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INVESTMENT OUTLOOK

10 big questions for 2021

PLUS

DISNEY SHARES HIT NEW RECORD HIGH ON PLANS FOR MAJOR TV AND FILM PUSH

DON'T EXPECT A RETURN TO NORMAL FOR **BANK DIVIDENDS** JUST YET

BEST PERFORMING INVESTMENT TRUSTS IN 2020

Don't expect a return to normal for bank dividends just yet

You might get a sweetener for the 2020 financial year but 2021's dividends could be withheld for a while

Dividends are back on the menu for banks. Such news would normally trigger screams of joy in households across the country, given how many people own banking shares as a source of income.

However, once you read the fine print it seems that Appletiser is a more appropriate way to toast the news than waste a good bottle of champagne.

While banks are allowed to pay a dividend at the end of their 2020 financial year, they've been told by the Prudential Regulation Authority (PRA) that dividends for 2021 can only be accrued and not paid, at least not until it's had time to reassess the situation next summer.

Put simply, investors denied a dividend for so long in 2020 will get something early next year, but then it could be another wait before the subsequent payment.

It's no wonder that shares in **Lloyds (LLOY)** dived 5% on the news, although sterling weakness will have also weighed on the stock that day.

Investors want a regular stream of income and there was growing expectation for dividends to recommence very soon. People reliant on cash from their investments don't want a stop-start trickle of cash when they are trying to pay the bills.

Lloyds' situation is particularly frustrating to investors because the bank last year declared that its 2.4 million shareholders would welcome more frequent dividends, so it said they would be paid quarterly instead of half-yearly from June 2020.

That plan was derailed by the banking sector being told it couldn't pay dividends during the pandemic. The regulator wanted lenders to have extra capital in case of economic setbacks, bad debt shocks and to support consumers and businesses.

It now looks like the 2020 'restart' payments could potentially be more generous than the market expected as some analysts hadn't forecast anything at all for the fourth quarter period.

On 11 December following the news, we noticed the Refinitiv 'SmartEstimate' forecast for Lloyds' 2020 dividend jumped from 0.31p to 0.37p – impressive until you realise that still only amounts to a measly 1% yield.

Refinitiv says its SmartEstimate is more accurate than the consensus as it places more weight on recent forecasts by top-rated analysts.

Lloyds is forecast to pay 1.65p in dividends for its 2021 financial year, adding up to a 4.6% yield on the 36.12p price at the time of writing.

While Refinitiv's forecast for Lloyds' 2021 dividend didn't change after the PRA announcement, there is now a lot of uncertainty about estimates in the market, particularly if the regulator decides next summer that economic conditions haven't improved enough to warrant banks handing out more cash for a while.

The PRA will decide on payments ahead of the banking sector's half-year results which tend to happen in late July and early August.

Ultimately the regulator is being extra cautious as it wants banks to have lots of capital to cope with any shocks as well as being able deploy more capital if the economy needs further support.

Such regulatory interference will be unwelcome for people reliant on income from their investments. We must hope this will only be a short-term issue.

By **Daniel Coatsworth** Editor

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ALLIANCE TRUST: A ONE-STOP SHOP FOR GLOBAL EQUITIES

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We're also proud of our track record of paying rising dividends. Over the years, we have been able to build up significant reserves which we can draw on to sustain our progressive dividend policy for investors. Even in the current Covid-19 environment, when many companies are suspending or cutting dividends to conserve cash, we aim to extend our current 53-year record of increasing dividends in 2020 and beyond.

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1. MSCI All Country World Index. 2. As at 31 March 2020. 3. GQG manages an emerging markets and a global equity mandate for the Company.

Disney shares hit new record high on plans for major TV and film push

Its Disney+ streaming service has smashed expectations and diverted attention away from theme park disruptions

Launching a new streaming service just ahead of a global pandemic proved fortuitous for entertainment giant Disney as it has benefited from a literal captive audience in lockdown.

The company is way ahead of its initial plans for subscriber numbers, helping its shares reach an all-time high as it unveiled (10 Dec) ambitious content pipeline plans.

Initially Disney was targeting 60 million to 90 million global subscribers for Disney+ by the end of its September 2024 financial year. As of 2 December 2020, it had already hit 87 million and those 2024 targets have now been increased to between 230 million and 260 million.

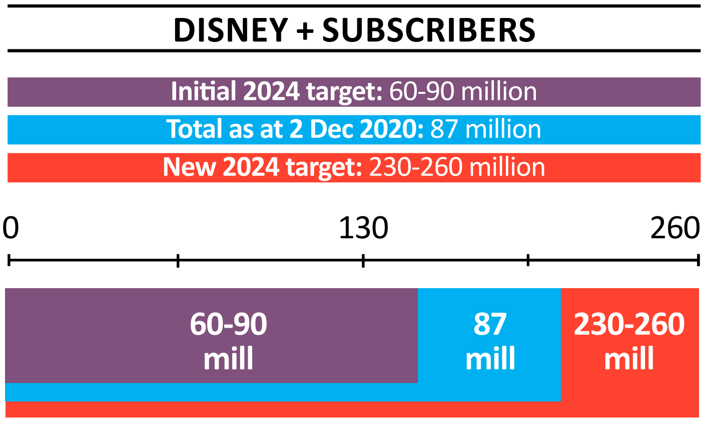
The company is also raising the price for Disney+, a move which is underpinned by the wealth of content both new and historic, on or coming to the platform.

This roster of fresh content is set to increase significantly in the coming years with 105 new films and TV series announced at its investor day, of which 80% will appear on Disney+. Some will even debut on the streaming service rather than appear in cinemas first.

Among the projects planned are a prequel to the *Lion King*, a new version of the *Little Mermaid* plus a whole roster of new Marvel titles and a new entry in the *Indiana Jones* series.

The Star+ platform, which will be included within Disney+ in Europe, will add more shows pitched at adult audiences, helping to broaden the streaming service's appeal.

Creating all these new series and films will involve a significant amount of spending. This will impact earnings with Disney guiding for maximum dilution in 2021. However, the pay-off in the longer term could be significant as it positions itself to dominate the streaming space.



Source: Company announcements

The coronavirus crisis has led to a rapid reshaping of the business with streaming becoming the main contributor to revenue.

In doing so this part of the group has overtaken the theme parks, many of which have been closed for at least some of 2020 due to Covid.

The parks division should benefit as the world emerges from the pandemic, even if the timing is uncertain, particularly when it comes to travel restrictions.

As we discussed in this in-depth piece from March these resorts are highly profitable and generate lots of cash. They also play a critical role in making its creations resonate with consumers. [TS]

Surge in Airbnb and DoorDash stock renews tech bubble debate

Investors race to buy shares in both companies on their first day of trading on the US stock market

One of the most hotly awaited stock market debuts sparked the predicted frenzy by investors as accommodation booking platform Airbnb began trading on Nasdaq.

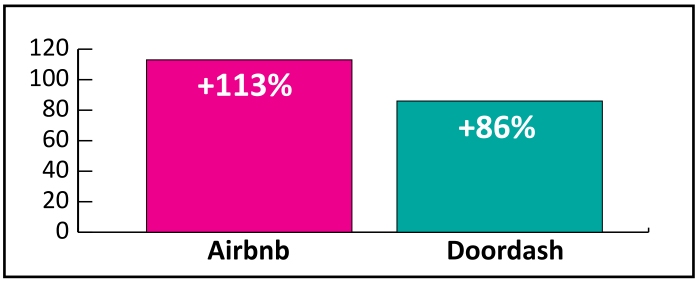
After netting one of the biggest first-day rallies on record, soaring 113% to $144.71, the San Francisco-based company saw its valuation hit more than $85 billion.

Airbnb's IPO was priced at $68, way above the $44 to $50 range estimated only a week before joining the US market. That gave the company a fully diluted valuation (including share options) of $47.3 billion, making it the biggest listing by a US company in this pandemic-impacted year.

While the stock has since pulled back to $130, Airbnb's stunning debut blew away any lingering doubts about investors' appetite for intriguing growth stocks and sparked a fresh debate about the level of rationality being applied to equity valuations.

'Shares are being driven by narratives meaning that those with a story regardless of its merits have a high valuation and those that don't, do not,' says Richard Windsor of research group Radio Free Mobile.

FIRST-DAY JUMP IN THE SHARE PRICE



Source: Shares

Airbnb has a story to tell. Investors have been lured by its perceived scope to unhinge the traditional hotels business model and the promise that it will soon be back on a big growth trajectory as travel demand returns through 2021 and beyond.

Airbnb's $77.5 billion valuation means that the company founded just 12 years ago is now worth more than global hotel chains Hyatt Hotels, Hilton Hotels and Marriott International combined, which may draw parallels with Tesla and its own valuation dominance over major car makers.

Last week, US food delivery business DoorDash jumped 86% to $189.51 after making its own market debut, triggering a positive read-across for UK-listed rival **Just Eat Takeaway (JET)** whose shares were also in demand. Just Eat Takeaway will become a significant rival of DoorDash in the US once it completes its $7.3 billion Grubhub acquisition. Shareholders voted in favour of the deal back in June.

'Cash is flowing into tech stocks for no other reason than they are tech stocks which have weathered the pandemic better than the rest of the economy,' says Radio Free Mobile's Windsor.

Video games company Roblox and fintech business Affirm, which had both been primed to join the US stock market this month, have reportedly delayed their respective IPOs until 2021. [SF]

Why aren't investors cheering AstraZeneca's bid for Alexion?

The market has questioned the strategic logic and whether a bidding war could emerge

At first glance **AstraZeneca's (AZN)** $39.4 billion takeover offer for immunology and rare diseases specialist Alexion looks to be opportunistic and financially sound, but investors initially marked its shares down by 6%.

There are a couple of reasons for the negative reaction; firstly, investors have questioned why AstraZeneca needs to go down the mergers and acquisition route when it already boasts sector leading growth.

Secondly, despite the 45% premium to the prior closing price, there is a risk that other, better suited bidders may enter the fray and force up the price.

Alexion's shares were trading at a 40% discount to the sector average before the bid according to broker Shore Capital which believes Alexion had been up for sale for some time.

Other players that already have some exposure to the fast-growing rare diseases market include Sanofi, Biogen, Pfizer and Novartis, all with arguably more need to bolster growth, says Shore Capital.

AstraZeneca already has a superior growth outlook which is reflected in its forward price to earnings ratio of 22, a 40% premium to global peers. If the deal goes ahead unchallenged it would represent a very good transaction in purely financial terms.

Management has targeted annual synergies of $500 million a year from the third year after completion (which is expected to be the third quarter of 2021). There will be an associated $600 million cash cost to delivering those benefits over the first three years.

AstraZeneca is effectively using its highly rated shares to part purchase a business trading at a discount, while also squeezing out costs and diversifying its core cancer franchise.

Management described the deal as 'the right asset at the right price' highlighting strong accretion with a double-digit percentage increase to core earnings per share in the first three years after completion.

Strong cash generation would also allow a fast paydown of the $13.5 billion in debt taken on to part fund the purchase.

Alexion has a portfolio of therapies for the treatment of rare diseases caused by an uncontrolled activation of the part of the immune system which produces antibodies that remove damaged cells.

The company's discounted valuation to the US biotech sector reflected product concentration with roughly 90% of its $5 billion revenues coming from key drug Soliris, the leading treatment for the rare mediated blood disorder paroxysmal nocturnal hemoglobinuria.

AstraZeneca will help Alexion build out the development pipeline of drugs and use its global distribution footprint to add marketing heft while also using its scale to reduce manufacturing costs.

Shore Capital estimates that Alexion would add around $5 billion to $6 billion of revenues and $3 billion to $4 billion of EBITDA (earnings before interest, tax, depreciation and amortisation) to the enlarged group. [MG]

Iron ore trumps gold as the hot commodity of 2020

The price has rallied over 50% this year and could boost the earnings of some FTSE 100 miners

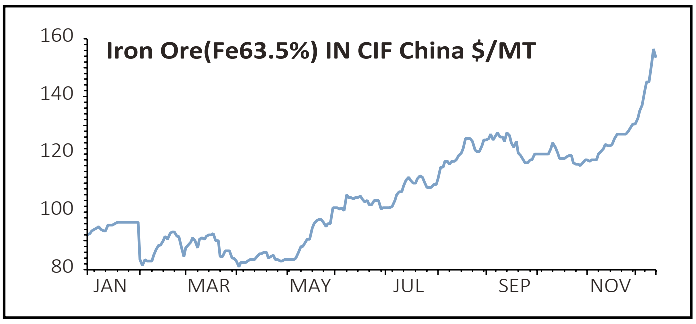
Rio Tinto: iron ore stockpiles

Forget gold, iron ore is the major commodity delivering bumper returns in 2020.

A key ingredient for steelmaking and seen, along with copper, as a barometer for the health of the global economy, the price of iron ore has surged over 50% this year to trade at $161 per tonne, a nine-year high and well ahead of gold's 24% return year-to-date. A lot of the gains have been driven this month with the price rising from $124 at the start of December.

Most of the surge comes from recovering demand globally, but particularly China which is the world's biggest consumer of many metals, iron ore included.

Demand has picked up significantly in the past few months as China's economy recovers from the pandemic and manufacturing and construction activity expands at a rapid pace. China is set to be the only country in the world to record positive GDP growth this year.



MINERS' EARNINGS FROM IRON ORE

- **Anglo American:** $3.4 billion, 34% of total 2019 group underlying EBITDA
- **BHP:** $11.1 billion, 48% of total 2019 group underlying EBITDA
- **Rio Tinto:** $16.1 billion, 76% of total 2019 group underlying EBITDA

Source: Anglo American, BHP, Rio Tinto 2019 annual reports

The surging price could boost the profits of some FTSE 100 miners, particularly **Anglo American (AAL)**, **BHP (BHP)** and **Rio Tinto (RIO)**, which derive significant earnings from iron ore and can dig it out of the ground for under $15 per tonne.

Analysts at Morgan Stanley think iron ore looks 'increasingly overbought' compared to fundamentals and trades $50 per tonne above its level, but acknowledge 'there are few near-term catalysts to drive a sharp correction.'

They highlight that steel production in China remains strong for the time of year (it's usually quieter in winter) with construction firms making up for delays earlier in 2020, and forecast a gradual lowering of prices in the first half of 2021 to $123 per tonne. [YF]

Marketing of high-risk mini-bonds banned from 2021

Investors should be wary of 'investment offers' which look too good to be true

The Financial Conduct Authority (FCA) is to permanently ban the mass-marketing of 'speculative illiquid securities' – including mini-bonds – to retail investors from the beginning of 2021.

Many people have been attracted to high yields on offer yet didn't realise the risks and that there is normally no protection under the Financial Services Compensation Scheme. Several mini-bond providers have collapsed in recent years and investors have lost their money.

'Mini-bonds are high risk and are often designed to be hard to understand. Consumers should always be wary of any investment promising high returns while downplaying risks,' said the FCA's Sheldon Mills.

The FCA said protecting consumers was becoming trickier as fraudsters are increasingly using Google and other online platforms to market to would-be customers.

Investors need to be alert to potential scams. For example, *Shares* recently spotted a supposed 1-year mini-bond yielding 2.17%, allegedly issued by Danske Bank in Northern Ireland and being marketed by 'Investec Client Services' in Dublin.

Despite the extremely plausible documentation, which included a request for information under Anti-Money Laundering rules, Danske Bank confirmed it was not issuing such bonds, and Investec Bank agreed the promotion was false and that it was not marketing any new fixed-term deposit products.

The FCA has a section on its website on how to spot potential investment scams, and investors can check all details of offers they may have received here, in order to see whether the regulator is already aware of a scam. [IC]

Aberdeen Standard snares Tritax as logistics property boom continues

Asset manager acquires 60% stake in warehouse real estate specialist

ASSET MANAGER Aberdeen Standard Investments, part of **Standard Life Aberdeen (SLA)**, is bolstering its position in the buoyant logistics real estate space through the acquisition of 60% of sector specialist Tritax for an undisclosed sum.

Tritax has assets under management of £5.1 billion and runs **Tritax Big Box (BBOX)** and its Europe-focused counterpart **Tritax EuroBox (EBOX)**. The Tritax management team will now head up the ASI Real Estate global logistics team.

The transaction demonstrates the growing prominence of warehouses and other industrial assets as the Covid-19 pandemic has created increasing need for this type of asset to help fulfil a fast-accelerating level of online orders from consumers.

Broker Numis says: 'For shareholders in Tritax Big Box and Tritax Eurobox, it does not appear that there will be any significant changes, with the management teams remaining the same. In contrast, we believe there is more scope for change at **Aberdeen Standard European Logistics Income (ASLI)** given that ASI's logistics real estate team is now headed by Tritax's management.'

The broker also noted that Tritax Big Box, and the other Tritax portfolios, will have first refusal on assets which fit its investment mandate, with only rejected assets being passed on for consideration by other ASI funds. [TS]

Buy into the structurally-driven Ideagen growth story

The software provider is now armed with £50 million to make acquisitions

Whatever the relationship between the EU and UK on 1 January 2021, organisations will still need ways to manage the complex maze of bureaucracy and red tape.

AIM-quoted **Ideagen (IDEA:AIM)** is a provider of governance, risk and compliance information management software tools to what it describes as 'high consequence industries'.

In these industries, system and process failures can cost clients millions of dollars in fines and huge reputational damage, and potentially put lives at risk.

Ideagen's markets span aviation, healthcare, defence, energy, banking and complex manufacturing, with blue-chip customers including **BAE Systems (BA.)**, **Royal Dutch Shell (RDSB)**, Transport for London, **GlaxoSmithKline (GSK)**, **Meggitt (MGGT)** plus more than 150 hospitals in the UK and US.

For example, insurer **Admiral (ADM)** uses the company's Pentana Risk tools to streamline its own risk management functions into a centralised, single source system.

Typically growing around 10% to 12% a year, Ideagen has super-charged that organic expansion with well-priced bolt-on acquisitions that expand the skillset, geographical presence or technology stack within its very focused niche.

IDEAGEN
BUY
(IDEA:AIM) 226p
Market cap: **£570 million**

This is how Ideagen achieves its target to double in size every three years and it is now in its next growth push to a £100 million revenue run-rate by the year to April 2022. Investors can expect this to continue, with the company last week raising nearly £50 million to fuel future opportunities.

SOLID ACQUISITION STRATEGY

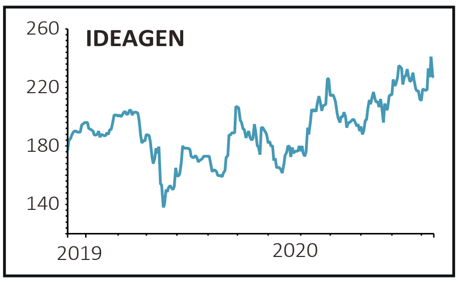
Ideagen aims to buy businesses at a 10-times EBITDA (earnings before interest, tax, depreciation and amortisation) multiple post-synergies (i.e. all the savings eked out from a deal) while at the same time being valued at more than 20-times itself.

It's worth noting that the recent cash call included a retail offer, showing that small investors matter to the company, not just the institutions.

The business issued an in-line first-half trading update for the period to 31 October 2020 highlighting revenue up 7% to £29.2 million driven by cross and up-selling its customer base, plus there were new wins within the healthcare, life sciences and financial services verticals.

The company reported adjusted EBITDA up 25% to £10 million, representing an impressive 34% EBITDA margin. Around 84% of revenues are on recurring contracts. This status justifies the April 2022 price to earnings multiple of almost 36. This should drop rapidly with future acquisitions not incorporated into current forecasts.

Profit and earnings are often heavily adjusted for amortisation and depreciation, and that may not sit well with all investors. But *Shares* has found the leadership team to be sensible and largely conservative and, reassuringly, operating cash flow is expected to be 90% of adjusted earnings in the half-year period just gone. [SF]



Earnings expectations are rising for FTSE 100 bottler Coca-Cola HBC

The shares screen very well for investors seeking earnings upgrades and good value

Investors seeking to refresh portfolios ahead of an anticipated global recovery in the New Year should buy shares in **Coca-Cola HBC (CCH)**, the soft drinks bottler with leading market shares and a geographically diversified distribution footprint.

A consumer defensive with formidable cash generation and a progressive dividend, the £8.5 billion cap has performed with resilience through the pandemic while taking out cost. This has given the group considerable operating leverage to drive earnings higher which will help the shares re-rate once vaccines provide a route to a new normal in 2021.

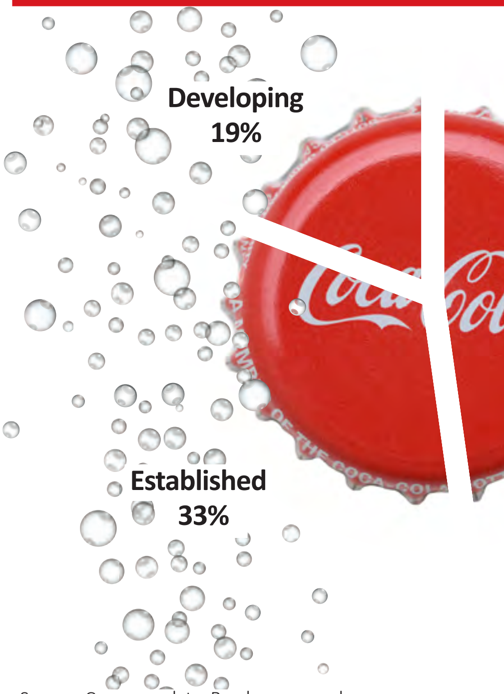
COCA-COLA HBC
BUY
(CCH) £23.38
Market cap: **£8.5 billion**

SCREENS WELL

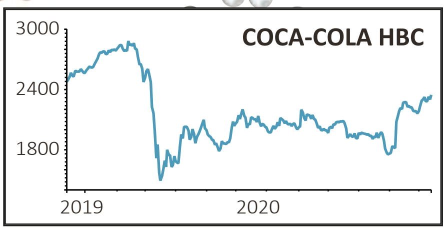
A Stockopedia screen reveals that Coca-Cola HBC ranks among the top quartile of companies seeing the best revisions to one and two-year forward earnings per share estimates over the last month.

Of those companies, the London and Athens-listed soft drinks giant is among the cheapest 25% of stocks in terms of the earnings yield, defined as earnings before interest and tax (EBIT) divided by enterprise value (EV). The shares trade on forward price to earnings multiple of 18.6.

Operating profit split by division, 2019 (%)



Source: Company data, Barclays research



UNDER THE RADAR

Though it is a FTSE 100 company blessed with sustainable competitive advantages, Coca-Cola HBC is arguably one of the least known stocks in the index.

It is a consumer packaged-goods powerhouse and strategic bottling partner of The Coca-Cola Company, giving it access to the world's most recognisable soft drink, Coca-Cola, and an array of other brands besides.

Led by chief executive Zoran Bogdanovic, Coca-Cola HBC is the Coca-Cola franchisee for its territories, purchasing concentrate from The Coca-Cola Company to convert to finished products and receiving funds to help market Coke products.

Key strengths include international diversification; the drinks giant and its customers serve a market of over 600 million consumers across 28 countries in Central and Eastern Europe and Africa including

Capitalising on the hard seltzer trend

Hard seltzers are all the rage in the drinks industry with companies racing to launch products as the market starts to gain traction. Hard seltzers are alcoholic flavoured sparkling water products usually infused with fruit. They are considered by many people to be a healthier alternative to other alcoholic drinks.

Coca-Cola recently launched a hard seltzer called Topo Chico in selected Latin American markets and Coca-Cola HBC is helping to launch the brand in Europe this year and in 2021.

'Looking at the very strong performance of hard seltzers in the US, but also more recently in UK and Ireland outlines a very attractive business case across Europe,' says Jefferies. 'Hard seltzers offers a more refreshing alcoholic option and is expected to source volumes from beer and other alcoholic categories such as wine, spritzers and cocktails.'

Earnings are expected to dramatically improve from 2021

Year	Sales (€m)	EPS (€)	DPS (€)
2019 A	7,026	1.44	0.62
2020 E	6,251	1.20	0.61
2021 E	7,397	1.46	0.69
2022 E	7,929	1.62	0.76

Source: Company filings, Barclays Research estimates

markets such as Russia, Romania, Poland, Ukraine and Nigeria, as well as Ireland, Greece and Italy.

Cash generative established markets are supporting the growth in developing and emerging markets.

And furthermore, its drinks portfolio ranks among the strongest in the beverages industry, including products in the sparkling, juice, water, sport, energy, tea and coffee categories. Brands include the likes of Coca-Cola, Schweppes, Costa Coffee, Fanta, Sprite, Powerade and Monster.

Progressive dividend payer Coca-Cola HBC also has an eye for acquisitions; relatively recent examples include Italian natural mineral water-to-adult sparkling beverages company Lurisia and Serbian confectionery brand Bambi.

READY FOR THE RECOVERY

Despite the challenges posed by the pandemic, Coca-Cola HBC's third quarter sales beat forecasts thanks to positive performances in Nigeria, Russia and Poland, three of its five largest markets. 'Strongly improved trading' was driven by a recovery in the out-of-home channel and further growth in the at-home channel, as markets continued to reopen following local and national lockdowns.

Bogdanovic said his charge will 'deliver good profitability' for a severely disrupted 2020. And as vaccines are rolled out globally in 2021, we think Coca-Cola HBC should prove a major beneficiary of a recovery in social events and international tourism.

Though Poland and Italy will introduce plastic and sugar taxes respectively in 2021, Coca-Cola HBC will pass these onto consumers and earnings should benefit from significant operating leverage, having cut costs and reprioritised capital expenditure to reduce cash outflow, when the recovery comes.

Even if the pandemic rumbles on for longer than expected, this consumer defensive has the balance sheet strength and adequate liquidity to enable it to weather what remains of the Covid crisis.

Investment bank Jefferies continues to see 'a favourable growth outlook both in the aftermath of the pandemic and over the medium term with the business capable of mid single digit sales with margin expansion. Volume growth in August and September when lockdowns were temporarily lifted points to strong consumer appetite for out-of-home consumption experiences, which should bode well for Coca-Cola HBC in the recovery phase'. [JC]

GLAXOSMITHKLINE
(GSK) £14.00

Gain to date: 6%
Original entry point:
Buy at £13.21, 5 November 2020

NOVACYT
(NCYT:AIM) 870.2p

Gain to date: 37.7%
Original entry point:
Buy at 632p, 8 October 2020

ALTHOUGH DELAYS TO vaccines are common, given the positive slew of positive news over the last few weeks the three-month delay to the possible market launch of the **GlaxoSmithKline (GSK)** vaccine candidate (in partnership with Sanofi) was unfortunate.

The two companies now plan a new study starting in February with an improved formulation which will include a comparison with an authorized Covid-19 vaccine.

If the data from the trial is as hoped, a final trial will begin in the second quarter. Positive results from this trial would then lead to regulatory submissions in the second half of 2021, delaying the vaccine's potential availability from mid-year to the final quarter.

Importantly there are no significant financial implications attached to the delay.

In a more positive Covid-linked corporate development **Novacyt (NCYT:AIM)** added to its diagnostic capabilities with the launch of a test (14 Dec) for the mutation of the Covid-19 virus associated with Danish Minks.

The mutation is of concern to scientists because it causes an amino acid change which affects antibody binding. The launch of the test puts Novacyt in a strong position should the need arise to differentiate the new strain.

SHARES SAYS:
Despite somewhat divergent fortunes of late these are both still buys. [MG]

UP GLOBAL SOURCING
(UPGS) 115p

Gain to date: 22.7%
Original entry point:
Buy at 93.7p, 27 August 2020

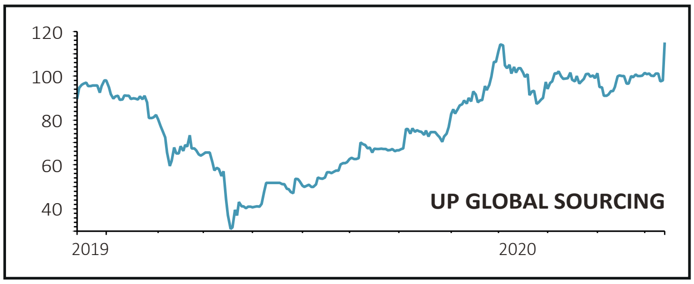
SINCE PUBLISHING its full-year results in early November, **UP Global Sourcing (UPGS)**, or Ultimate Products as it is better known, has seen continued strong demand for its homewares from online and supermarket channels, confirming the trend of recent years for these channels to form an increasing part of the group's sales.

The firm's Beldray range of laundry, floor care, heating and cooling products was once again the stand-out performer, seeing especially strong sales over Amazon Prime Day, Black Friday and Cyber Monday.

As a result, the firm sees underlying earnings before interest, tax, depreciation and amortisation (EBITDA) for the year to July 2021 'above the market's current expectations'. According to Refinitiv, the consensus forecast is now £11.05 million.

Chief executive Simon Showman credited the firm's increased operating profits and margins to 'a relentless focus on productivity enhancements and increased operating efficiencies' as well as the surge in sales.

The increase in guidance led to a scramble among analysts to upgrade their forecasts, yet the team at Equity Development took the view that the shares would have to reach 150p to hit 'fair value', which is encouraging.



SHARES SAYS: ↗
We continue to like this well-placed branded goods group. [IC]

INDUSTRIA DE DISEÑO TEXTIL / INDITEX
(ITX:BME) €27.50

Gain to date: 14.6%
Original entry point:
Buy at €24, 8 October 2020

SPANISH FASHION HOUSE Inditex, which owns the Zara and Bershka brands among others, posted third quarter results in line with analysts' estimates after a strong recovery in trading.

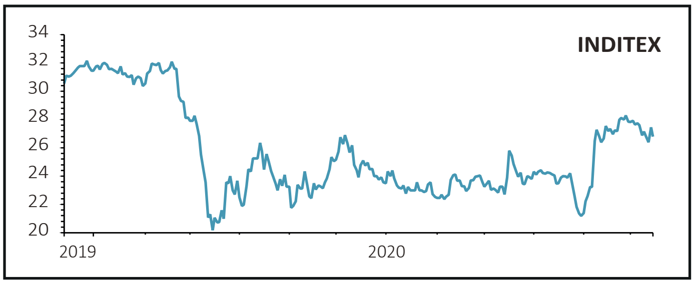
Most stores were open in the three months to October, and despite capacity and opening-hour restrictions sales improved markedly from the second quarter.

Online sales rose by 76%, helping total sales in the first half of October reach the same record level of 2019 before the latest restrictions came into force, beating expectations.

November sales were impacted by store closures, but crucially over 90% of the estate is open again for the key Christmas selling period.

Thanks to a 10% reduction in operating costs and the sale of some stores, the firm managed to hold its margin of earnings before interest, tax, depreciation and amortisation (EBITDA) to sales above 30%, quite an achievement given the surge in Covid-specific costs.

Total returns including dividends and gains from a stronger euro this quarter – and potentially an even bigger gain next quarter if sterling collapses on 'no deal' for trade between the UK and EU – make Inditex a useful hedge for UK investors.



SHARES SAYS: ↗
Keep buying. [IC]

WHY CLEAN ENERGY, AND WHY NOW?

> We are at an inflection point - new renewables such as wind and solar are now cheaper than fossil fuels, even without subsidies*

> Huge green investment programs from the EU's $7trn to those announced by China, Japan, Korea, UK and the US, which is set to re-enter the Paris Climate Agreement under President-elect Biden

> Investment potential across the energy transition, called 'the greatest commercial opportunity of our time'**, and including renewables, electric vehicles and other sectors captured by Pictet-Clean Energy

> Action on air pollution: killing around 7 million people of all ages every year - or approx. 6 times that of Covid-19 in 2020***

Pictet-Clean Energy fund: investing in the energy transition

Investing in Clean Energy can help tackle climate change, reduce air pollution and provide access to fast-growing sectors such as electric vehicles. It can also generate healthy returns.

The Pictet-Clean Energy fund captures opportunities across the whole of the energy transition – from renewable energy and e-mobility, to enabling technologies and infrastructure.

* Source: Nextera Energy 2019, EIA 2019.
** Source: Mark Carney, Green Horizon Summit, Nov. 2020.
*** WHO/Worldometers, Nov. 2020.

Pictet-Clean Energy is a compartment of the Luxembourg SICAV Pictet. The latest version of the fund's prospectus, KIID (Key Investor Information Document), regulations, annual and semi-annual reports are available free of charge on assetmanagement.pictet or at the fund's management company, Pictet Asset Management (Europe) S.A., 15, avenue J. F. Kennedy, L-1855 Luxembourg. Before making any investment decision, these documents must be read and potential investors are recommended to ascertain if this investment is suitable for them in light of their financial knowledge and experience, investment goals and financial situation, or to obtain specific advice from an industry professional. Any investment incurs risks, including the risk of capital loss. All risk factors are detailed in the prospectus.

10 big questions for 2021

Essential points for investors to consider

By **The *Shares* team**

One cannot help feeling more optimistic about 2021 after the year we've just experienced. Everyone would agree that it's been a testing time and hopefully we're past the worst.

Yes, there are still plenty of hurdles to clear. The pandemic continues to rage, unemployment levels are worrying, the true impact of Brexit is still unknown, and there are plenty of other factors to cause trouble.

But a vaccine has become a reality and the stock market is forward-looking in nature, so the focus is much on economic recovery and getting life back to normal.

The stock market recovery since March's crash has been very impressive and hopefully investors will have still made money this year despite the negative backdrop. Here's hoping for another year of success on the market.

To help you understand the opportunities and the threats for markets and make better informed investment decisions, this article addresses 10 important questions relevant to anyone wanting to invest in 2021.

1. WILL UK EQUITIES REGAIN APPEAL WITH INVESTORS GLOBALLY?

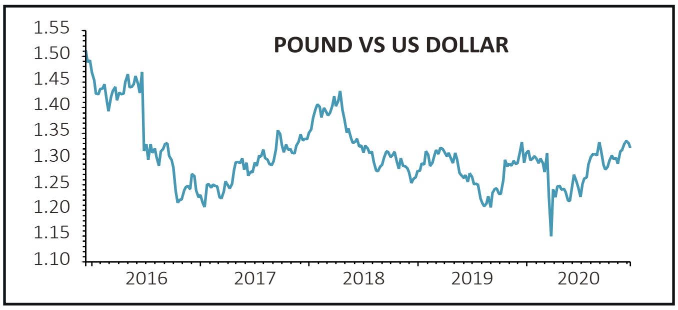
AT THE TIME of writing, another deadline has passed without any progress on a definitive trade deal between the UK and the European Union from 1 January.

The pound has been remarkably strong, pushing against the top of its trading range going back to 2018, so progress towards a deal – or at least avoiding a 'no deal' outcome – could see it breaking out into new territory which would give domestic stocks a lift.

At the moment, pre-tax earnings for the FTSE 100 are seen reaching £166 billion next year, which is significantly better than this year but is still slightly less than the index generated in 2017, according to figures compiled by AJ Bell investment director Russ Mould.

However, more than 40% of pre-tax earnings are forecast to come from miners and financials, so a situation with sluggish recovery and interest rates staying lower for longer would be unfavourable.

Failure to agree a definitive trade deal could see the pound drop sharply. Analysts at Morgan Stanley believe a 'no-deal' Brexit outcome would represent a shock to markets which could potentially cause the FTSE 250 index to drop between 6% and 10%.



Morgan Stanley also sees shares of UK banks falling 10% to 20% in a 'no deal' scenario, as it raises the chances of the Bank of England cutting interest rates into negative territory. Insurance, real estate and housebuilding stocks would also be at risk according to analysts.

On the plus side, the pace of takeovers is picking up with foreign buyers taking advantage of depressed UK market valuations. A UK/EU trade deal could lead to even more takeover activity as companies would have more certainty over the lay of the land.

Luke Newman, a portfolio manager at Janus Henderson, says feedback from lawyers and advisers is that a lot of takeover research has been done and targets identified.

'The message we're getting is that there is a real desire to see Brexit resolved first, even though UK assets could rise in value after a deal. The takeover work has been done and, once there is certainty on what the UK has in store for the next five to 15 years, we could see a wave of inbound interest for UK companies.'

Richard Colwell, head of UK equities at Columbia Threadneedle, also agrees that M&A is big theme. He says: 'Why are assets like security company **G4S (GFS)** being bid for? There is a lot of cash burning a hole in people's pockets, and prize assets are available because the investment community continues to be too bearish on the intrinsic value of UK stocks.'

2. WILL THE VALUE INVESTING STYLE REMAIN IN FASHION?

DESPITE MANY FALSE dawns over the last few years the arrival of not one but three effective vaccines proved to be *the* catalyst that brought the value investing style back into fashion.

This saw investors rotate from paying high multiples for companies that could deliver growth in tough times to paying lower multiples for companies whose previously weaker growth prospects have now improved because of vaccines hopefully reviving economies around the world.

The question now faced by value and growth investors alike is for how long can value remain in vogue given its prior extreme period of underperformance?

For starters, there needs to be a strong global economic recovery because investors will only remain committed to value stocks if they offer higher earnings growth.

US investment bank Morgan Stanley is in the strong recovery camp saying, 'this global recovery is sustainable, synchronous and supported by policy, following much of the normal post-recession playbook.'

For Morgan Stanley this translates into 25% to 30% earnings growth for global equities and favours rotating into cyclicals and small caps over owning defensives and large cap shares.

Value stocks tend to deliver higher earnings growth in the early part of economic recovery as they are more operationally and financially geared. This means that revenue growth translates into disproportionately higher profit growth.

However, poor quality companies can be at risk when the economy recovers as they often underestimate the extra demand for cash as working capital requirements balloon higher.

An important factor supporting value stocks is rising inflation because it can provide cover for lifting prices which also amplifies profit growth.

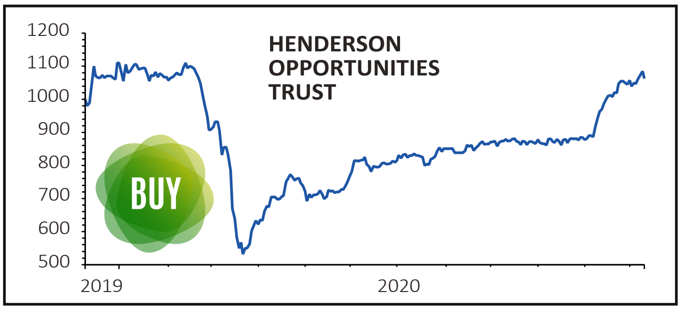
Rising inflation expectations normally show up first in the bond markets. While it's true that bond yields have gone up in recent weeks as prices have gone down, they are still low with 10-year UK Government gilts yielding 0.27%.

In addition, BlackRock notes the central banks have committed to maintaining low rates even in the face of rising inflation which should keep interest rates anchored.

The risk for value investors is that the huge debt burden taken on to fight the pandemic will hinder growth and keep economies 'below potential' for much longer than expected.

WHAT SHOULD INVESTORS DO UNDER THESE CIRCUMSTANCES?

BUY: Henderson Opportunities Trust (HOT)



Managed by James Henderson and Laura Foll, **Henderson Opportunities Trust (HOT)**, trades on a 14% discount to net asset value, whereas many other value funds now trade at a premium.

It has delivered 17.7% NAV growth over the last three months, comfortably outperforming the Morningstar category return of 15.95%.

The longer-term performance has been excellent with an average annual 10-year return of 10.9% compared with 6.6% for the category benchmark.

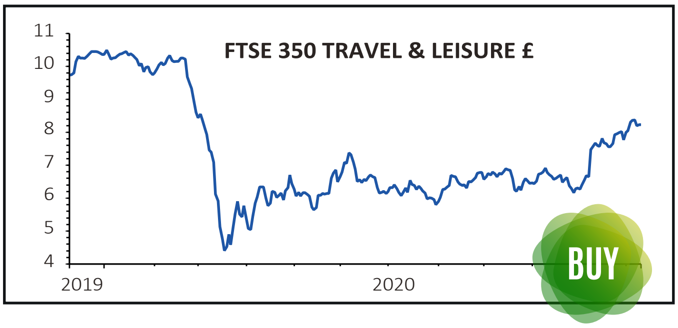
We like the smaller company bias and diversified mix of exposure to value sectors such as industrial and financials which should perform well in a cyclical upturn.

3. IS THE MARKET TOO OPTIMISTIC OVER THE PACE OF THE VACCINE ROLL-OUT?

THE PERFORMANCE OF the economy and the markets next year is partly in the hands of the pharmaceutical groups, logistics networks and national health systems who are preparing a very large immunisation programme for Covid-19.

The market has already reacted positively to the development of a vaccine in hope of a return to normality in 2021.

However, rolling out the vaccine across the globe will be a huge effort and could well be uneven, meaning travel restrictions between countries could be in place for some time yet. All of us, investors included, may need to be patient but there is a risk of sentiment souring if the promised escape from the coronavirus crisis doesn't transpire in the spring.



Another stumbling block is the take-up of the vaccine. Shore Capital health analyst Adam Barker says: 'Communication will have to be very clear, with some surveys in the US (for example) suggesting that 20% to 60% of Americans wouldn't accept a Covid-19 vaccine, given concerns that "corners have been cut" on safety.'

Therefore investors racing to own travel and leisure stocks, for example, need to consider that we might not all be racing off abroad on our summer holidays in 2021 and so earnings could miss expectations (or forecasts may be downgraded during the year) for certain companies dependent on widespread movement of individuals.

4. HAVE CORPORATE DEFAULT RATES ALREADY PEAKED?

IT MIGHT SEEM surprising given the economic damage caused by the pandemic, but fewer companies in the US have defaulted than expected a few months ago. Defaults refer to companies failing to make interest payments on their debts.

Agencies that provide credit research and investment banking analysts were predicting the default rate for high yield debts to surpass the 14.7% peak seen in the global financial crisis of 2007/2008.

Since September 2020 the increase in defaults has slowed after reaching a level much lower than the old peak, at around 8.5%.

The reason can be pinned on the move by the US Federal Reserve in late March to include investment grade (highest quality credit) bonds as part of its quantitative easing programme. This effectively 'backstopped risk' and opened the door for a massive deluge of corporate bond issuance.

Janus Henderson bond managers John Pattullo and Jenna Barnard make the case that the corporate credit market now faces a benign default outlook. They believe companies will prioritise deleveraging and balance sheet repair over spending on new investment projects.

However, Bank of America notes that increased issuance has pushed leverage as measured by net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) to a record 6.2 times, implying that default rates may stay elevated for longer.

5. WHAT DIFFERENCE WILL JOE BIDEN MAKE?

JOE BIDEN'S VICTORY in the US presidential election has been broadly welcomed by investors. Markets like certainty and Biden provides that, not just through the result but also his clearly defined agenda for the next four years.

He plans tougher action against the tech giants, higher corporate taxes and a lot more investment in infrastructure and clean energy, set to be a boon for construction firms as well as renewable energy stocks and funds.

Some of the appointments he has made to his Cabinet have significance to US and global shares, particularly hiring of former US Federal Reserve chair Janet Yellen as Treasury Secretary. Yellen's time at the Fed was marked by accommodative monetary policy, i.e. increasing the money supply to boost the economy when growth is slowing. This raises the chance of interest rates staying lower for longer and further increases the appeal of stocks to investors, despite US companies' profit margins set to be squeezed by higher taxes.

Tensions with China should be eased, though not removed, through Biden's policies. He believes the best way to deal with China is through forming coalitions with allies and partners, not imposing unilateral tariffs.

But the important factor that could be key in determining the efficacy of Biden's presidency is January's runoff elections in Georgia, which will effectively decide who takes control of the Senate.

The Democrats hold the House of Representatives and if they can wrestle control of the Senate from the Republicans, this will provide a clear path for Biden to get his policies through Congress. But if the Republicans keep control of the Senate, expect the same kind of gridlock we've seen in recent months in trying to get a stimulus deal done.

6. HOW QUICKLY CAN THE UK START ON ITS BIG ESG PUSH?

LAST MONTH THE UK Government published a plan for a green industrial revolution, and if the latest projections from the Met Office are correct the plan can't come soon enough.

Even if global emissions are reduced dramatically, says the Met Office, within 20 years the average coldest day in the UK is likely to be zero Celsius compared with -4.3 Celsius over the past 30 years. The average hottest day in London could be 40 Celsius compared with 32 Celsius in the past.

The two highest-profile planks of the Government's plan are a ban on sales of internal combustion engine cars by 2040, 10 years earlier than expected, and a quadrupling of offshore wind capacity to 40GW by 2030. While these deadlines are some way off, a lot of work is required to hit those goals.

The key to widespread public adoption of electric vehicles has moved from 'range anxiety' to cost. The main cost in an electric vehicle is the battery. A decade ago, batteries cost $1,000/ kWh while today they cost $150-200/kWh: the holy grail is $100/kWh, and we could get there this year.

The plan to decarbonize our energy supply with offshore wind requires billions of pounds of upgrades to our manufacturing, ports and the electricity transmission network. Private, 'sustainable' investment is likely to take the lead, and any signs of action in 2021 could further increase market interest in all things ESG.

7. WHAT IS THE OUTLOOK FOR PROPERTY INVESTMENTS?

BOTH GLOBALLY and in the UK, there has been real polarisation in the property market in the wake of Covid-19, meaning investors could have either made or lost a lot of money in the space.

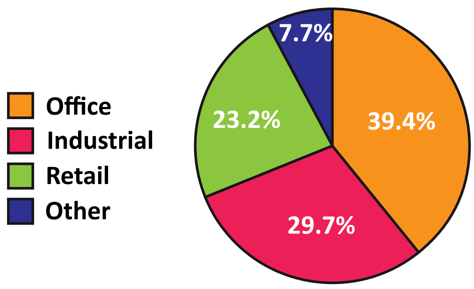
Valuations of retail properties have slumped this year, logistics assets have soared, and offices have sat somewhere between the two as assessments are made about the long-term impact of the pandemic on working from home. Schroders' head of UK real estate investment Nick Montgomery expects this polarisation to begin to reduce in 2021.

There is one big reason why real estate as an asset class could attract investors in 2021: income. Therefore, real estate stocks or funds in more stable parts of the markets and not trading on premium valuations could be in demand.

'The monetary policy response to the Covid-19 crisis has further repressed traditional sources of income such as government bonds and has lowered real yields to rock-bottom levels,' says asset manager Fidelity.

'Real estate is attractive in such an environment and remains popular with income-seeking investors despite being less liquid than other asset classes.'

SCHRODER REAL ESTATE – SECTOR WEIGHTINGS –



If the accommodative policies adopted by central banks are matched with a strong recovery from the coronavirus crisis there is also a chance that inflation could increase – as a 'real' asset property tends to be a good hedge against rising prices.

WHAT SHOULD INVESTORS DO UNDER THESE CIRCUMSTANCES?

BUY: Schroder Real Estate Investment Trust (SRE)

One of the features of real estate investing in 2020 has been the divergence in fortunes between different types of property and the resulting outperformance of specialist funds in areas like logistics, healthcare facilities and social housing.

We think this will gradually reverse in 2021, making generalist products more attractive. In this context Schroder Real Estate's 35% discount to net asset value looks compelling, backed by its focus on 'Winning Cities'.

The portfolio has been punished in part for its 23.2% exposure to retail. But it is important to make the distinction between seemingly doomed shopping centres and high streets and the mixed use and convenience retail sites which the REIT owns.

8. ARE EMERGING MARKETS SET TO SHINE?

'ONE THING IS clear: emerging markets will lead the economic recovery in 2021, propelled by China and supported by a weaker US dollar,' insists Pictet Asset Management's chief strategist Luca Paolini, among the cohort of experts backing emerging markets to outperform in 2021 as vaccines help drive global recovery.

The combination of a Joe Biden presidency and a potential Republican Senate is seen as positive for emerging markets, as it should result in reduced trade uncertainty and a less disruptive foreign policy from America.

Paolini believes emerging market local currency bonds should fare well in 2021, being one of the few fixed income assets yielding above 4%. Adding to their investment appeal is the prospect of a strong rally in emerging market currencies – which should unfold as the global economy recovers and as trade tensions ease.

Invesco argues emerging markets is 'still the sovereign space with the best potential' for 2021, with emerging markets real estate and emerging markets bonds among its best-in-class assets based on projected 2021 returns.

In terms of regional preferences, 'no matter which asset class we consider, there is a preference among the team for EM assets, with China featuring prominently,' adds Invesco.

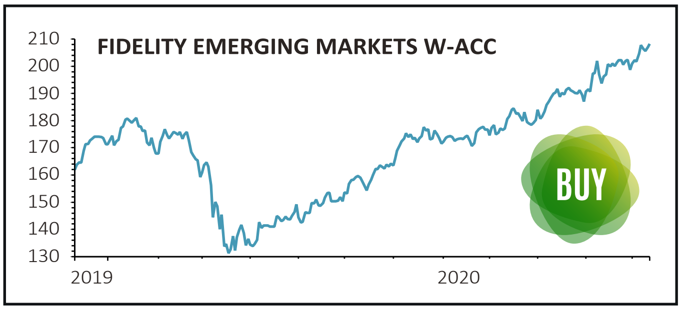
Templeton Emerging Markets Investment Trust's (TEM) Chetan Sehgal concedes global supply chains have come under pressure to diversify away from a perceived excess dependence on China. And yet most countries are still trading with China and 'supply chains won't change overnight, even if countries want to make a transition due to Covid-19 or other reasons'.

Invesco's Mike Shiao believes 2021 will be another fruitful year for Chinese equities, 'supported not only by higher visibility surrounding the growth outlook but also by an increase in allocation to the asset class'. The creation of China indices excluding other emerging markets might be a theme to watch out for next year.

Elsewhere within emerging markets, Brazil is up against it in terms of the virus, but this massive country still offers tremendous opportunities for investors given its demographic profile and abundance of natural resources, while high-quality India stocks are among the opportunities identified by Invesco's William Lam.

WHAT SHOULD INVESTORS DO UNDER THESE CIRCUMSTANCES?

BUY: Fidelity Emerging Markets (B9SMK77)



We like **Fidelity Emerging Markets (B9SMK77)** fund which has beaten the MSCI Emerging Markets benchmark index on a one, three, five and 10-year basis.

Nick Price has managed the fund since 2009 and the focus is on high growth stocks. Price and co-manager Amit Goel benefit from access to significant resources within Fidelity including regional EM portfolio managers and a large team of equity analysts based on the ground.

9. WHAT COULD HAPPEN IN THE COMMODITIES MARKET?

GOLD HAS BEEN the standout performer in the commodities space for most of 2020 thanks to the pandemic, but has tailed off towards the end of the year as optimism over an economic recovery rises thanks to the successful development and roll-out of coronavirus vaccines, diminishing the need for such safe-haven assets.

In theory if the stock market rises in 2021 gold should go down. However, investment bank Goldman Sachs sees gold hitting $2,300 an ounce next year, up from around $1,850 currently, and the shiny metal does have some factors in its favour.

The US dollar is set to remain weak next year as action from the US Federal Reserve to support liquidity means there's excess greenbacks in the financial system, with further stimulus on the way.

These supply and demand factors imply the dollar is set to weaken further. That will boost the appeal of gold. In addition, consumer spending is set to ramp up as people spend cash they saved in lockdown, which is likely to spur inflation and see gold regain its tag as an inflation-hedge.

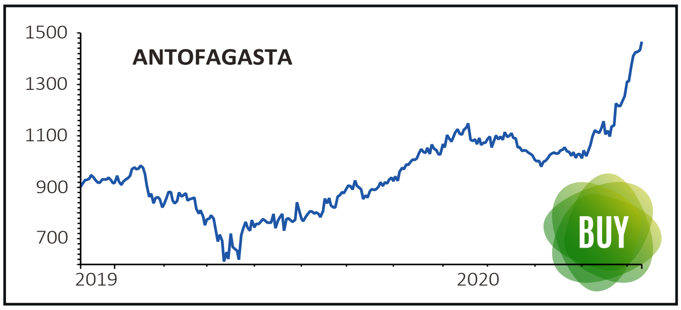
And while there is rising optimism over economic prospects next year, there is still a large degree of uncertainty over the pace of the recovery, something which should provide a base level of price support for gold.

Three other metals to watch are copper, iron ore and nickel. Copper and iron ore are intrinsically linked to the health of the global economy and the prices of both have been on a tear in the past month as activity around the world picks up again.

China is the largest consumer of both metals, and there is an expectation for China's economic growth in 2021 to be unusually fast. As for nickel, the metal has increasingly been key in the production of electric vehicles, and as this transportation market continues to gather pace the price of nickel is expected to improve accordingly.

WHAT SHOULD INVESTORS DO UNDER THESE CIRCUMSTANCES?

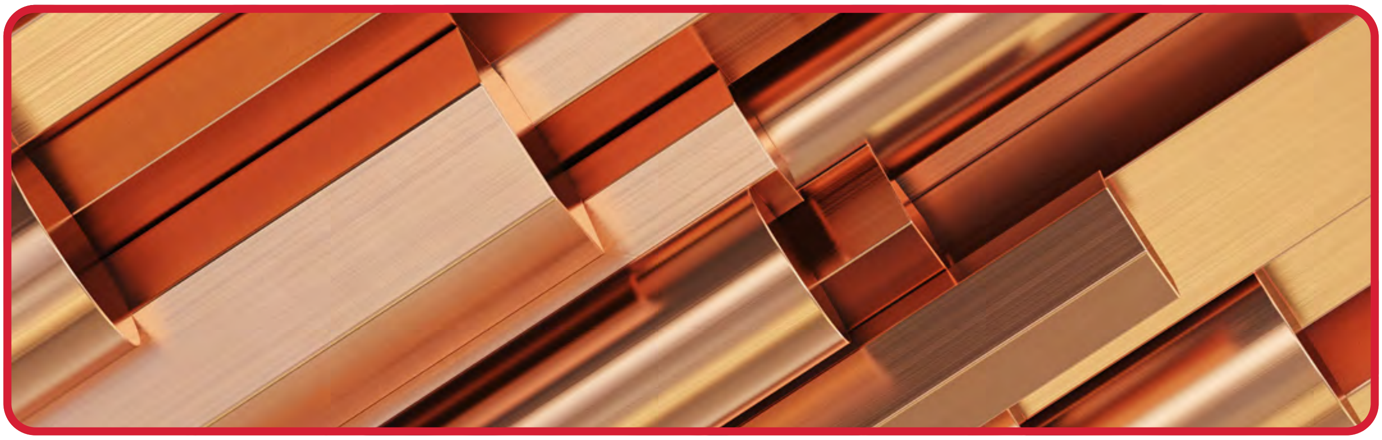
BUY: Antofagasta (ANTO)



A good way to get exposure to copper is via Chilean miner **Antofagasta (ANTO)**, one of the top 10 biggest copper producers in the world.

Antofagasta is considered by analysts at investment bank Jefferies as the lowest risk play on the copper price and has consistently been able to avoid some of the operational issues which have dogged other miners.

The company has a strong track record of increasing production and keeping costs under control, making it better than many of its peers in being able to capture the upside from rising copper prices.



10. WILL TECH BE A WINNING TRADE AGAIN IN 2021?

INVESTORS HAVE BEEN piling into technology stocks this year in huge volumes and it has been a winning trade during the pandemic. In 21 trading days during the teeth of the coronavirus sell-off tech stocks lost 30%, based on the tech-heavy Nasdaq Composite. Over the following nine months this index rallied more than 80%, hitting a new all-time high of 12,582.77 on 8 December.

Tech always splits opinion, but investment experts widely agree that pandemic-enforced work-from-home has accelerated structural shifts that were already in play. Digital adoption jumped five years during 2020, according to consultant McKinsey, including cloud computing, online shopping and digital payment volumes.

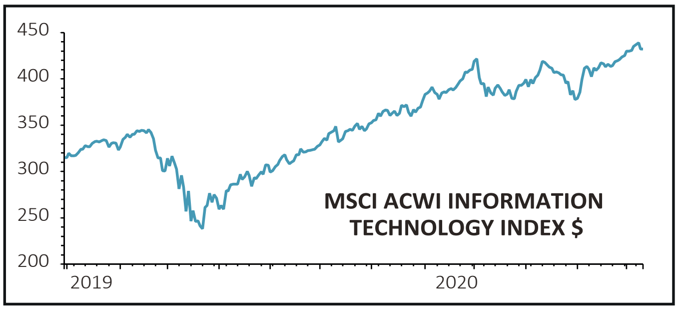
It is becoming increasingly difficult to find industries not looking at tech solutions to stay competitive, increase growth or simply survive. Banks, healthcare, manufacturing, energy, education, media and entertainment – the list goes on. Real productivity gains have been won and 'we may find it hard to go back,' says Peel Hunt's head of research, Charles Hall.

The tech space is seen maintaining its strengths in 2021 by leveraging accelerated trends and offering growth amid rock-bottom yields, believes BlackRock. 'The sector boasts the highest profit margins in the global equity universe,' says Sarah Thompson, part of BlackRock's Global Allocation team.

'As in previous years, the technology sector is unique in boasting net cash,' points out Polar Capital fund manager Ben Rogoff.

But the tech space is still mixed so investors can't pick anything and expect to profit. 'Tech businesses do not automatically generate good returns: they have to earn them,' says Stephen Yiu of Blue Whale Capital.

The pandemic has also accelerated 'winner takes all' dynamics that have led a handful of tech giants to dominate equity market index performance. Between them, Google-owner Alphabet, Amazon, Apple, Facebook and Microsoft are worth more than a quarter of the S&P 500's value.



'We see potential for leadership within the sector to broaden to a wider set of beneficiaries across different themes, including 5G connectivity, while software and semiconductors could lead the charge, as they face fewer regulatory risks and enjoy long-term growth trends,' says BlackRock.

Despite this year's run-up in valuations, experts see tech stocks as having structural tailwinds, not just for 2021, but far into the future.

ASSETS TO OWN IN 2021

IN NOVEMBER, INVESCO produced a list of three scenarios for 2021 and the assets to own in each situation. Since it was published we've had the first vaccine approved and started to be administered in the UK, therefore we have chosen to ignore Invesco's 'double dip' scenario which was based on the premise that there would be no vaccine in 2021.

The other two scenarios are presented below.

The second one (base case) is still credible even though it calls for a vaccine to be rolled out from 2021. While vaccines are already being deployed in 2020, we do not expect wide scale roll-out until next year, so Invesco's scenario overview still applies.

The key thing that separates the two scenarios is the scale of the US stimulus package which had still not been decided as *Shares* went to press.

'V' FOR VACCINE

Description:
Early vaccine approval, large US fiscal boost, relative normality before end-2021.

Preferred assets:
Real estate, equities (inc. value, banks, travel and leisure, basic resources), industrial commodities.

Preferred regions:
Europe (including UK), emerging markets (especially non-Asia).

BASE CASE

Description:
Vaccines rolled out in mid-2021, moderate US fiscal boost, relative normality during 2022 H1.

Preferred assets:
Real estate, equities (inc. growth, price momentum, financial services, REITs), industrial commodities, high yield credit.

Preferred regions:
US, emerging markets (especially Asia).

Best performing investment trusts in 2020

We highlight the closed ended funds that shone in the shocking year of Covid

From a human standpoint, 2020 has proved a shocker of a year, with the unforeseen pandemic wreaking havoc on health and the associated lockdowns precipitating a global economic downturn that may take years to battle back from.

Yet paradoxically, 2020 has been anything but negative from a markets perspective, with equity indices roiled by the onset of the crisis then recovering strongly with a boost from considerable government and central bank stimulus.

Also driving some impressive returns from the investment trust sector were themes such as technology, the resurgence of China from the virus, as well as increased spending on healthcare. Many companies and funds also profited as the pandemic accelerated shifts to e-commerce, remote working, cloud computing and the increased use of artificial intelligence.

THE TOP PERFORMING INVESTMENT TRUST

Shares has crunched the data from FE Fundinfo, from the market close on 31 December 2019 to 9 December 2020, to reveal 2020's best performing investment trusts.

Leading the pack with a stunning 126.2% gain was **Pacific Horizon Trust (PHI)** managed by Ewan Markson-Brown and deputy manager Roderick Snell, its stellar performance reflected in a wide 17.8% share price premium to net asset value (NAV) according to the Association of Investment Companies' (AIC) website, having traded at a discount not so long ago.

Seeking out the big winners, those growth stocks that can generate asymmetric returns, in the Asia Pacific region (ex Japan) and Indian sub-continent, Pacific Horizon's significant outperformance of the MSCI All Country Asia ex Japan index continued during 2020 despite the backdrop of a global pandemic and ongoing US/China trade disputes.

The trust benefited from the accelerated growth of the online economy (e-commerce, cloud and gaming) catalysed by Covid-19, which boosted leading holdings including SEA, South East Asia's biggest e-commerce and online gaming company, Chinese online shopping giant Alibaba, delivery platform Meituan Dianping and Chinese ERP software company Kingdee.

IN SECOND & THIRD PLACE WERE…

Stripping out venture capital trusts (VCTs), the next top performers were another two trusts from the stable of Edinburgh-based fund management group Baillie Gifford, namely the **Baillie Gifford US Growth Trust (USA)** and **Scottish Mortgage (SMT)**, up 112.8% and 94.5% respectively.

Guided by Gary Robinson and Helen Xiong, Baillie Gifford US Growth focuses on what the managers believe are America's exceptional growth businesses.

Most of its holdings benefited from virus-related lockdowns in 2020, notably Amazon, Zoom and also Shopify, which runs tools across a platform that makes going digital easy for retailers, and other consumer-facing businesses, Netflix and Peloton. A holding in Elon Musk-steered Tesla also generated spectacular returns for investors in the trust.

FTSE 100 trust Scottish Mortgage aims to give investors a way to access the world's most exciting growth companies and enjoyed yet another strong year.

Co-managers James Anderson and Tom Slater identify companies, enabled by technology, which they believe have the potential to be much greater in size in the future thanks to having a proposition which is scalable and could be market-leading in time.

This year, Scottish Mortgage has benefited from its focus on tech companies, disruptive businesses and a relatively high weighting in Chinese domiciled companies.

WINNERS, WORTHY MENTIONS AND ALSO-RAN INVESTMENT TRUSTS IN 2020

BEST PERFORMING TRUSTS IN 2020	Gain (%)
Baillie Gifford Pacific Horizon	126.2
Baillie Gifford US Growth Trust	112.8
Scottish Mortgage	94.5
JPMorgan China Growth & Income	82.5
Allianz Technology Trust	77.0
Edinburgh Worldwide IT	70.2
Fidelity China Special Situations	68.6
Golden Prospect Precious Metals	63.5
Biotech Growth Trust	61.1
JP Morgan Japanese	55.6
WORTHY MENTIONS	**Gain (%)**
European Growth Trust	55.0
Baillie Gifford China Growth Trust	53.2
Geiger Counter	50.3
EPE Special Opportunities	47.0
CQS Natural Resources Growth and Income	45.8
Weiss Korea Opportunity	44.6
Baillie Gifford Shin Nippon	44.6
Pershing Square	42.6
SELECTED WORST PERFORMING TRUSTS IN 2020	**Loss (%)**
Cambium Global Timberland	-52.0
Amedeo Air Four Plus	-52.8
Infrastructure India	-64.6
JZ Capital Partners	-73.1
DP Aircraft	-92.1

Source: FE Fund Info, to 9 December 2020

HONOURABLE MENTIONS

Those themes of China, growth and tech also drove the handsome returns generated by **JPMorgan China Growth & Income (JCGI)**, boasting a five-star Morningstar rating, and the Walter Price-managed **Allianz Technology Trust (ATT)**.

Douglas Brodie-bossed **Edinburgh Worldwide (EWI)**, yet another trust managed by the highly-rated Baillie Gifford, and the Dale Nicholls-steered **Fidelity China Special Situations (FCSS)**, were hot on their heels in performance terms.

Other trusts to reward investors with very healthy returns included **Biotech Growth Trust (BIOG)**, up more than 60% amid positive sentiment towards the biotechnology and healthcare sector, and **JPMorgan Japanese (JFJ)**, an impressive long-term performer relative to the benchmark and competing trusts, which delivered a 55.6% positive return.

It would be remiss not to give a shout out to **Pershing Square (PSH)**, the trust providing access to the stock picking acumen of Wall Street hedge fund manager Bill Ackman; strong returns drove a meteoric share price rise that was ultimately rewarded with promotion to the FTSE 100.

Ping An group headquarters

THREE TRUSTS TO BUY FOR 2021

JPMorgan Emerging Markets (JMG)
Share price: 128.6p

Though the discount to net asset value has narrowed from a 12-month average of 8.2% to 4.4%, this is still a savvy time to take a position in **JPMorgan Emerging Markets (JMG)**.

Strategists and fund managers expect emerging markets to outperform in 2021 driven by China, a weaker US dollar and with globalist Joe Biden ensconced in the White House.

This augurs well for the generalist emerging markets fund managed by Austin Forey, who has proved his ability to deliver good levels of outperformance. We also like the fact the trust boasts a five-star Morningstar rating and is invested in quality growth companies.

Many of these are globally diversified, which should lend the portfolio resilience should trade tensions and spats persist or if the global recovery disappoints. Among the top 10 names are Tencent, Taiwan Semiconductor, Alibaba, Ping An Insurance and MercadoLibre.

Fidelity Special Values (FSV)
Share price: 232p

Should the recent value rally continue and international investors look favourably on at least some clarity on the relationship with the EU and UK either way, this would be positive for **Fidelity Special Values (FSV).**

The trust has delivered a 10-year annualised total share price return of 9.8% (according to Morningstar) when value has been out of favour.

Managed by Alex Wright and Jonathan Winton with a contrarian style, the fund invests in 'unloved companies with potential for positive change' and typically has a bias towards medium and small-cap companies and value.

A negative return was generated during our period in review, unsurprising given its style was out of favour until recently, though the focus on fundamentally cheap but unloved stocks could prove a tailwind in 2021.

In the October factsheet, Wright was said to remain 'excited by the numerous opportunities he is finding and the fact that he is not having to compromise on quality', his enthusiasm reflected in the trust's increased gearing. Wright was said to be favouring life insurers, specialist retailers and housing-related businesses which are benefiting from strong demand.

Montanaro European Smaller Companies (MTE)
Share price : £15.30

An impressive outperformer worth considering for 2021 is **Montanaro European Smaller Companies (MTE)**, which aims to achieve capital growth by investing principally in Continental Europe's smaller corporate fry.

Since its August 2006 launch, the trust has materially outperformed the benchmark MSCI Europe ex UK Small Cap Index, with strong returns finally being recognised by the wider market.

Lead manager George Cooke's unwavering focus on only the highest quality, structurally growing companies leaves Montanaro European Smaller Companies well positioned for the remainder of the pandemic – the portfolio includes many of the beneficiaries of the shift to home working and investment in healthcare fostered by the Covid crisis.

It also means the trust is capable of capitalising on the recovery, with sentiment towards small caps turning more positive.

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

RUSS MOULD
AJ Bell Investment Director

Insightful commentary on market issues

The outlook for FTSE 100 dividends in 2021

The blue chip index's dividends are expected to rebound 18% after a 20% drop in 2020

It is unlikely that too many investors will make listening to more announcements from regulators one of their New Year's resolutions, but no-one could accuse the Prudential Regulation Authority (PRA) of playing Scrooge, at least not this December.

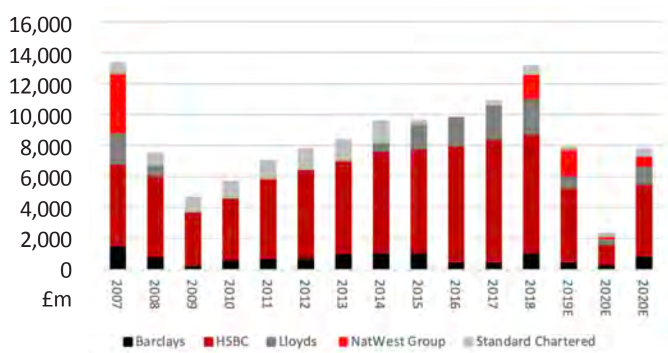
Granted, the PRA may have wounded a few income-seekers' portfolios with its declaration in late March that the Big Five FTSE 100 banks should not pay dividends (or run any share buyback programmes) in calendar 2020.

The lenders responded immediately by cancelling their planned final payments for 2019, keeping £9.2 billion in cash on their balance sheets. Further possible distributions have been withheld, to deprive income seekers of a further £6.5 billion, based on the payments made for the second and third quarters in 2019.

However, the PRA has now relented and granted permission to **Barclays (BARC)**, **HSBC (HSBA)**, **Lloyds (LLOY)**, **NatWest (NWG)** and **Standard Chartered (STAN)** to return to cash to shareholders in calendar 2021.

While caps and limits are in place, this still represents good news for those investors who are seeking income from UK equities. The consensus analysts' forecast of a combined £5.4 billion in dividend increases from banks underpins the estimate of an aggregate £10.9 billion improvement in the FTSE 100's payout for 2021 to a total of £70.8 billion.

Banks are now permitted to pay dividends again in 2021

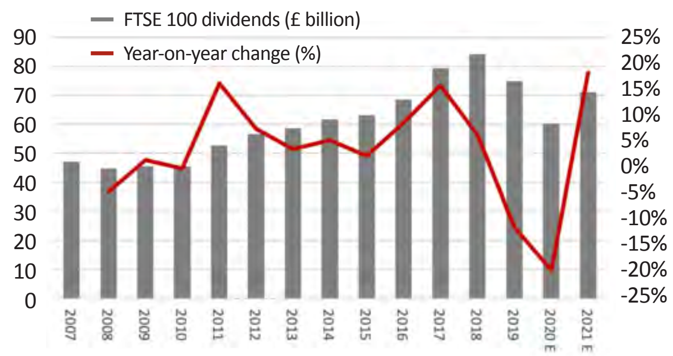


Source: Company accounts, Sharecast, consensus analysts' forecasts

RUSS MOULD
AJ Bell Investment Director

That £70.8 billion figure is, in turn, enough for a 3.8% dividend yield on the FTSE 100. While it is not up there with the 4.5%-plus analysts were hoping for a year ago (and that after a 15% fall on the FTSE 100 to add capital insult to income injury), it may help to provide some sort of valuation support for the headline index.

FTSE 100 dividends are expected to rebound 18% after 2020's 20% drop



Source: Company accounts, Sharecast, consensus analysts' forecasts

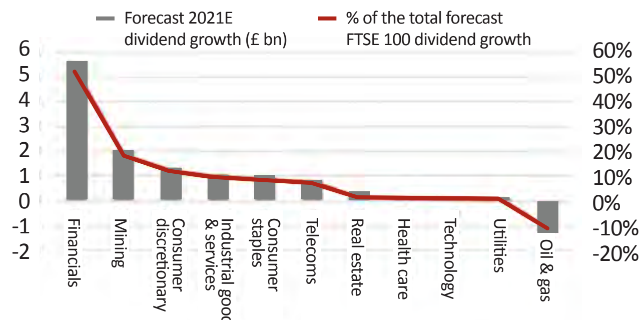
BANKING ON THE LENDERS

However, not everyone will be convinced that the 3.8% yield number is reliable, or sufficient compensation given the potential risks that come with the UK market, in terms of Brexit, the ongoing pandemic and the potentially brittle nature of the economic upturn, given the degree of support that the Bank of England and the Government are having to pump in to try and keep the show on the road.

Analysts are not expecting 2021's profits or dividends to return to the pre-pandemic levels of 2018 or 2019, to suggest they are not going overboard. But four fifths of 2021's expected £10.9 billion increase in overall FTSE 100 dividends is forecast to come from just three sectors, the form of financials, miners and consumer discretionary. All of this trio could do with an economic tailwind if they are to live up to such expectations.

If the economy offers little or no assistance – or even hinders – then these forecasts could find themselves exposed to the downside. Moreover, the banks must still contend with the margin-crushing effects of the Bank of England's zero interest rate and quantitative easing policies, while

Three sectors dominate the dividend growth forecasts for 2021



Source: Company accounts, Sharecast, consensus analysts' forecasts

RUSS MOULD

AJ Bell Investment Director

the Government's apparent desire to increasingly use them as a tool for lending and keeping debt off its own balance sheet adds to the risk of weaker returns and higher loan provisions.

CONCENTRATION RISK

Helpfully for those of a nervous disposition, only one of the big five – HSBC – is forecast to be among 2021's top 20 dividend payers by value within the FTSE 100. Barclays is the next lender in the forecast rankings, at 21st.

Nevertheless, investors must again assess the concentration risk which has dogged those who have sought income from the UK stock market for some years. Ten stocks are forecast to pay dividends worth £32.3 billion, or 54% of the forecast total for 2020. The top 20 are expected to generate 75% of the total index's payout, at £44.8 billion.

Anyone who believes the UK stock market is cheap on a yield basis, and is looking to buy individual stocks, glean access via a passive index tracker or even buy a UK equity income fund, needs to have a good understanding of, and strong view on, those 20 names in particular.

The top 20 forecast dividend payers in the FTSE 100 in 2021

	Dividend (£ million)	Dividend yield (%)	Dividend cover	Dividend cut in last decade?
British American Tobacco	5,237	8.4%	1.53	No
HSBC	4,625	5.4%	1.48	2019, 2020
Unilever	4,056	3.6%	1.48	No
Rio Tinto	4,034	5.9%	1.53	2016
GlaxoSmithKline	4,014	5.8%	1.45	No
Royal Dutch Shell	3,908	3.6%	1.83	2020
BP	3,473	6.2%	1.10	2010, 2020
AstraZeneca	2,794	2.7%	1.81	No
BHP	2,336	5.7%	1.46	2016
Vodafone	2,208	6.3%	1.06	2018
National Grid	1,775	5.9%	1.17	No
Diageo	1,639	2.4%	1.59	No
Imperial Brands	1,289	9.3%	1.85	2020
Anglo American	1,286	3.7%	2.46	2015, 2016, 2020
Reckitt Benckiser	1,239	2.7%	1.83	No
Glencore	1,194	3.8%	1.65	2015, 2016, 2020
Lloyds	1,183	4.3%	1.97	2019, 2020
Legal and General	1,098	7.0%	1.56	No
RELX	922	2.7%	1.87	No
Aviva	919	6.9%	2.28	2012, 2013, 2019

Source: AJ Bell, Company accounts

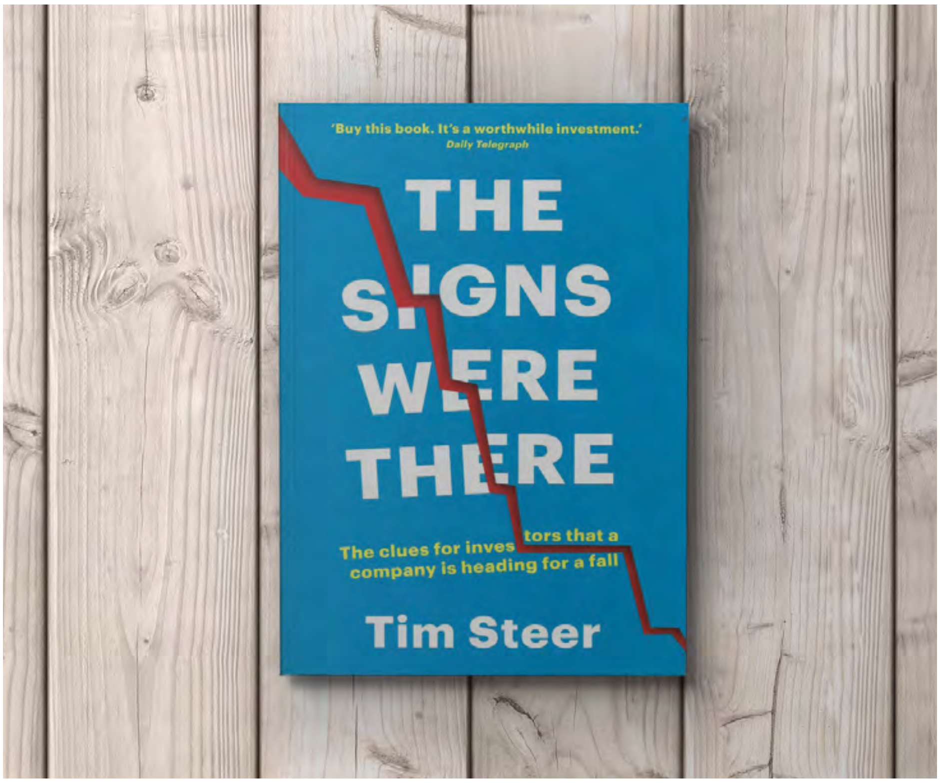
This book can help you avoid potential stock disasters

'The Signs Were There' by Tim Steer is a much-needed guide to spotting when companies are in danger

There is no shortage of books on how to be a better investor – a fair selection of them have been reviewed by *Shares* – but there are precious few guides on how to spot corporate misdoing and save yourself from losing money when a company collapses.

Former AAA-rated New Star and Artemis fund manager Tim Steer has written the book we've all been waiting for: *The Signs Were There: the clues for investors that a company is heading for a fall.*

Bang up to date, the book singles out more than two dozen examples of companies where the writing was on the wall – or more accurately in the accounts – from the collapse of support services group Connaught in 2010 right up to the implosion of the Woodford Equity Income Fund.



START AT THE BACK

Steer's first rule is to read a company's accounts backwards, that is starting with the balance sheet, then progressing through the cash flow statement before finally considering the profit and loss (P&L) account. As he says, and as has been repeated many times, 'cash is fact, everything else is a matter of opinion or an estimate'.

His second rule is to treat the accounts as an iceberg in terms of the information they contain. If there is anything in them which makes you feel uneasy or rings alarm bells, it's highly likely there are 'even more uncomfortable things lying below the metaphorical water line'.

Not all of the companies featured saw their share prices go to zero, but an awful lot did. Those that eventually got to grips with their problems and survived still lost investors large amounts of money.

When he says the signs 'were there', Steer backs it up with clear, easily understood examples of what investors should be looking for. In 23 of the companies featured, 'there were clear signs in their annual reports that all was not well', and in case of the other four companies their stock market listing prospectuses contained 'items that should have raised a quizzical eyebrow or two'.

NCC and Aston Martin Lagonda are examples of companies which capitalised costs to flatter their earnings

INTANGIBLE ASSETS

Often, companies which grow their earnings faster than the market eventually find themselves in a dilemma as growth slows. Do they disappoint investors and see their shares fall, or do they find creative ways to keep profits up and keep everyone happy?

Where a company is taking on lots of new business but doesn't want to put the increased costs through the P&L, they can hide them on the balance sheet as intangible assets.

Although questionable, the practice is entirely legal under International Accounting Standard (IAS) 38 as long as the costs are part of a project which will produce 'future economic benefits'.

Start-up costs on new projects, in-house software development costs, and research and development costs can be capitalised as assets and kept off the profit and loss account.

Connaught, cyber security group **NCC (NCC)** and **Aston Martin Lagonda (AML)** are all examples of companies which capitalised costs to flatter their earnings. At Connaught and NCC, these intangibles turned out to be worth a lot less than the companies had forecast and had to be written down.

INVENTORIES AND ASSET QUALITY

When it comes to inventories, also tucked away on the balance sheet, the collapse of Patisserie Holdings was a painful lesson in how what looked to be a highly profitable company was able to cook the books.

One warning sign was the lack of interest income considering the company claimed to have £29 million of cash. Sure enough, the cash wasn't there, profits had been inflated and the company went into administration.

'Channel stuffing', or filling distributors' forecourts with cars, was how Aston Martin boosted sales by 25% in 2018, the year it floated, but it also had to extend credit to the dealerships in order to carry it off.

As a result, 'receivables' – or revenues owed to the firm – and debt levels rose significantly. When sales started to disappoint, the twin effect of write-offs and interest costs punctured the share price.

SAVE YOURSELF MONEY

With good independent research hard for retail investors to source, and company presentations getting ever slicker, the annual report is the one document worth reading to check whether all is as it seems.

The case studies in the book are an excellent guide to what to look for, and by spending a little now investors could save themselves a great deal of money in the future.

By **Ian Conway**
Senior Reporter

Is there any value in bonds going into 2021?

It could be a lot harder to make money from the bonds space next year

Bonds are often considered an integral part of a portfolio by providing diversification and, in many cases, adding a lower risk element to someone's investments. Unfortunately, many bonds have become unattractive due to prices being bid up and yields falling. As such, investors need to be very careful where they put their money in the fixed income space in 2021.

This article explains the basics of bonds and looks at the main parts of the market to see which look attractive or not.

WHAT ARE BONDS?

Bonds are IOU's issued by governments and companies to investors in return for cash. They usually have a fixed life, called the maturity, and offer different levels of interest, called the coupon. Generally, bonds get issued and redeemed at par, or 100.

Japanese government bonds have seen negative yields

Because the coupon is fixed bonds don't provide any income growth potential if held to maturity date, unlike shares. However, prices can move up and down during the life of the bond, so there is scope for capital gains and losses.

While bonds are designed to offer a more secure return than stocks, depending on the financial health of the issuer, they do not provide any protection against inflation. That means the purchasing power of the capital an investor receives back at maturity may be lower, especially over longer periods.

Bond prices move in the opposite direction to yields.

LIQUID MARKET

The global bond market is probably bigger than most people think and is worth $128 trillion according to data by the International Capital Market Association. Government or sovereign bonds make up around at $87 trillion which is twice as large as the corporate market of $41 trillion.

Since the financial crisis more than a decade ago, interest rates have fallen and in several cases government bonds in Japan, Europe and other countries have negative yields.

This means that if investors hold certain bonds until maturity, they will guarantee a loss.

It's working explaining how

Current state of the bond market

Government bonds – unattractive if you believe economic growth will be strong in 2021

Investment grade corporate bonds – demand has been strong this year, so yields are relatively low on investment grade bonds

High yield corporate bonds – yields are more attractive in this space but still much lower compared with a few years ago. Don't forget the greater risk of corporate defaults

Examples of ways to invest in bonds

UK GOVERNMENT BONDS
Lyxor FTSE Actuaries UK Gilts UCITS ETF (GILS)
Price: £150.40
Market Cap: £690 million
Yield: 2.23%

UK INVESTMENT GRADE CORPORATE BONDS
Artemis Corporate Bond I Inc GBP (BKPWGV3)
Price: £1.10
Market Cap: £493 million
Yield: 1.89%

GLOBAL BONDS
M&G Global Macro Bond GBP I Inc (B78PH60)
Price: £ 138.53
Market Cap: $2 billion
Yield: 2.1%

HIGH YIELD BONDS
Baillie Gifford High Yield Bond B Inc (3081671)
Price: £135.50
Market Cap: £ 830 million
Yield: 4.3%

STRATEGIC BONDS
Artemis Strategic Bond I Quarterly Acc (B2PLJR1)
Price: £1.10
Market Cap: £1.7 billion
Yield: 2.4%

EMERGING MARKET BONDS
M&G Emerging Markets Bond GBP I Inc (B4TL2D8)
Price: £128.98
Market Cap: $1.1 billion
Yield: 6.4%

Source: Blooberg

Please these are 12-month historical yields and may not be representative of the yields you would get today.

that would work in practice. Let's say an investor buys a bond at 115. Because the bond matures at 100, if the interest payments received while holding the bond don't fully compensate for the 15 points of loss, an investor will make a negative return.

That doesn't stop many investors buying such products, as they see benefits such as the potential to make a capital gain if sold before maturity and as a hedge against deflation.

CURRENCY RISK IS SUBSTANTIAL

When considering investing in foreign bonds it is important to take the currency into account because even small changes in the exchange rate can easily wipe out returns when interest rates are very low, like today.

That's one of the reasons it is easier and safer to invest in bonds via active or passive funds which automatically hedge foreign exchange risk.

Another reason is that analysing government bonds or corporate credit requires specialist skills which are beyond the reach of the typical investor.

GOVERNMENT BONDS CURRENTLY UNATTRACTIVE

Shares spoke to various bond managers for this article and they all had a negative view on the prospects for government debt. This because a strong economic recovery is anticipated next year thanks to vaccinations gathering pace as restrictions are pared back.

The central view is that an anticipated $1 trillion US fiscal stimulus combined with a commitment by the Federal Reserve to keep interest rates low will spur a faster recovery.

Growth is generally bad for bond prices as yields tend to rise during periods of strong growth.

Not only do government bonds offer virtually no interest – UK government bonds have negative yields out to five-year maturities – they also risk capital loss as the yield curve steepens.

This refers to longer-dated bond yields rising more than shorter-dated issues. Prices of longer duration bonds are more sensitive to interest rate rises and inflation.

CORPORATE BONDS

Corporate bonds are sometimes referred to as credit investments because most of the risk attached to them is related to the financial strength of a company.

Credit ratings for companies are not dissimilar to your own credit rating and reflect the ability to service debts.

Credit rating agencies such as Standard and Poor's, Moody's and Fitch provide credit research and bond ratings and the best quality companies are given an investment grade rating.

Non-investment grade bonds are called high yield or junk, reflecting their lower credit quality.

A study by S&P showed that companies at the bottom of the investment grade ladder (BBB) had a 0.16% chance of defaulting compared with a 27% default rate for the companies rated at the bottom of the junk or high yield category (CCC).

It's customary to refer to different credit rating categories by the extra yield they offer over

safe government bonds, called the spread.

TIGHTER CORPORATE BOND SPREADS

There is very little risk priced into corporate bonds which would make them vulnerable to another dip in the economy.

Since the US Federal Reserve made the move to include investment grade corporate bonds in its asset buying programme in late March, there has been a torrent of new issues while yields have fallen below pre-Covid-19 levels.

The yield on US investment grade corporate bonds has dropped from 5.6% during the panic in March to 2.1%. This represents a spread of 1.2% over 10-year government bond yields of 0.9%.

The $56 billion iShares iBoxx $ Investment Grade Corporate Bond ETF surged around 30% from the trough in March to the recent peak, yet investors have since been taking profits with the fund seeing its biggest ever single day outflow in the second week of December, which saw redemptions of $1.3bn.

Investors looking for extra yield are reduced to considering the riskier high yield corporate debt market. However, yields and spreads are near historic lows with the US spread is around 3.6%, while in Europe it is 3.4%.

Investors going down this path should be mindful of what bond fund manager Dan Rasmussen called 'fool's yield' which refers to the extra yield seemingly on offer which fails to materialise because defaults are higher than expected.

OUR PREFERRED WAY TO GET EXPOSURE TO BONDS

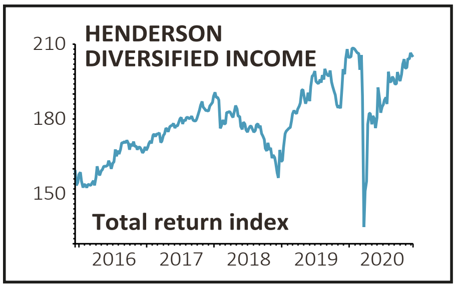
Given the unprecedented nature of the past year, and the huge debts taken on to survive the pandemic by governments and corporations, there is a lot of uncertainty around the speed and extent that the global economy will get back to pre-Covid-19 levels.

The dispersion between positive and negative outcomes is very wide. For instance, Moody's has a best-case scenario where credit defaults fall to 4% next year while its worst case has them accelerating to 18% by next September.

Therefore, a good case can be made for considering tactical bond funds which have the flexibility to take advantage of opportunities across the full spectrum of bonds and actively manage risk.

Henderson Diversified Income Fund (HDIV) BUY

Price: 88.8p
Market Cap: £170 million
Discount to NAV: 4.2%
Yield: 4.95%



Managed by industry veteran John Pattullo and Jenna Barnard, this investment trust has a unique investment approach focused on lending to quality businesses which makes the portfolio more durable should the economic backdrop deteriorate.

The trust has an excellent track record, delivering a five-year average annual return in NAV of 6.6% compared with 4.7% for the Morningstar category.

The managers see corporate bonds as the best area for yield because they believe the bond ratings downgrade cycle has peaked, creating a more benign outlook for defaults.

The trust is attractively priced and trades at a 4.2% discount to NAV compared to a 12-month average of 2%, while offering almost 5% historic yield.

By **Martin Gamble**
Senior Reporter


SIPPs | ISAs | Funds | Shares
AJBell
Youinvest
GET INVESTING
and now get cashback too
Consolidate your pensions with us and we'll reward you with at least £100 cashback
youinvest.co.uk/cashback
THE TIMES money mentor
CUSTOMER EXPERIENCE RATING
Investing & Pensions
GOLD AWARD
Autumn 2020
Recommended Provider
Which?
Self-Invested Personal Pensions July 2020
Terms and conditions apply.
Capital at risk. Pension rules apply.
Check you won't lose out by transferring.

The big changes for personal finance in 2021

The factors that could impact your wealth and income in the coming 12 months

The year 2021 sounds like something you might find in the title of a 1960s sci-fi movie, set a long time in the future, when people are curiously transfixed by handheld computers, and wear strange masks. Well, it's almost upon us, so it's a good time to think about what next year holds in store for our personal finances.

The main theme for 2021 can probably be summed up in three innocent-looking letters: TAX. The Government's got a big black hole in its finances to fill, and we all know that means higher taxation. If vaccines start to work their magic and alleviate the health crisis, we could see the chancellor starting the fiscal repair job in the March Budget.

We don't know precisely where the axe will fall as yet, but the Government will be looking for ways to raise tax revenues without slowing down the economy too much. Wealth is less economically active than income, so that paints a big target on its back. A capital gains tax hike looks like a front runner.

CAPITAL GAINS RAID FLOATED

The chancellor commissioned a report which recommended raising capital gains tax rates in line with income tax rates. You only have to go back to 2008 when that was already the case, so the Government would hardly be breaking any taboos by rolling back a few years to pay for the financial damage wrought by the pandemic.

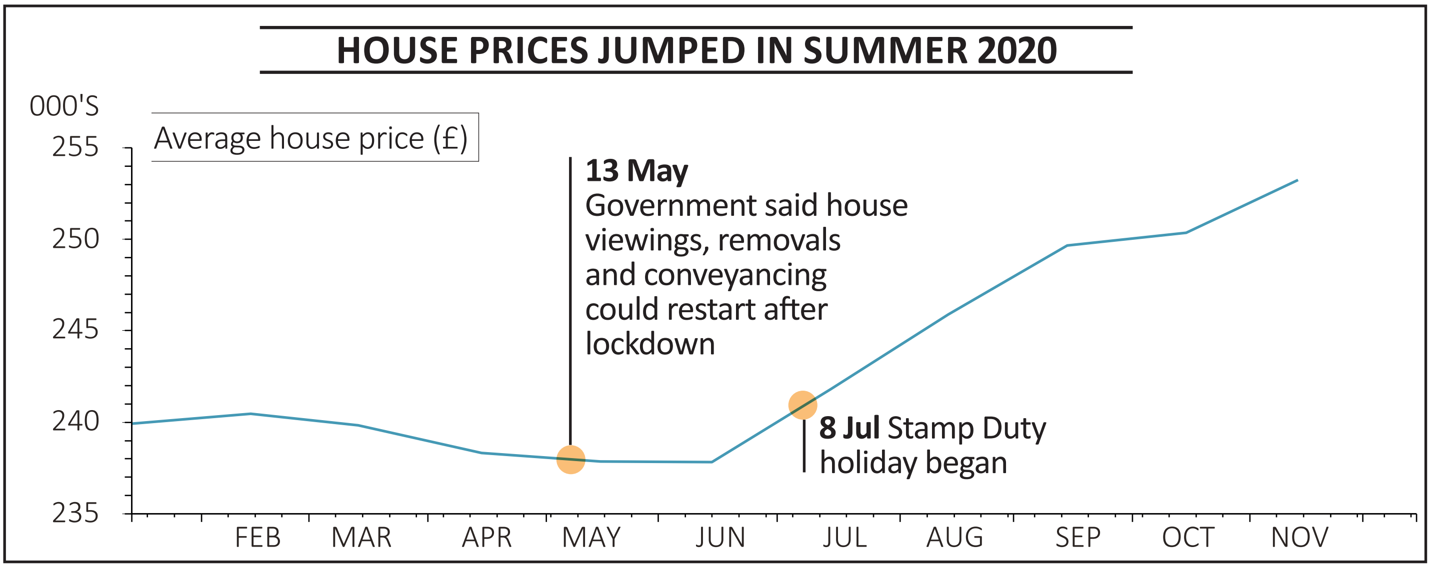
There have also been murmurings around higher rate relief on pensions taxation, but then that has been a background hum for most of the last 10 years.

Cutting relief would bring in lots of money for the Treasury, but they'd basically have to tear up the fabric of the pensions system and redesign it. By the time they've done that we could be close to the 2024 election, or beyond. In times of such a huge strain on the public finances though, we shouldn't entirely rule it out.

Whatever the Treasury does, savers and investors need to be on their toes when it comes to tax planning next year. Using pension and ISA allowances is a must, to shelter as much money from the taxman as possible. There's also the Lifetime ISA and Junior ISA which might be deployed. Beyond that, if you're a couple, consider spreading assets between both of you, to make use of both sets of allowances.

Those who are married or in a civil partnership can pass assets between themselves without incurring a capital gains liability until they are actually sold. And if inheritance tax is likely to be an issue, make sure you use your annual £3,000 gifting allowance to pass money on without being clobbered by IHT.

Aside from the rising tide of



Source: Halifax

taxation, there are some specific changes that we know are happening next year that will affect investors.

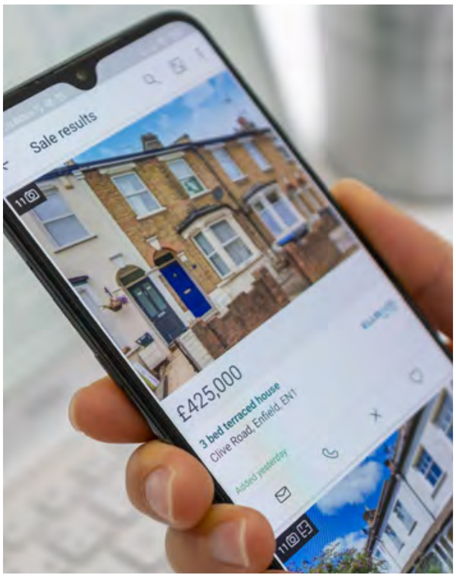
PENSIONS CHANGES LOOMING

There will be a little more leeway for savers with big pensions pots as the lifetime allowance is set to rise by 0.5% to £1,078,900. This is the upper limit you can build up in a pension throughout your lifetime without paying a tax charge.

Also on the pensions front, new rules coming into effect from February 2021 will impact people who choose to keep their money invested while taking an income in retirement, in a drawdown arrangement. Pension companies will be required to offer customers four 'pathways' investment options.

These will not be tailored based on their personal circumstances, but rather designed around four very broad retirement income objectives.

The reforms are primarily designed to ensure savers do not end up investing large portions of their pot in cash over the



long-term. The FCA is worried people who hold too much cash in their pension risk missing out on valuable investment returns, and having their pot's real value eaten away over time by inflation.

We'll also see the early withdrawal charge for Lifetime ISAs creep back up to 25% from April 2021. This was cut to 20% as part of emergency measures designed to ease the pain on savers struggling to make ends meet during lockdown. As with all measures introduced to cope with the pandemic, it's worth keeping an eye out for changes to the timetable, as they could be extended if the health emergency takes a turn for the worse.

HOLIDAY TIME OVER FOR PROPERTY

At the end of March, the stamp duty holiday which has boosted the UK house prices will come to an end, and we can expect to start seeing that impact on activity in the property market. Realistically that will start to take effect over the next couple of months due to the length of time it takes to complete on a house purchase before the deadline.

As we head into the New Year, most of us will be very glad to see the back of 2020. While 2021 promises to be brighter, there are still challenges ahead, and particularly with big changes to the tax system looking likely, it will pay to keep your ear to ground.

By **Laith Khalaf**
Financial Analyst

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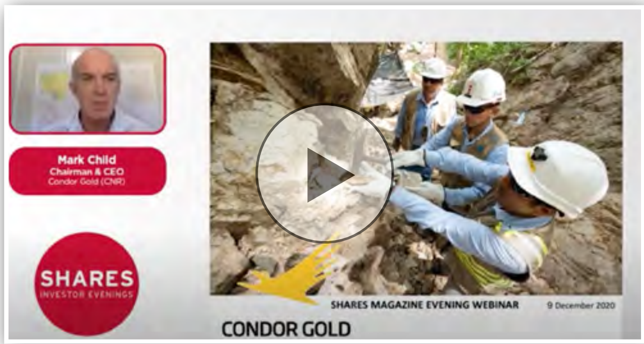
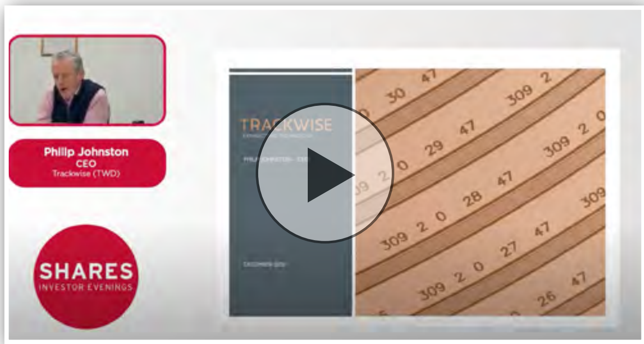


Condor Gold (CNR) – Mark Child, Chairman & CEO

Condor Gold (CNR) is a UK based exploration company focused on proving a large commercial reserve on its 100% owned La India Project in Nicaragua.



Trackwise (TWD) – Philip Johnston, CEO

Trackwise (TWD) is the manufacturer of printed circuit boards. The company's circuits are used in RF/antenna and lightweight interconnect products, across multiple market sectors and applications. It primarily serves the aerospace, industrial, automotive, marine, space, defence, Scientific and telecommunications industries.

Valeura Energy (VLU) – Sean Guest, President & CEO

Valeura Energy (VLU) is an upstream oil & gas company, with a clear strategy to add value for shareholders. The Company has a strong balance sheet with no debt, positioning it for potential inorganic growth opportunities, and substantial upside potential through an operated deep, tight gas play.

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Why shouldn't I opt out of my workplace pension?

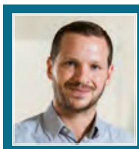
Our resident expert makes the case for maintaining a retirement saving habit

I'm tempted to opt out of my workplace pension scheme. I'm 25 and earn £10 an hour, of which a tiny proportion goes towards my retirement. I spoke to someone who reckons this might generate an income of a few pounds a week when I'm older.

I'm struggling to see the point if I'm honest, so figured I'd be better off spending the money today while I can actually enjoy it!

Can you change my mind…?

Stephen



Tom Selby
AJ Bell
Senior Analyst says:

I like a challenge Stephen!

All employers are now by law required to auto-enrol eligible employees into a workplace pension scheme.

Minimum contributions are set at 8% of 'band earnings', which in 2020/21 means earnings between £6,240 and £50,000. So, for example, someone with a salary of £30,000 auto-enrolled would see 8% of £23,760 (i.e. £30,000 - £6,240) a year go into their pension.

In terms of the split of contributions, 4% will come from you, 3% from employer contributions, and 1% from basic-rate tax relief.

Employers are required to auto-enrol employees aged between 22 and state pension age with a salary of £10,000 or more, although all employees can request to join a scheme. Those who save via auto-enrolment will have their pension automatically invested in a 'default' fund, with charges capped at 0.75% a year, although they can choose different investments if they want.

Saving in a pension is a significant commitment, with your money locked up until 55 under current rules, so it is understandable you want assurances you are getting value for money.

The key upfront benefit is your matched employer contribution – effectively a 100% return on the first 3% you pay into your workplace scheme. Your employer will have considered auto-enrolment costs when deciding your overall remuneration – so by opting out you'd effectively be taking a voluntary pay cut.

You should also receive basic-rate tax relief on your personal contribution, which together with the employer contribution means the 4% you pay in is matched upfront.

While your money will be locked away, this isn't necessarily a bad thing as it will have the opportunity to benefit from tax-free investment growth over time.

In terms of what those contributions might deliver in later life, rules introduced in 2015 mean you can access your money however you want from age 55 (rising to age 57 from 2028). The first 25% is available tax-free with the remaining 75% taxed in the same way as income.

Someone earning £18,000 a year who pays in the minimum contributions for 30 years and enjoys real investment growth of 3% a year after charges could end up with a fund of around £46,000, while after 40 years it could be worth £73,000. And clearly if that person's wages increased over their career, so too would their projected pension pot.

There are certain circumstances where opting out might make financial sense (e.g. where someone has very high cost debts that take priority). But these are limited and so such a decision must not be taken lightly.

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.

How to navigate an annual report (and why it is full of great information)

Investors should consider these reports as essential reading and they are free to read online

Each year every company listed on the UK stock market must publish its annual report and accounts on its website. These documents can be lengthy, even running to hundreds of pages, but they can also be a superb way to help gain a greater understanding of a business.

In this article we will show you how to tackle an annual report. We examine some of the most important sections and look at a real-world example from **Next (NXT)** which is rated as one of the best communicators on the stock market.

An annual report is typically published a few weeks or months after preliminary results (often called full-year results). These results are 'preliminary' because they are released before the full annual report.

In December 2019 auditor KPMG observed: 'In practice – among those FTSE 350 companies issuing a prelim – the 'audited prelim' (i.e. preliminary results based on audited financial statements) is released up to 76 days before the full annual report, with a median of 21 days.'

GETTING STRATEGIC

A series of changes to the annual report in the 2010s means these are now far more than just a profit and loss account, covering areas from sustainability to executive pay, strategy and much more.

Specifically, from 2013 firms have had to produce a 'strategic report' providing an update on:

- The development and performance of the company's business during the financial year
- The position of the company at the end of the year
- A description of the principal risks and uncertainties facing the business

It must also include a list of both financial and non-financial key performance indicators

– NEXT – the gold standard

Retailer Next has a well-earned reputation for transparency and clarity when communicating with investors and its annual report for the financial year to January 2020 was no exception.

Notably it included a large section detailing its response to the coronavirus pandemic – an event which came after the period covered by the accounts themselves.

A section on warehousing capacity to fulfil online orders showed the amount of detail on offer. It revealed how long it took staff to pick items compared with a decade ago and planned changes to increase its efficiency – including through training and new software.

Investors reading the statement could be in no doubt that Next was taking the challenge of meeting major structural challenges in retail (accelerated by the pandemic) very seriously.

(KPIs) and details on the firm's strategy and operating model.

From the start of 2019 boards have also been required to include a further statement within their strategic report, describing how they have incorporated several factors into running the business.

Broadly, these include the likely consequences of any decisions in the longer term, the interests of employees and the need to foster business relationships, the impact of the company's activities on the environment, the desirability of high standards of business conduct and the need to act fairly between different members of the company.

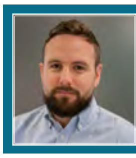
GETTING INTO THE DETAIL

Often annual reports will provide useful breakdowns of a company's revenue by sector and geography enabling you to get an idea of how reliant they are on certain markets.

The remuneration report is another important element for investors to peruse given it shows how much directors are being paid to manage the company and the policy which justifies these pay packets. A company lavishing huge sums on senior directors is arguably frittering away money which could be better spent elsewhere.

With the accounts themselves, the devil can be in the detail. It is well worth some time going over the notes to these statements, particularly if there are lots of differences between the statutory and adjusted revenue and profit. These can reveal if the adjustments are reasonable changes to give a true picture of underlying performance or an attempt to pull the wool over the eyes of the market.

Just as with all forms of shareholder communication the quality and breadth of information contained within these reports can vary quite widely. There is a big difference between publications containing the bare minimum and those which go the extra mile to help provide genuine insight into the business.



By **Tom Sieber** Deputy Editor

KEY

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

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

No companies are scheduled to report over the next 7 days

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

SENIOR REPORTERS: Martin Gamble @Chilligg

Ian Conway @SharesMagIan

REPORTER: Yoosof Farah @YoosofShares

CONTRIBUTORS Laith Khalaf, Russ Mould, Tom Selby

ADVERTISING
Senior Sales Executive
Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

PRODUCTION
Head of Design: Darren Rapley
Designer: Rebecca Bodi

CONTACT US:
support@sharesmagazine.co.uk

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