkey's woes could lead to ripple effects throughout the financial system.

Europe's lenders have cut their loan books to Turkey since 2018 and **HSBC (HSBA)** has even contemplated withdrawing altogether but if there is going to be a fault line that disturbs financial markets' current calm, as they look to draw strength from fiscal and monetary policy support for Western economies, a Biden win in America and hopes for a vaccine, a good old-fashioned emerging market crisis could just be it.

BOARDROOM SHUFFLE

One presidential hard man, America's Donald J. Trump, looks set to fall from office but another, Turkey's Recep Tayyip Erdoğan, is as powerful as ever, judging by his decision to sack the head of his country's central bank for the second time in three years.

The removal of Murat Uysal from the post of governor of the Central Bank of the Republic of Turkey and his replacement by Naci Ağbal is prompting further instability, as finance minister Berat Albayrak – president Erdogan's son-in-law, no less – is quitting at the same time, amid reports he and Ağbal do not entirely agree on policy.

The sacking of Uysal came as a surprise in one way, because he had followed the policies which his president seemed to prefer, in the form of dramatic interest rate cuts.

It was less of a surprise in others, in that the Turkish lira has continued to lose ground, weighed down by concerns over political interference and the dreaded combination of substantial current account and budget deficits.

The currency has lost a third of its value in 2020, relative to the dollar, and has halved in the last three years. Such a slump forced the hand of Uysal, who pushed through a two-percentage point rate hike in September, mirroring the emergency action of his predecessor Murat Çetinkaya in 2018.

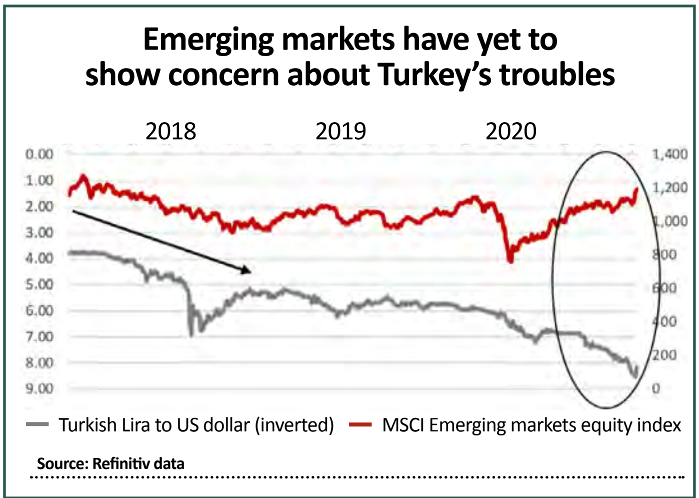
The good news is that emerging stock markets are riding through the Turkish turbulence, presumably in the view it represents no more than a little local difficulty. This is a welcome contrast to 2018 when angst in Ankara dragged emerging

Turkish lira has fallen sharply again in 2020

Source: Refinitiv data

Insightful commentary on market issues

RUSS MOULD
AJ Bell Investment Director



equities lower pretty much across the board.

DEBT DILEMMA

Nor is the European banking sector looking too troubled. This is despite the Bank of International Settlements' view that Spanish, French, Italian and British banks have €118 billion in loans to Turkish entities on their books, with Spain in for over half of that and the UK (through HSBC) around a tenth.

Instead, banking shares are rising, buoyed by hopes of the return of dividend payments from the FTSE 100's 'Big Five' lenders in calendar 2021, the prospect of a COVID-19 vaccine and a potential economic recovery that could not only cap loan losses but help to steepen the yield curve and fatten lending margins.

Yet investors must now wait to see what policies Ağbal unveils in his new role as governor of Turkey's central bank. Raising interest rates does not seem to be an option so that leaves four possible courses of action:

- **Turkey could devalue the lira (though the markets seem to be doing that for it anyway).** This could help to ease the pressure on interest rates and reduce debt-servicing costs on lira-priced loans while also slowing imports and boosting exports to cut the current account deficit.

- **Ankara could find fresh funds.** President Erdoğan first came to power (as prime minister) in 2002 thanks to his protests against the austerity package demanded by the International Monetary Fund (IMF) in return for help after the 2000-01 crisis so such a policy seems unlikely.

- **Turkey could default.** This remains a possibility, especially as Erdoğan has in the past called interest rates 'the mother of all evil'.

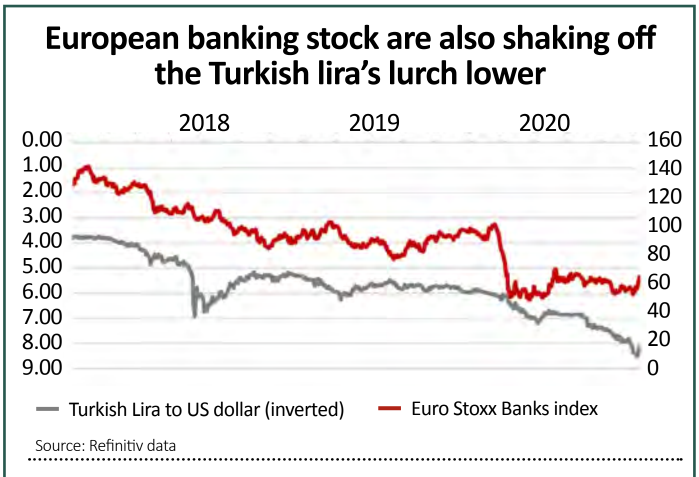
- **Ankara could impose capital controls**. This would stop foreign banks and businesses from withdrawing their cash although it may only stop the rot in the lira for as long as the controls are in place.

Global financial markets would not welcome either of the last two options.

Malaysia imposed capital controls in 1998 and international investors who were stuck with assets stranded in ringgit sold stocks and bonds in other emerging markets to raise liquidity and protect themselves from the danger of similar moves elsewhere.

That eventually rippled around the world and what began as an Asia currency and debt crisis in 1997 became a global one in 1998 and even the FTSE 100 was caught up the melee as it briefly entered a bear market.

None of this is to say that we get a repeat this time, or that Ankara makes the same mistakes as Kuala Lumpur did 22 years ago. But it is a risk that must be watched, especially as markets are at their most vulnerable when they are at their most optimistic.



Managing your finances in lockdown 2.0

Why getting on top of any debt, having emergency tax savings and tax wrappers are all important

The new lockdown restrictions unfortunately mean the UK economy is going to take a hit again. The Bank of England now expects GDP to fall 2% in the final quarter of this year, meaning that the economy would be 11% smaller at the end of 2020 than it was at the beginning.

Beyond that, much is dependent on the course of the pandemic and the social restrictions that follow in its wake.

DON'T THROW IN THE TOWEL

At times like these it's easy to throw the towel in when it comes to your finances because everything is so unpredictable. But while savers and investors can't control the performance of the economy or the government response, there are concrete steps they can take to confront the challenging economic conditions we face.

The first thing to do is deal with any high cost debt, such as credit cards or loans. Paying down a credit card that charges 20% is equivalent to investing and getting a guaranteed 20% return on your money, so it's an extremely effective way to improve your finances. If you've got lots of borrowing in different places, find the debt with the highest interest rate and start paying that off first, before moving to the next highest rate.

Also consider shifting your debt onto a cheaper rate if you can. Banks often offer low rates on balance transfers to encourage you to switch, sometimes reducing rates to 0%. While this is only temporary it does afford you some time to sort your finances without racking up large amounts of interest every month.

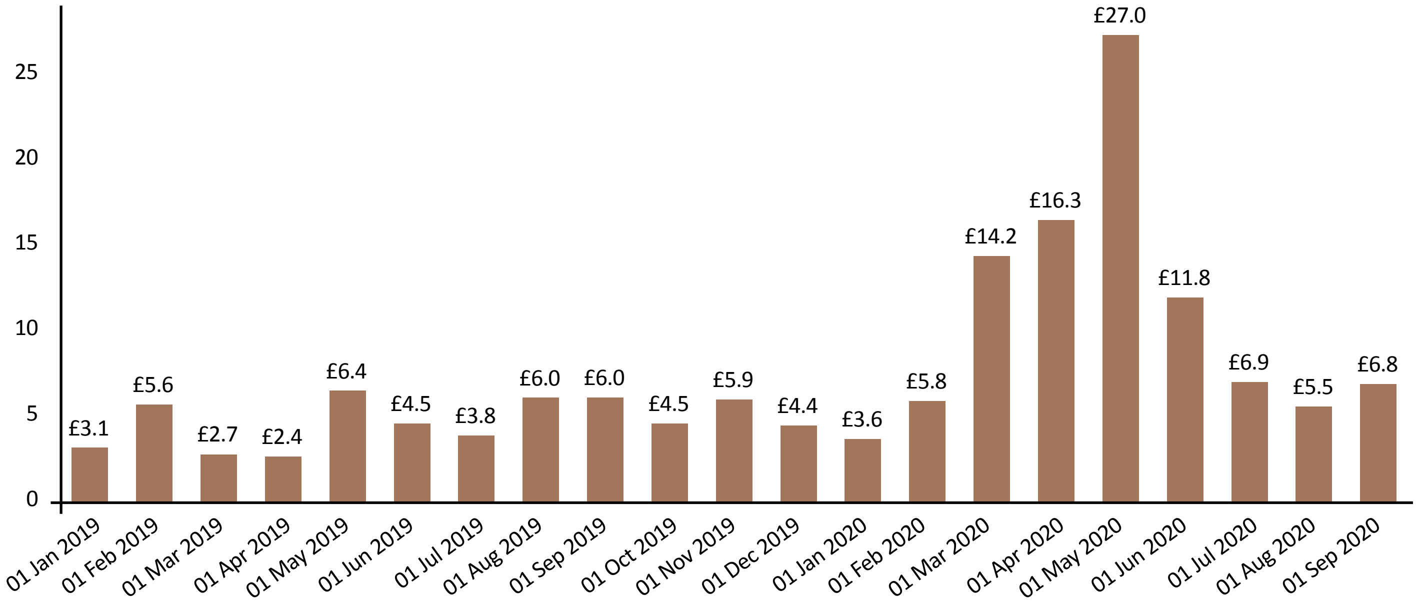
BUILD YOUR RAINY DAY FUND

After dealing with debts your next step should be to build up an emergency pot of cash that you can fall back on should you lose your job, your income is cut, or you face any unexpected costs. Typically a buffer of six months of salary is a reasonable amount, plus any big ticket expenses you know you're going to have to shell out for in the foreseeable future.

Shop around for the best rate on your savings too. It's not going to knock your socks off, but every little helps. Fixed term saving products might offer you a better rate if you're able to lock your cash away for a specified period, typically six months, one year, three years or five years. You can mix and match between instant access accounts and fixed term savings to maximise your return but also making sure you've got enough liquidity.

Once you've got enough cash to cover any emergencies, it's time to think about investing for the longer term. While you can still use cash to do this,

Monthly change in UK household cash balances / £ billion



Source: Bank of England

once inflation is factored in, your savings are likely to be losing their buying power. So an investment in the stock market is worth considering to harvest higher long term returns.

PREDICTABLE LONG-TERM RETURNS FROM MARKETS

The market is fickle in the short term, but is much more predictable in the long term. Despite the recent sharp falls in the UK stock market and the ongoing shadow cast by Brexit negotiations, it has still turned £100 into over £150 over the last 10 years.

Drip feeding money into the market using a regular monthly investment plan mitigates the risk of putting in a lump sum, only to watch a steep market fall right afterwards. By investing regularly you smooth out the volatility in the market, and also take the anguish and emotion out of deciding when to invest.

Think about your existing investments too. You shouldn't tinker with your portfolio for the sake of it, but sometimes your portfolio can become skewed by market movements, so it pays to check in every now and then to make sure you're not over-exposed to one area.

For instance a portfolio that was split 50% in US and 50% in UK stock markets 10 years ago would now be 72% invested in the US because the S&P 500 has significantly outperformed the FTSE-All Share.

The same thing can occur with individual funds and stocks that are heads and shoulders above the rest of the pack too. It's clearly positive if they have achieved significant outperformance, but you still need to ensure that you aren't too heavily reliant on the prospects of one company or fund manager.

USE TAX SHELTERS

Finally, a simple way to boost your returns is to reduce the tax you pay on profits. Investments held within a stocks and shares ISA are not liable to income tax or capital gains tax. On a £100,000 portfolio yielding 4% a year in dividends, that saves a basic rate taxpayer £150 a year, and a higher rate taxpayer £650 a year.

Investments held in a pension are also free from capital gains tax and income tax, and you get tax relief on your contributions too. You can withdraw your funds from the age of 55 (rising to 57 from 2028) and then 25% is tax free, though the remainder is taxable, depending on your income in retirement.

It's never been more important to use tax shelters. At some point the chancellor is going to look at how to pay for the costs of the pandemic, and higher taxes on dividends and capital gains will be in the mix of levers he can pull to restore public finances. If he chooses to lean on those, tax shelters are going to be worth their weight in gold.

By **Laith Khalaf**
Financial Analyst

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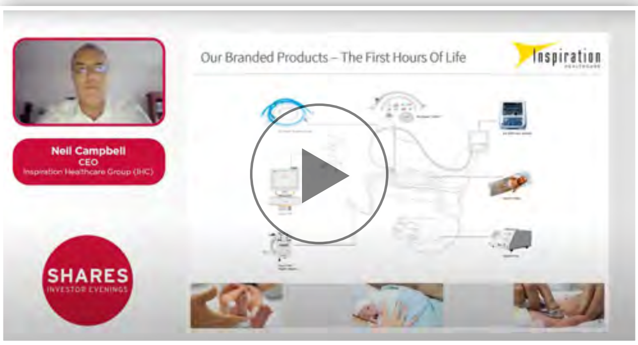

Inspiration Healthcare Group (IHC) – Neil Campbell, CEO

Inspiration Healthcare Group (IHC) 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.

Scotgold Resources (SGZ) – Richard Gray, CEO

Scotgold Resources (SGZ) is a mineral exploration company that offers opportunities to investors in the increasingly attractive gold mining industry through the development of the Cononish Mine in Scotland.

Visit the Shares website for the latest company presentations, market commentary, fund manager interviews and explore our extensive video archive.

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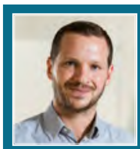
Should I set up a SIPP if I have a workplace pension?

The reasons for saving for retirement on top of a salary sacrifice scheme

If you already have a salary sacrifice pension from your employer, is there anything to gain by moving to a SIPP?
AJ Bell podcast listener



Tom Selby
AJ Bell
Senior Analyst says:

Before answering it's probably worth quickly explaining what salary sacrifice is and how it works in relation to a pension.

Salary sacrifice is simply where an employee and an employer agree to reduce the employee's salary and the employer pays the difference somewhere else. Employers like this because it allows them to save on National Insurance (NI), while employees can reduce both their NI and income tax bills.

Salary sacrifice can be done for a variety of things including childcare vouchers, buying a bike to travel to work (often referred to as the 'bike to work' scheme), work-related training and paying into a pension.

Instead of you paying a pension contribution from your take-home pay, your employer will reduce your salary and pay the difference into your pension. This means you will end up with the same overall amount going into your pension but a higher take-home pay.

There are some situations where salary sacrifice isn't beneficial, for example very low earners. There may also be implications for claiming benefits if you choose to reduce your salary.

IS IT WORTH SETTING UP A SIPP ALONGSIDE A WORKPLACE PENSION?

If you are employed, your workplace pension should be your first port of call for retirement saving as it benefits from both an employer contribution and tax relief.

However, the minimum contributions under automatic enrolment are just 8% of earnings between £6,240 and £50,000 for 2020/21.

Given that a very rough rule of thumb suggests you should aim to save around half the age you first joined a pension scheme as an annual percentage of your salary in a pension in order to build a decent retirement fund, for most people 8% will not be enough.

If you can afford it and don't have any high cost debts you need to pay off, you may therefore want to save over and above the amount offered by your employer scheme. If you do choose to go down this route, a SIPP could be a good solution for a number of reasons.

SIPPs deliver exactly the same tax advantages as a salary sacrifice workplace pension and will likely give you greater choice over your investments (workplace pensions are usually limited to a 'default' fund and a few other funds chosen by your employer). You can also set up regular contributions to a SIPP so you get into the habit of paying the same amount in every month.

If you do choose to save in a SIPP alongside your workplace pension, it is important to make sure you are comfortable with the investment risk you are taking and keep your costs as low as possible, as even small differences in charges can add up to thousands of pounds over decades.

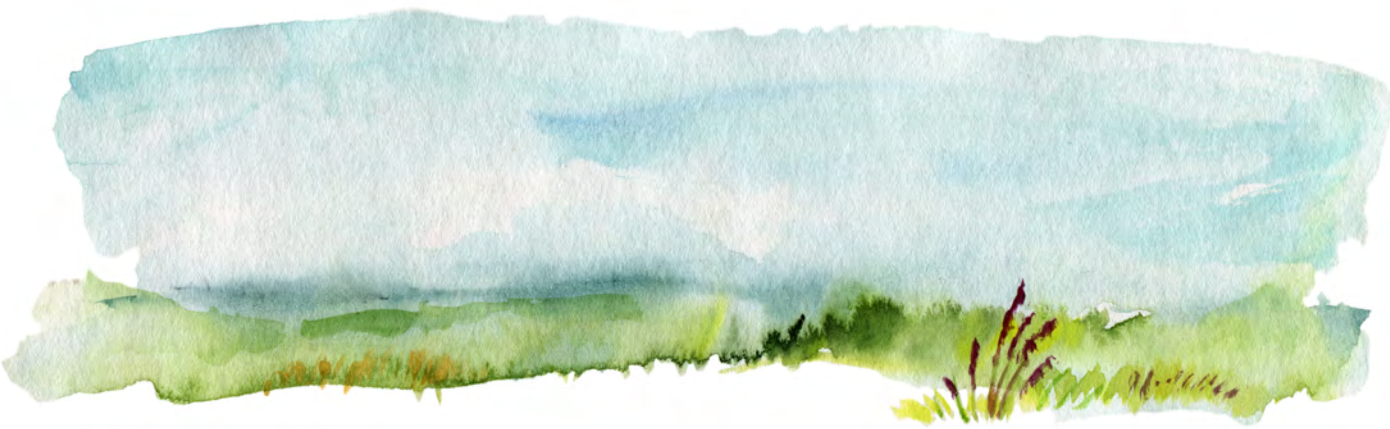
DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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.

INVESTOR DIARY: Expanding horizons

We continue our series looking at how Malcolm is running his own pension



We're pleased to welcome back Malcolm from Edinburgh who is sharing his experience as someone in retirement taking charge of their investments for the first time. Having explained out how he set up his first portfolio Malcolm turns to how he is managing his investments.

In an earlier column I explained my attempts at managing new investments in a SIPP and ISA pension fund.

I detailed how half of the £190,000 trust was in cash and funds and half in shares, which were either 'succeeding', generally making 'sound' progress but hampered by the impact of Covid-19 or 'sinking' and falling markedly in value.

Against this mixed backdrop, I was interested in further expanding my horizons and reviewing whether investing in the AIM market and global markets were a better prospect.

At the same time, my plan has focused on damage limitation, as the first six months trading resulted in a 9% loss of £13,500; a not unexpected outcome given that trading began before the onset of Covid-19. These figures have remained broadly similar since then as have my share categories.

Taylor Wimpey (TW.) and **Vodafone (VOD)** continued their decline from 'sound' to 'sink' shares but little other movement has taken place. So close to half my 25 shares are in profit or less than 5% in deficit, just above a quarter of shares are between 5-20% in loss and the remaining 'sink' shares are anything up to 55% below purchase price.

AVOIDING LOSSES CONCENTRATES THE MIND

Therefore, avoiding further losses concentrates the mind and compounding my situation is reluctance so far to sell loss-making shares. This has led to a degree of stasis as while many of my 'sound' shares have partially recovered they have yet to become surplus making 'succeeding' shares.

As such, freeing up money for new investments has been problematic. I am anticipating that as my investment in two funds edge closer to recovery and profit, I will decrease my investment in them. I have not found the added tier of decision making control that exists with funds to be appealing and neither has the funds route been particularly successful.

To fill the current funding gap, I have ignored the often offered sage advice to hold shares for the medium and longer term as this does not necessarily fit with current times. 'Succeeding' shares such as **Melrose Industries (MRO)**, **Persimmon (PSN)**, **Redrow (RDW)**, **SSE (SSE)** and **UDG Healthcare (UDG)** have proved straightforward to sell for profit and reinvest in later when their share price has fallen.

SELLLING TOO EARLY NOT A PROBLEM TO DATE

Selling too early and missing out on later profits has not proved a problem so far. Thus, while I would like to buy shares based on their stability and earnings growth, responding to share price volatility has yielded straightforward gains so far.

A variation on this approach has been considering whether to buy more of my 'sink' shares (**BP (BP.)**, Coca-Cola, **Royal Dutch Shell (RDSB)**, Taylor Wimpey, Vodafone & **Wood Group (WG.)**). Buying more of these shares at lower prices would lessen the extent to which the shares were down overall and increase the chance of being sellable at some point in the future.

I briefly sketched out the logic of this idea across the dinner table. Little was said but the looks were telling and this strategy is unlikely to be happening anytime soon despite its possible merits. That said I did sell for a profit SIPP shares held in **Hikma Pharmaceuticals (HIK)** while retaining some shares in the company as part of my ISA investments.

LOOKING TO AIM

In the meantime, time has been spent identifying possible new shares from the AIM market to purchase. Following a plan consisting of reading and listening to news updates coupled with analysing share price charts and the price-to-earnings ratio, around a dozen shares were identified. Unease about investing in the AIM market was lessened by scrutinizing the market capitalisation figures for these companies over the last year relative to those in the FTSE 100.


A profit was made by selling Hikma Pharmaceuticals

Three shares have been bought, each in areas I have most investments in: construction (**James Halstead (JHD:AIM)**); minerals (**Central Asia Metals (CAML:AIM)**) and pharmaceuticals (**Alliance Pharma (APH:AIM)**). Mixed success is evident to date; a situation which matches my modest buying on the global Xetra market for shares in Bayer and BASF – pharmaceuticals again.

Recently, a lot of financial news attention has been given to dividend yields. Relative to the small amounts I have invested (typically £4,000 to £8,000 per share) this is a modest matter to consider. I am increasingly impressed though by companies that offer clear reasoning about why their dividend payments are being reduced or cancelled.

HOMEWORK TO CONTINUE

In the months ahead, the homework process will continue as I sift my way through the vast amount of evidence available to scrutinize. Research is often in life hindered by lack of information but in the financial world sifting out extraneous information which may not impact on decision making is needed.

To read the first part in this series click here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Why acquisitions can be good, bad and ugly

They are an effective way to grow quickly, but there are risks to understand

Companies buying other companies is very common and this is often referred to as pursuing a mergers and acquisitions strategy, or M&A for short. Acquiring businesses can bring numerous benefits for the purchaser, but this strategy is no slam dunk, for where there are opportunities there are also risks to the buyer and to its shareholders.

In simple terms, companies mainly make acquisitions to grow their own business.

An acquisition might open a new geographic market or new industry much more quickly than starting a business unit from scratch, where success cannot be taken for granted. It can also deliver expansion at a fraction of the cost with lower risk because the target is already established.

For example, when **Vodafone (VOD)** bought German firm Mannesmann in 1999 it opened up Continental Europe to the mobile operator, a region where it today makes most of its money.

But companies will also buy another firm for extra products, brands, new technology or expertise, effectively creating a wider market to sell a greater number of products and services. For example, **British American Tobacco's (BATS)** purchase of Reynolds added cigarette brands like Camel, Newport and Pall Mall to its own Dunhill, Rothmans and Lucky Strike stable.

Companies might also acquire to defend market share or give themselves a competitive advantage, or simply to cut costs by stripping out duplicated central expenses, like combining manufacturing facilities or streamlining accounting, marketing, sales and human resource functions. These factors are sometimes described as 'synergies'.

DEAL OF THE CENTURY

Let's look at what many consider to be among the best corporate buys ever – Google's 2006 acquisition of YouTube in a $1.65 billion deal, a price deemed 'crazy' at the time. Up until that point Google had failed pretty miserably at online video, so rather than commit the time and cost of hundreds of engineers starting over, the company bought YouTube, one of the world's fastest-growing start-ups whose owners really understood what users wanted out of a video site.

For a business that cares first and foremost about selling online ads against search results, the deal made Google number one in the new online video search market overnight. Whether the deal has proved profitable is hard to say since Google doesn't strip out YouTube profits, but it certainly gave the stock a massive leg up, hitting a then-record $240 by the end of 2006.

Today the stock trades at $1,762.50 and YouTube revenues have soared and soared, jumping from $8.15 billion in 2017 to $15.15 billion in 2019. In 2020's three quarters to date YouTube has earned $12.9 billion revenue, and it is the world's third most visited website behind only Google's main search site and Facebook.

WHAT COULD GO WRONG?

Beyond the obvious execution mistakes that poor management could make of an acquisition, the main risks are buying for the wrong reasons, complexity and over-paying.

There are numerous occasions when a company boss has pulled the trigger on a large and supposedly 'transformational' deal that has more to do with massaging an executive's ego than creating shareholder value. The early 2000s M&A splurge by former **Natwest (NWG)** boss Fred Goodwin (known as 'Fred the Shred') is one example.

Large acquisitions can also be complicated, and sometimes this is underestimated by a company, dragging senior management away from day-to-day business, which can hurt performance. This was arguably the case with software infrastructure firm **Micro Focus (MCRO)** when it bought HP Enterprise's software business for $8.8 billion in 2016, leading to a significant period of what many investors call 'acquisition indigestion'.

As of November 2020 Micro Focus shares had lost about 90% of their value since 2017, so the lesson to investors is stark.

PAYING THE RIGHT OR WRONG PRICE

As an investor in a company that gets taken over, you'll likely to think your shares were worth more than you are offered, that's human nature. But it is really difficult for ordinary investors to decide if a company they own shares in is paying too much for a target. The buying company's executives will get access to information that you don't, so trust in management is important. But there are some things to watch out for.

Valuation metrics like price to sales, price to earnings and enterprise value to earnings before interest, tax, depreciation and amortisation, or EV/EBITDA are often provided and can be compared with recent deals in the sector or industry with a Google search.

You should also check that the rationale for the deal sounds sensible. If a company wants to make an acquisition it will want to make it appear very attractive for shareholders, but do its arguments make sense to you? That's an arbitrary question, but one that could help influence your decision to keep the stock or sell it.

It really helps to get used to reading the official documents that a company issues with acquisitions rather than simply skim-reading the opening few paragraphs. This is particularly important with large acquisitions that often require shareholder approval.

Yes, they can be long-winded and a bit dull, but it's a good habit to get into. Many financial journalists are taught to skip to the bottom of long announcements where 'notes' usually are – any devil in the detail is usually found down there.

KINSEY'S SIX TYPES OF ACQUISITION

1. Improve the target company's performance
2. Consolidate to remove excess capacity from industry
3. Accelerate market access for the target's (or buyer's) products
4. Get skills or technologies faster or at lower cost than they can be built
5. Exploit a business's industry-specific scalability
6. Pick winners early and help them develop their businesses

By **Steven Frazer**
News Editor

INDEX

KEY

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

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

16 November: Diploma. **17 November:** EasyJet, Focusrite. **18 November:** Avon Rubber. **19 November:** Euromoney, Grainger.

Half year results

13 November: Castings. **16 November:** Kainos. **17 November:** Adept Technology, Assura, Big Yellow, Experian, Gear4Music, Homeserve, Intermediate Capital, Telecom Plus. **18 November:** British Land, Halfords, Speedy Hire, SSE. **19 November:** CMC Markets, Halma, Jet2, Johnson Matthey, Naked Wines, Polar Capital, Syncona.

Trading statements

17 November: Aggreko. **18 November:** Breedon. **19 November:** Close Brothers, Headlam, Kingfisher.

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INTRODUCTION

Thank you to everyone who voted in the 2020 *Shares Awards*. The full list of winners can be found here.

The awards were voted by readers of *Shares* and by the public, making the event truly representative of the people who invest and trade the markets.

The awards cover the investment side of the financial services industry and include categories specifically relating to funds, investment trusts, ETFs and listed companies. We profile a selection of winners in this special report.

Daniel Coatsworth,
Editor

SHARES AWARDS 2020

CHIEF EXECUTIVE OFFICER OF THE YEAR

BRIAN DUFFY (WATCHES OF SWITZERLAND)

FACED WITH THE disruption of a global pandemic the CEO of the UK's largest luxury watch retailer Watches of Switzerland **Brian Duffy** wasn't fazed. Enjoying strong demand the company shifted stock from its own high street stores, third party retailers and travel outlets to its online channel. This has helped the UK's largest retailer for the Rolex, Cartier, OMEGA, TAG Heuer and Breitling brands serve up a series of upgrades as margin performance improves.

Not bad for a business which has only been trading on the stock market for a little over a year.

ALSO NOMINATED

- Mike Norris, Computacenter
- Richard Harpin, Homeserve
- Brendan Mooney, Kainos
- John Hornby, Luceco
- Alan Jope, Unilever

BEST COMPANY FOR SHAREHOLDER COMMUNICATION

OPEN ORPHAN

IN THE OFTEN COMPLEX and fast-moving pharmaceutical and biotechnology space, services firm **Open Orphan** has done a good job of keeping investors abreast of the latest developments for the company. Open Orphan is a leading operator in the testing of vaccines and antivirals through human challenge studies. As such its services have been in demand in the wake of the Covid-19 pandemic.

The company came out on top in the *Best Company for Shareholder Communications* category at the *Shares Awards 2020*.

ALSO NOMINATED

- Admiral
- Next
- Oncimmune
- Tracsis

SHARES AWARDS 2020

BEST INVESTMENT TRUST GROUP

ABERDEEN STANDARD INVESTMENTS

THE INVESTMENT trust industry has not been able to sit on its laurels in 2020. In difficult markets, the asset managers behind trusts are increasingly under pressure to justify their fees. This context puts a premium on ensuring they are creating value and retaining the trust of investors with plenty of transparency.

Aberdeen Standard Investments has been rated as *Best Investment Trust Group* in the *Shares Awards* for the way it has retained focus on its proven investment processes, communicated very well with investors, and continued to deliver strong performance across a range of products.

ALSO NOMINATED

- Baillie Gifford
- BlackRock
- BMO Asset Management
- Fidelity International
- Schroders

BEST INVESTMENT TRUST

ALLIANZ TECHNOLOGY TRUST

THE TECHNOLOGY SECTOR had been in the ascendancy even before the events of 2020 but the global pandemic has super-charged this trend. We have been even more reliant on tech to tackle the day-to-basics of work and home life. Staying in touch through video conferencing, ordering goods and food online and streaming entertainment to keep us entertained at home.

Allianz Technology Trust is plugged into these themes and was voted *Best Investment Trust* in this year's *Shares Awards*

ALSO NOMINATED

- Baillie Gifford US Growth Trust
- BlackRock Throgmorton
- Pershing Square Holdings
- Polar Capital Technology Trust
- Scottish Mortgage Investment Trust

SHARES AWARDS 2020

BEST FUND

BLUE WHALE GROWTH FUND

AS A STRATEGY, growth has continued to hold sway over value in 2020. Launched a little more than three years ago **Blue Whale Growth Fund** concentrates first and foremost on identifying quality stocks capable of producing sustainable growth over years. Typically this means an investment horizon of at least five years. Beyond the capability to put up above-average growth year after year, investee companies must also demonstrate consistency in profit.

This strategy continues to prove successful for the fund and helped it to secure *Best Fund* at the *2020 Shares Awards*.

ALSO NOMINATED

- Baillie Gifford American Fund
- Fundsmith Equity
- Lindsell Train Global Equity
- Liontrust European Growth Fund
- Sanford DeLand Free Spirit

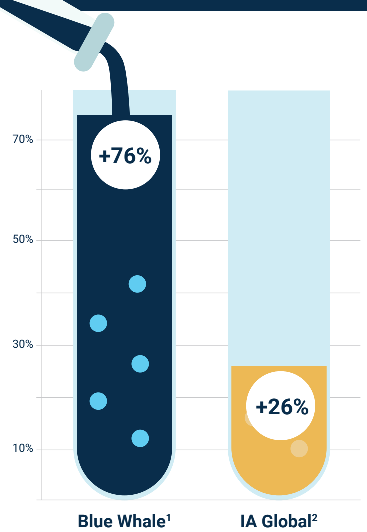
BLUE WHALE GROWTH FUND

Conducting in-depth research...

SHARES AWARDS 2020 WINNER Best Fund

Thank you for voting the LF Blue Whale Growth Fund "Best Fund 2020"

... aiming to find the best global companies at the best prices



Committed to delivering significant outperformance

	To Date 2020	2019	2018	Since Launch	Annualised
Blue Whale[1]	**+23.0%**	**+27.6%**	**+8.6%**	**+75.5%**	**+20.2%**
IA Global Average[2]	+4.9%	+22.1%	-5.6%	+26.2%	+7.9%
Outperformance	**+18.1%**	**+5.5%**	**+14.2%**	**+49.3%**	**+12.3%**

[1] I class Acc shares, net of fees priced at midday UK time, source: Bloomberg.
[2] IA Global Sector, source: Lipper. Data as at 11/09/17 to 30/09/20.

Important Information

Capital at risk. Past performance is not a guide to future performance.

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BLUE WHALE

BEST REIT

WAREHOUSE REIT

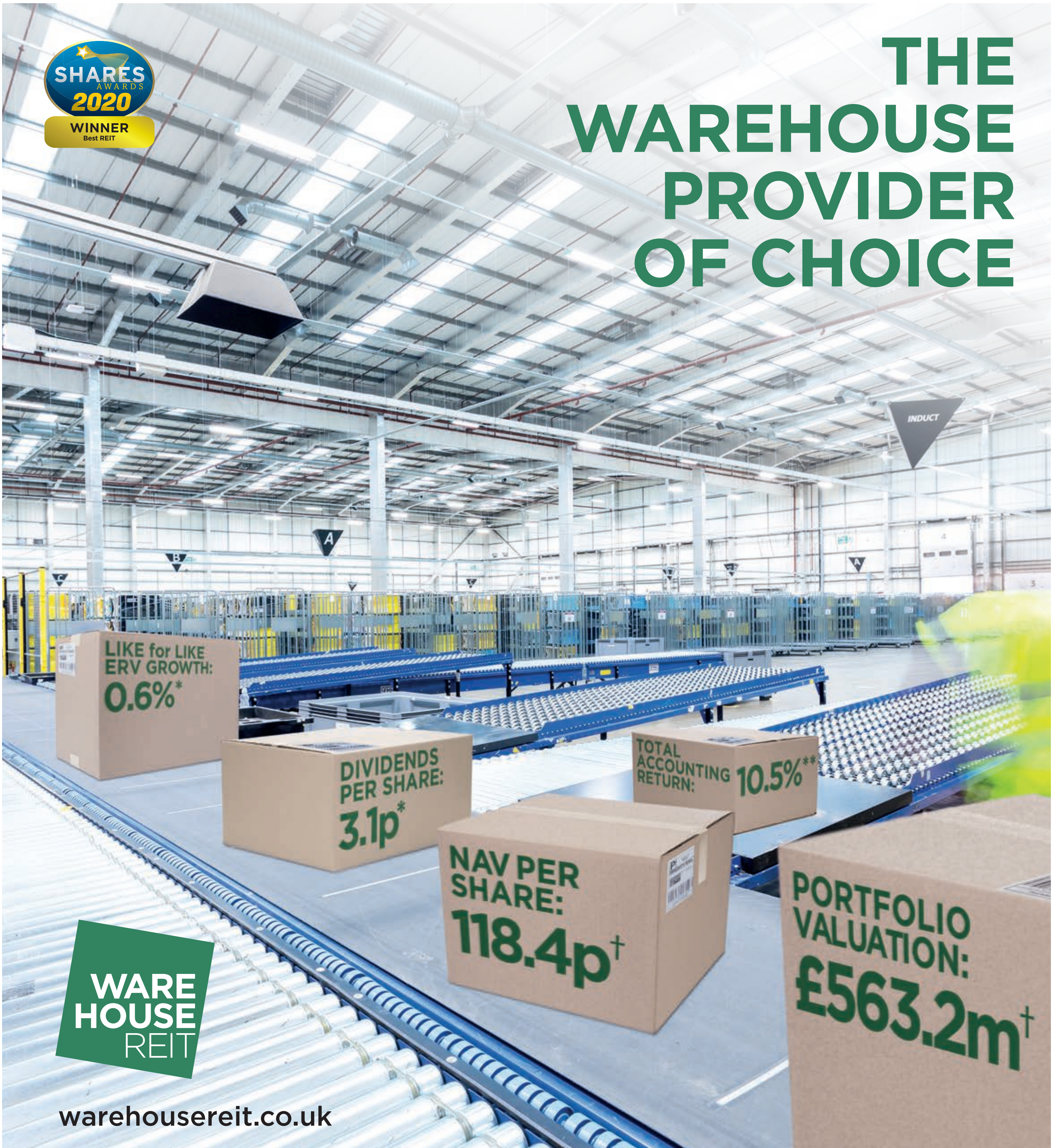
A REIT OR REAL estate investment trust is a vehicle whose structure allows investors to more or less replicate a direct investment in property. It has been a tough year for property but owners of logistics and warehouse properties have done well as demand for sorting and distribution space surged as retail is moving increasingly online.

Against this backdrop **Warehouse REIT** has been actively looking to buy assets and recently announced two acquisitions to increase its e-commerce exposure for a combined £82 million.

It prevailed in the *Best REIT* category at the *2020 Shares Awards*.

ALSO NOMINATED

- Civitas
- Impact Healthcare REIT
- Triple Point Social Housing
- Tritax
- Urban Logistics


SHARES AWARDS 2020
WINNER
Best REIT
THE WAREHOUSE PROVIDER OF CHOICE
INDUCT
LIKE for LIKE ERV GROWTH: 0.6%*
DIVIDENDS PER SHARE: 3.1p*
TOTAL ACCOUNTING RETURN: 10.5%**
NAV PER SHARE: 118.4p†
PORTFOLIO VALUATION: £563.2m†
WARE HOUSE REIT
warehousereit.co.uk

BEST INVESTMENT TRUST GROUP FOR SHAREHOLDER COMMUNICATION

FIDELITY SPECIAL VALUES

COMMUNICATION IS KEY in establishing trust between a fund manager and the investors who choose to park their money with them. Steered by Alex Wright, **Fidelity Special Values** has a good track record of transparency – communicating through the media and providing regular commentary on the trust and the wider markets.

Its website also offers videos of the latest AGM alongside a wealth of other material, helping it to win *Best Investment Trust Group for Shareholder Communications* at the 2020 edition of the *Shares Awards*.

ALSO NOMINATED

- Henderson Diversified Income
- JPMorgan Global Growth & Income
- Polar Capital Technology
- Scottish Mortgage Investment Trust
- Smithson Investment Trust

We see potential in the overlooked and underloved

FIDELITY SPECIAL VALUES PLC

This investment trust seeks out good-quality but unpopular companies, whose long-term growth potential has been overlooked by the market.

Portfolio manager Alex Wright's contrarian approach to the trust thrives on volatile and uncertain markets, when there's more chance of stocks being misjudged and undervalued. Investing mainly in the UK, and supported by Fidelity's extensive research team, Alex looks to invest in out-of-favour companies, having spotted a potential trigger for positive change that he believes has been missed by others.

It's a consistent and disciplined approach that has worked well; the trust has outperformed the FTSE All Share Index over the long term both since Alex took over in September 2012 and from launch 25 years ago.

Past performance is not a reliable indicator of future returns. The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand.

The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. The trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies and the securities are often less liquid.

PAST PERFORMANCE

	Aug 15 – Aug 16	Aug 16 – Aug 17	Aug 17 – Aug 18	Aug 18 – Aug 19	Aug 19 – Aug 20
Net Asset Value	9.9%	19.1%	8.7%	-4.9%	-18.5%
Share Price	1.1%	28.2%	14.0%	-6.9%	-25.4%
FTSE All Share Total Return Index	11.7%	14.3%	4.7%	0.4%	-12.7%

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 31.08.2020, bid-bid, net income reinvested.
©2020 Morningstar Inc. All rights reserved. The FTSE All Share Total Return Index is a comparative index of the investment trust.

To find out more, go to fidelity.co.uk/specialvalues or speak to your adviser.