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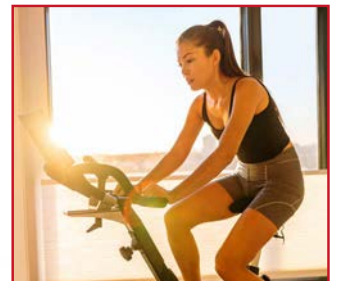


**plus**

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In-depth analysis  
of lockdown  
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Investments

# Big corporates ready to reveal how they are coping

Amid uncertainty, earnings season will provide some hard numbers to make judgements on

Investors are having to balance lots of intangible factors right now. First and foremost, they are being forced to guess how the Covid crisis will develop amid an apparent battle to vaccinate populations against a backdrop of soaring infections.

The pace at which we emerge from lockdown restrictions will depend on how quickly vaccines can be rolled out. The current market consensus appears to be that the first quarter will be very difficult with the situation improving rapidly for the economy and wider society from that point on. But ultimately, we just don't know at this stage.

Elsewhere the inauguration of president-elect Joe Biden is a week away and yet the fires stoked by incumbent Donald Trump raise the possibility of his impeachment or removal from office after a mob of his supporters stormed one of the seats of US democracy – the Capitol building in Washington.

We look at some of these events and how Biden's agenda might shape up in this week's [news section](#).

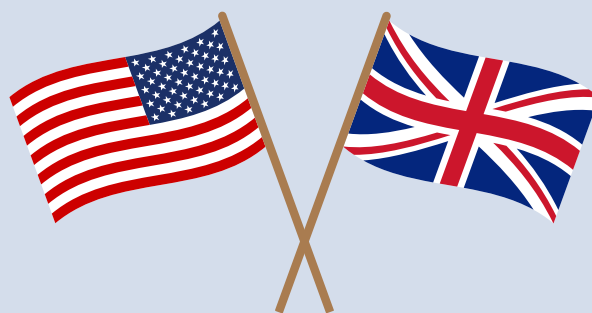
Against this uncertain backdrop, the opportunity to ground ourselves in the fundamentals of the latest corporate earnings season is very welcome, as will be the accompanying guidance on trading for 2021.

Results for the final quarter of 2020 have just started feeding through from across the pond. Next week we will have updates from the likes of Bank of America, Netflix, Intel and Proctor & Gamble.

We have a bit longer to wait for major UK releases, with oil majors **BP (BP.)** and **Royal Dutch Shell (RDSB)** both updating the market on the final three months of last year in the first week of February. It will be interesting to see what impact the vaccine-inspired recovery in oil prices is having on both businesses.

Helpfully, we have just the article to help you get set for a flood of results as the latest entry in our *First Time Investor* series is part one of [how to read](#)

## UPCOMING EARNINGS REPORTS



**Bank of America** 19 Jan

**Netflix** 19 Jan

**Proctor & Gamble** 20 Jan

**Intel** 21 Jan

**BP** 2 Feb

**Royal Dutch Shell** 4 Feb

**Unilever** 4 Feb

[an income statement](#).

The market has already been digesting a round of Christmas trading updates from the retail sector, with an upbeat statement put out by **JD Sports Fashion (JD.)** on 11 January a further demonstration of the divergent fortunes experienced by businesses in the teeth of the pandemic.

The Bury-based seller of trainers and 'athleisure' gear seems to have adapted rapidly to a lot of its business shifting online and continues to do retail right – getting the right mix of stock, keeping tight control of costs and getting its products in front of its customer base in the right place and at the right time.

The decision to walk away from an opportunistic purchase of Debenhams before Christmas looks more and more like a bullet dodged.



By **Tom Sieber** Deputy Editor

# Contents



03	<b>EDITOR'S VIEW</b>	Big corporates ready to reveal how they are coping
06	<b>NEWS</b>	Market reacts to Biden agenda and US drama / A history-making bubble in bitcoin/ Moonpig and Dr. Martens unveil flotation plans / UK investors no longer able to buy Ryanair shares/ The Hut Group owner THG continues to beat expectations
11	<b>GREAT IDEAS</b>	<b>New:</b> Sainsbury's / BlackRock LatAm <b>Updates:</b> Alibaba / Gamma Communications / IP Group / Gresham House
20	<b>FEATURE</b>	The Brexit deal and vaccine boost
28	<b>FEATURE</b>	Fund managers best ideas for 2021
32	<b>UNDER THE BONNET</b>	Why Peloton can't peddle growth fast enough to keep the share price rising
36	<b>FIRST-TIME INVESTOR</b>	Secrets of the income statement revealed
40	<b>FUNDS</b>	Discover the funds offering a 30% instant boost and tax-free dividends
44	<b>RUSS MOULD</b>	The FTSE 100 stocks with the most buy or sell ratings at the start of 2021
47	<b>MONEY MATTERS</b>	What to do with lockdown cash
50	<b>ASK TOM</b>	What is my annual pensions allowance?
54	<b>INVESTMENT TRUSTS</b>	The income and renewable funds going cheap
59	<b>INDEX</b>	Shares, funds, ETFs and investment trusts in this issue

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# Market reacts to Biden agenda and US drama

Some key signals are pointing to an economic uptick ahead



**S**tock markets started the new year in spectacular fashion, spurred on by rising expectations of a global economic recovery, US stimulus and a Democratic victory in the Senate.

The FTSE 100 recorded a 6% gain in the first trading week of the year, with strong gains also seen on Wall Street and across Europe, as rising coronavirus cases, and the storming of the US Capitol by a mob of Trump supporters, barely knocked markets off course.

In the US, the Democrats taking control of the Senate after winning runoff elections in Georgia on 5 January – and the subsequent Democrat ‘clean sweep’ of both houses of Congress – means president-elect Joe Biden should have a clear path to put his policies into action.

And that will almost certainly mean more government spending, potentially accelerating economic recovery and inflation in the world’s biggest economy. It also adds more impetus to the bets investors have been taking since November, jumping on the reflation bandwagon and betting the world economy would return to growth in 2021 thanks to Covid-19 vaccines and Biden’s election victory.

It’s also why investors have looked past the short-term impact of rapidly rising Covid cases and the political turmoil in the US, with markets almost unmoved on the day of the Capitol attacks, as the vaccine rollout gathers pace and conditions bode

well for a recovery later in the year. Household saving rates are reported to be at record highs, while there is increasing evidence of strong pent-up demand among consumers.

One area of the market which hasn’t fared so well in 2021 to date is US big tech, on fears Biden could hit the likes of Apple, Facebook and Amazon with anti-trust measures, aimed at breaking their monopoly power, and higher tax bills.

Elsewhere, the US yield curve, calculated using the difference in yield between two and 10-year government bonds, is the steepest it has been since mid-2017.

The scenario playing out sees long-term yields rise more quickly than near-term ones as investors look to price in an acceleration in economic growth and interest rate increases. Investors fear being locked into low rates and demand greater compensation for owning longer-dated paper.

This is the bond market’s way of saying an economic upturn, and potentially inflation, could be around the corner.

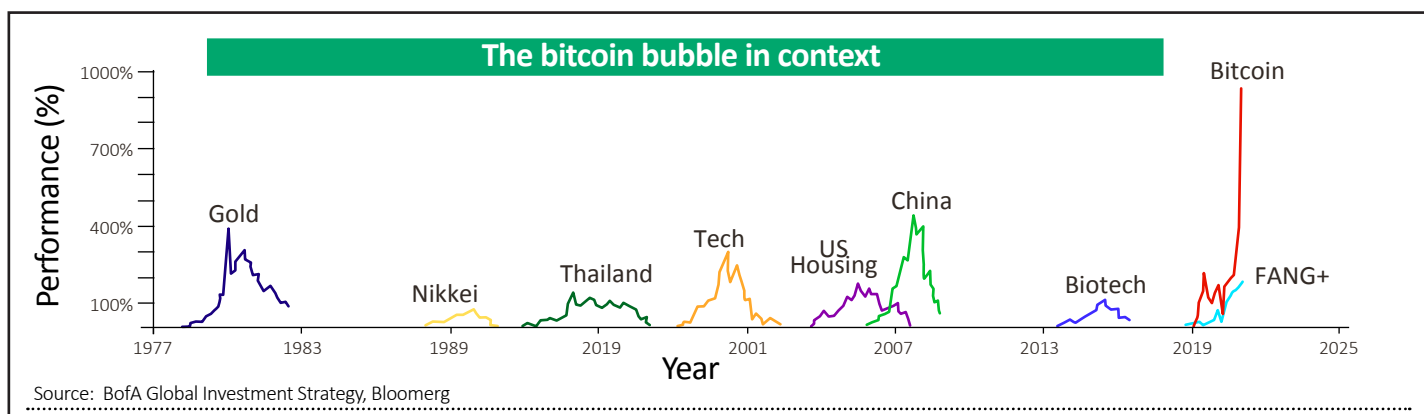
Though one warning sign is that money markets have ramped up bets on US interest rates rising in 2023, suggesting global stocks could take a hit when the Federal Reserve starts scaling back its support for the economy.

Analysts expect it could signal its intention to do this in June if it looks like the vaccine rollout is going to plan and economic growth is getting back on track. [YF]

# A history-making bubble in bitcoin



There is no reliable basis for valuing cryptocurrencies



**B**itcoin could turn out to be the 'mother of all bubbles' according to Bank of America's Michael Hartnett who has compared the price action of the cryptocurrency to former bubbles in history including the 1979-to-1981 Gold bubble which took the price up 400% in around two years.

As the charts illustrate bitcoin's gains have been spectacular and over the month to 8 January it had gained 10-fold (it has since lost 25% of its value).

This sort of volatility isn't normally associated with 'safe' assets, but more institutions are taking the cryptocurrency seriously and adding exposure as an alternative to gold as a hedge against inflation.

This feels like a rehash of arguments made over the last 40 years for various assets.

With so much debt being issued since the start of the pandemic, some investors worry about future inflation and see bitcoin as an alternative to gold.

One such institution is asset manager Ruffer which recently purchased bitcoin saying: 'Bitcoin diversifies the company's (much larger) investments in gold and inflation-linked bonds, and acts as a hedge to some of the monetary and market risks that we see.'

Hedging a diversified portfolio with bitcoin after conducting thorough research may be appropriate for institutions, but the worry is that recent price momentum has been driven by individual investors looking to make a quick return with little regard for

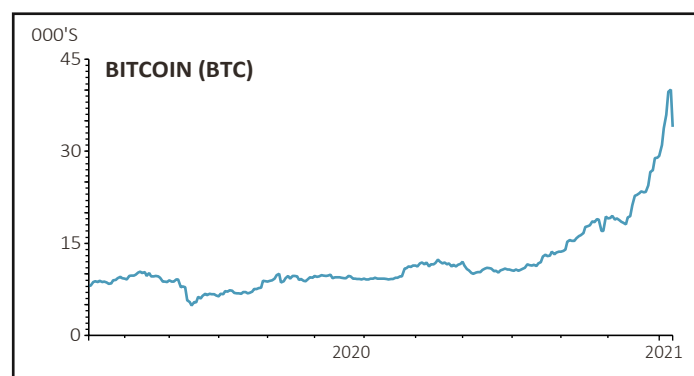
the risks.

As the Financial Conduct Authority (FCA) warned on 11 January, cryptocurrencies offering high returns generally involves taking high risks and investors should 'be prepared to lose all their money.'

Since 10 January all UK crypto-asset firms must be registered with the FCA under regulations to tackle money laundering and operating without a registration is a criminal offence.

In the long run digital currencies like bitcoin may have a role to play with central banks looking very carefully at them and large companies like Starbucks trialling them as a form of payment.

However high-profile fraud cases like the Mt. Gox exchange in Japan, where bitcoin wallets were emptied, and the assets disappeared, and high price volatility means bitcoin's entry into the mainstream may be delayed. [MG]





# Moonpig and Dr. Martens unveil flotation plans

Iconic boot brand and online greeting card platform kickstart what could be a banner year for IPOs

**A** UK stock market uptick twinned with the inking of a Brexit trade deal have coaxed boot maker **Dr. Martens** and online greeting card platform **Moonpig** to pull the trigger on Main Market IPOs. If successful, these could provide the catalyst for a flurry of further flotations in 2021.

An iconic British brand once synonymous with rebellious teens and adults, Dr. Martens' IPO is likely to attract the attention of investors both in the UK and abroad given the brand's potential for growth in a £341 billion global footwear market.



**Dr Martens sells more than 11 million pairs annually**

One of the world's most recognised footwear brands, Dr. Martens benefits from a loyal customer base, sells more than 11 million pairs of footwear annually in over 60 countries and generated a healthy EBITDA (earnings before interest, tax, depreciation and amortisation) of £184.5 million on £672.2 million sales in the year to March 2020.

Though it sells its footwear through more than 130 of its own retail stores and via wholesale customers, distributors and franchisees, e-commerce is expected to remain the key growth driver over the coming years as Dr. Martens increasingly sells direct-to-consumer in a bid to control its own destiny.

Despite months of Covid-induced store closures, Dr. Martens has performed strongly during the course of the pandemic, though red flags include its period under private equity ownership and consumer grumblings over dwindling

product quality.

Private equity outfit Permira has owned the business since 2014 and whereas Dr. Martens was once renowned for its long-lasting footwear, a production shift to Asia nearly 20 years ago could be a reason behind the apparent deterioration in quality.

**Moonpig revenue up 135% in six months to October 2020**



Private equity backed online greeting card-to-gifting platform Moonpig is also on its way to the Main Market in one of the new year's hotly-anticipated debuts. Trading as Moonpig in the UK and under the Greetz brand in Holland, the online personalised cards purveyor has proved to be a lockdown winner as the pandemic sent sales soaring.

For the six months to October 2020, Moonpig's revenue was £155.9 million, up 135% year-on-year, with £120.8 million contributed by the Moonpig segment and £35.1 million by the Greetz segment.

In the IPO announcement (12 Jan), Moonpig insisted it is a highly cash generative business, 'due to its high margins, an attractive negative working capital profile and relatively low capital expenditure requirements'.

A new management team of chief executive Nickyl Raithatha, finance director Andy MacKinnon and respected former **WHSmith (SMWH)** boss Kate Swann, in the chair since August 2019, is positioning Moonpig as a technology play as it uses customer data and predictive technology to remind people of key events and suggest add-on gifts. [JC]



# UK investors no longer able to buy Ryanair shares

Post-Brexit there are restrictions on buying stock in the airline

**UK** investors can no longer buy shares in budget airline **Ryanair (RYA)** as it looks to stay compliant with EU rules for airlines after Brexit.

EU operating airlines require a minimum of 50% of shares to be held by EU nationals and it's believed Ireland-headquartered Ryanair is below this threshold.

This has resulted in significant changes for UK shareholders, which came into effect on 1 January. Trading in Ryanair shares is now restricted for UK shareholders – they will still be able sell their shares but buys will be blocked.

Ryanair UK National shares will be converted into 'Restricted Shares', meaning shareholders cannot attend, speak or vote at general meetings. Currently, UK shareholders will not be forced to sell their shares.

It comes as fellow budget airline **Wizz Air (WIZZ)**, which is based in Hungary, also said from 1 January



that UK shareholders will no longer be treated as 'qualifying nationals' and will lose the right to attend or vote at general meetings.

Both firms have enacted their long-held plans to ensure they retain their EU flying rights post-Brexit, with Ryanair's prohibition on non-EU nationals buying shares dating back to 5 February 2002.

Shareholders in UK-based rival **EasyJet (EZJ)** and the Anglo-Spanish owner of British Airways, International Consolidated Airlines (IAG), are as yet unaffected, along with investors in tour operators **TUI (TUI)** and **Jet2 (JET2)**. [YF]

## The Hut Group owner THG continues to beat expectations

Earnings forecasts have been upgraded once again on strong demand and deal making

COSMETICS AND nutrition website owner **THG (THG)** is building on its strong start to life on the stock market.

On 12 January the company better known as The Hut Group, unveiled the latest in a series of earnings upgrades since its September 2020 market flotation – suggesting the firm was well advised on the merits of under-promising and over-delivering before going public.

The latest upgrade is underpinned by strong trading over the Black Friday sales event with the company acquiring 1.7 million new active customers in November alone.

As well as this organic progress the company also announced some significant M&A activity in December, snapping up US skin care and beauty e-commerce site Dermstore for \$350 million and investing £59.5 million in two of its UK-based nutrition product

suppliers – Claremont Ingredients and David Berryman.

Liberum Capital analyst Wayne Brown says he has upgraded his EBITDA (earnings before interest, tax, depreciation and amortisation) forecasts 12% since the company joined the stock market last year.

At the time of writing the shares trade at 806.2p, up 60% on the 500p IPO price. A lot of the excitement around the business relates to Ingenuity, a technology platform which has been sold as a solution to third parties much in the same way that **Ocado's (OCDO)** online groceries platform is sold to global supermarkets. [TS]

# When 1.4 billion consumers buy local, that's a global opportunity



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PAST PERFORMANCE					
	Dec 15 - Dec 16	Dec 16 - Dec 17	Dec 17 - Dec 18	Dec 18 - Dec 19	Dec 19 - Dec 20
Net Asset Value	17.5%	40.2%	-21.6%	20.4%	58.0%
Share Price	20.3%	39.8%	-18.8%	24.1%	68.6%
MSCI China Index	20.4%	40.7%	-13.8%	18.7%	25.5%
<p>Past performance is not a reliable indicator of future returns.  Source: Morningstar as at 31.12.2020, bid-bid, net income reinvested.  ©2021 Morningstar Inc. All rights reserved. The MSCI China Index is a comparative index of the investment trust.</p>					

Past performance is not a reliable indicator of future returns.

The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. Investments in emerging markets can be more volatile than other more developed markets. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand.

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

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# Play a regional recovery with BlackRock Latin American

This looks an attractive entry point for investors interested in unloved Latin American equities

A revival in shares of **BlackRock Latin American Investment Trust (BRLA)** could mark the start of an eventual recovery to the 760p levels seen in late 2010.

Though the trust has disappointed with negative ten-year annualised share price and net asset value (NAV) returns, according to Morningstar, a 7.6% NAV discount and a 4.3% yield on the quarterly dividend paying trust is a great way to gain exposure to a vast region with

## BLACKROCK LATIN AMERICAN INVESTMENT TRUST

➔ **BUY**  
(BRLA) 414.6p

Market cap: **£162.9 million**

deep value attractions.

A step-up in performance or increased investor appetite for Latin American equities would help to narrow the discount.

Latin America and largest economy Brazil have been hard hit by the pandemic, yet the region offers scope for considerable long-term upside as its economies grow and develop. Home to around 650 million people spanning countries as diverse as Brazil, Mexico, Chile, Argentina, Peru and Colombia, Latin America is too big to ignore.

US dollar weakness has also historically been very supportive for Latin American equities and an end to the pandemic should drive a sharp earnings rebound in 2021 and beyond. Covid-19 has accelerated a trend of low interest rates and digitalisation in Latin America, while robust Chinese demand for commodities should power Brazilian economic growth going forwards.

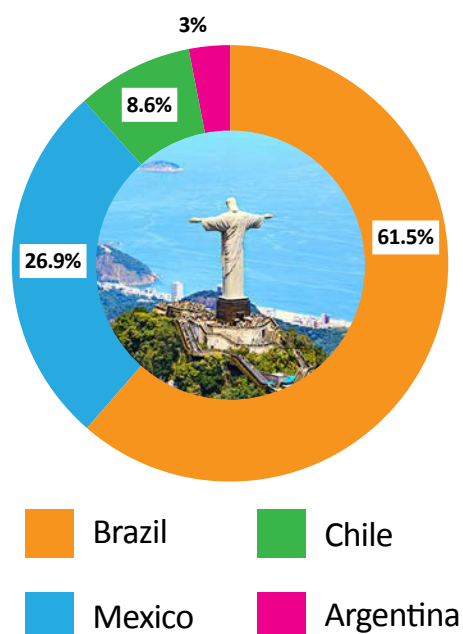
A savvy way to play the regional recovery, BlackRock Latin American aims to generate long-term capital growth and an attractive total return from a diversified portfolio of companies listed in, or with main operations in, Latin America.

Since their late 2018 appointment, co-managers Ed Kuczma and Sam Vecht have concentrated the portfolio and employed gearing more tactically. They seek reasonably valued companies that have good long-term earnings growth and cash flow generation, robust balance sheets and well-regarded management teams. They also assess the environmental, social and governance (ESG) credentials of every company they invest in.

As at 30 November 2020, the biggest investments included the Brazilian quartet of Petrobras, iron ore producer Vale, financial services company B3 and lender Banco Bradesco.

Investors are also buying exposure to the likes of America Movil, the Mexican telecommunications giant controlled by tycoon Carlos Slim, Mexican cement producer Cemex, food retailer Walmart de Mexico and Chilean lithium producer Química y Minera.

### BlackRock LatAm geographic breakdown



Source: BlackRock, as at 30 November 2020



# Buy Sainsbury's now before the shares surge

Strong trading update shows the supermarket is on the right track and is going cheap

**S**upermarket Sainsbury's (SBRY) is starting to feel the benefits of the investments it has made into its business but its share price is still attractively valued, making now an opportune time to buy.

The firm released a trading update last week which has made investors and analysts sit up and take note, as it reported a record increase in sales over the Christmas period and raised its full year earnings guidance.

## CRACKING CHRISTMAS

Revenue for the third quarter to 2 January was up 8.6% on a like-for-like basis excluding fuel, with sales over the nine-week Christmas period up 9.3% on a like-for-like basis.

Grocery sales for the quarter were 7.4% higher thanks in part to a 128% surge in online

**SAINSBURYS**

**BUY**

(SBRY) 238p

Market cap: £5.29 billion



revenues, with its upmarket Taste the Difference range posting an 11% rise as customers treated themselves over Christmas.

Chief executive Simon Roberts said the supermarket's customer satisfaction scores were at their highest level ever during the key Christmas week.

Significantly, online sales grew to 18% of grocery revenues during the quarter thanks to the company more than doubling its slots for home delivery and Click & Collect and increasing its

productivity with more orders delivered per van.

The growth in online sales is a significant advancement year-on-year, and this route to market is now demonstrably profitable for the firm, something which hasn't always been the case in the past and could help change investor sentiment towards Sainsbury's and the supermarket sector.

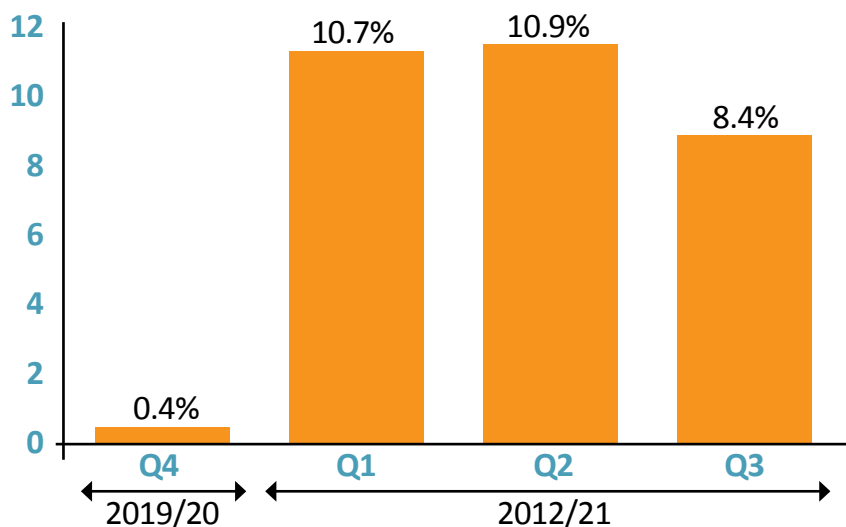
Pleasingly, sales of general merchandise were also robust, rising 6% during the quarter thanks to an 8.4% increase in sales at Argos, confirming our bullish call on the prospects for the non-food business in our November ['Christmas winners'](#) feature.

After forgoing business rates relief of £410 million, the retailer now expects to report underlying pre-tax profits for the year to March of 'at least £330 million', compared with the company-compiled consensus of between £270 million and £285 million.

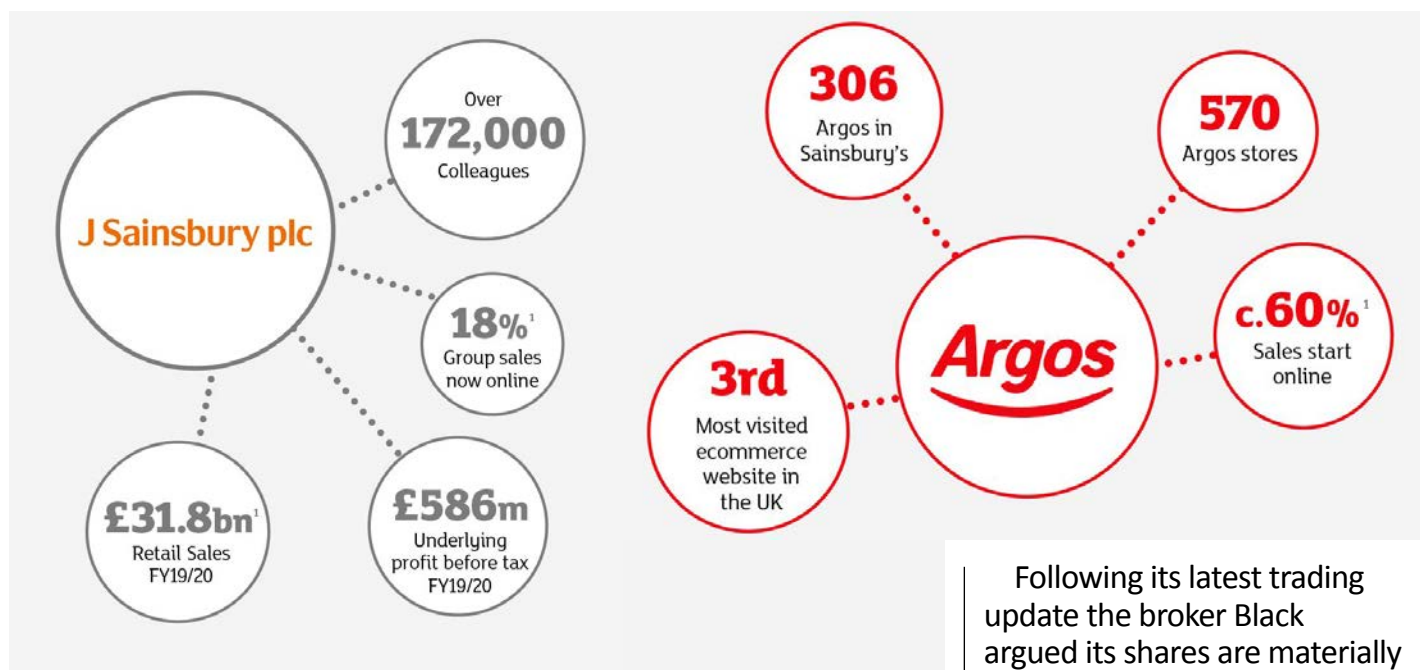
## ARGOS DRIVING GROWTH

Argos, which has done a great job of sharpening its delivery service, looks to be a key growth

Argos sales leap



Source: Sainsbury's



driver for Sainsbury's and a differentiator for the firm against peers like **Tesco (TSCO)** and **Wm Morrisons (MRW)**.

Its decision to close 420 standalone Argos stores might have given the impression Sainsbury's failed with its £1.4 billion acquisition of the catalogue retailer in 2016, but that couldn't be further from the truth, with the latest update again confirming the division's, (and the group's) prospects. Sainsbury's says 90% of Argos orders are now made online versus 55% four years ago, representing a major shift in customer behaviour.

The supermarket's strong trading update comes after it booked £438 million in one-off costs in the 28 weeks to 19 September as it closed the Argos stores, and invested in its online capability as well as its Nectar and Habitat brands and Sainsbury's Bank, which has returned to profitability in the quarter just gone after reporting first-half losses.

That investment looks like it

is starting to pay off with the supermarket now in a better place to capture upside from the shift to online.

Despite the clear progress made the company is still on a very attractive valuation. According to Stockopedia its trades on a 12-month forecast rolling price-to-earnings ratio of 12.7 times, and a price-to-book value of 0.75 times.

The Sainsbury's share price has admittedly gone nowhere in the past decade, and the supermarket has been one of the most shorted stocks over the last year.

#### RISKS TO WEIGH

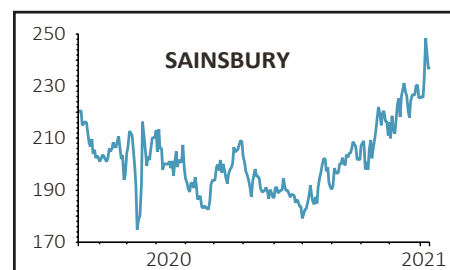
There are still risks to keep in mind and the supermarket itself has warned the impact of the pandemic on sales and costs adds additional uncertainty to its outlook for the remainder of its financial year to March 2021.

However, Shore Capital analyst Clive Black believes investors should change their view on the stock and that the short sellers should think again.

Following its latest trading update the broker Black argued its shares are materially undervalued with scope for a 'rating expansion'. He thinks the shares could reach 320p.

Black explains: 'Sales comparatives will be very challenging [next year], but working from home is here to stay, Sainsbury's has a firmer market share base than it would have expected a year ago, a much more profitable online capability, volume boosted working capital and with capital discipline, noting the step up for two years to £750 million to reshape Argos, so the scope to deliver strong free cash flow.'

He says that free cash flow can de-lever the business and fund the group's attractive dividend with a yield in excess of 5%, while like the rest of its sector, Sainsbury's faces favourable cost comparatives in its 2022 financial year. [YF]



# Reliability – the investment world's most attractive attribute

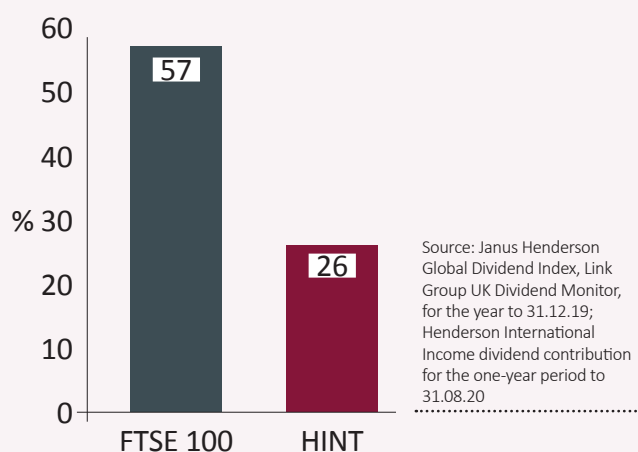
*In a year of dividend cuts and suspensions, Ben Lofthouse, Fund Manager of Henderson International Income Trust (HINT), explains where he is finding income and what makes HINT a diversifier for UK income-driven investment*

FOR PORTFOLIO MANAGERS and investors alike, 2020 is likely to have been as turbulent a year as most in the asset management world have ever experienced. Whilst the effects of the COVID-19 pandemic have been felt ubiquitously across global markets, income-seekers have suffered particularly severely as a consequence of recent corporate dividend-cutting and suspensions, with non-financial considerations widely impacting dividend decisions, which have served only to accentuate an already challenging climate of record-low interest rates and collapsing government bond yields. This unique investing environment has mandated a large degree of fresh thinking and, inevitably, UK investors – seeing their traditional sources of income, such as bank deposits and gilts, undermined – have sought alternatives in equity income funds. Unsurprisingly, attention has settled on investment trusts due to their ability to support dividend payouts with revenue reserves and, since 2012, to pay income out of capital subject to shareholders' approval.

Henderson International Income Trust, part of the Janus Henderson stable of investment trusts, is specifically designed as a complementary diversifier for UK income-driven investors by providing a high and rising level of dividends, as well as capital appreciation, over the long term from a focused and internationally diversified portfolio of securities outside the UK. The ex-UK aspect of the portfolio was designed to allow investors to be confident of true stock-specific diversification given that many global income funds often place too heavy a reliance on the FTSE 100 dividend payers and, as shown in the chart opposite, the dividends paid by UK companies (represented here by the FTSE 100 Index) are highly reliant on a small number of companies – not the case for Henderson International Income.<sup>1</sup>

The trust is managed by Ben Lofthouse, Head of Global Equity Income at Janus Henderson, but is in a position also to leverage the wealth of additional equity income experience within the

Contribution to dividend income for the top 10 dividend-paying stocks



Janus Henderson portfolio management team. Its current yield of over 4.1% pa<sup>2</sup>, coupled with the fact that dividends are paid quarterly (in February, May, August and November), makes it an attractive option for the income-seeking investor. Indeed, the trust has established a track record of rising income delivery and strong total return performance. Since launch in March 2011:

- the dividend has grown from 1p per quarter to 1.50p per quarter<sup>3</sup>
- the capital value has grown from 100p to 153.5p<sup>3</sup>
- dividends have grown every financial year at a greater rate than inflation.<sup>3</sup>

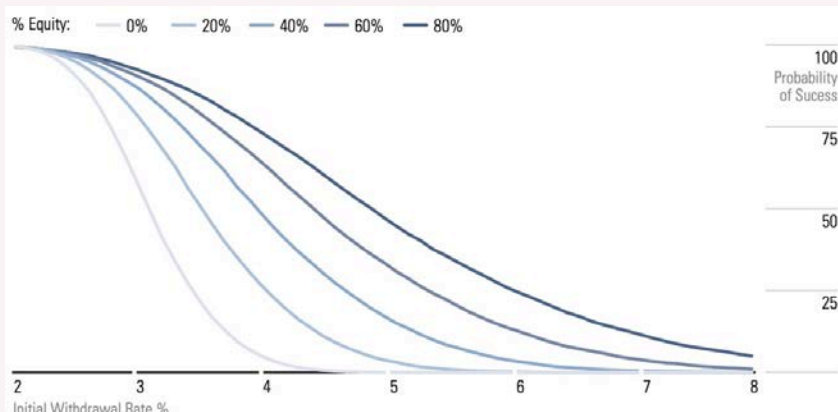
Whilst dividend cuts were clearly a headline phenomenon in 2020, the impact varied significantly across both regions and sectors and the benefits of the trust's international diversification were brought sharply into focus by virtue of its ability proactively to adjust the portfolio to ensure that the majority of holdings increased or maintained their dividends: of the top 10 holdings, nine increased their dividends whilst one maintained its payout, highlighting the fact that not all companies have been impacted in the same way by the pandemic.<sup>3</sup>

Whilst the majority of the trust's holdings paid their dividends, some have delayed payments until the impact of the pandemic is clearer. Due to the fact that the trust has retained some of its income



### Success rates for various initial withdrawal rates and portfolios (30-year retirement period)

Source: Morningstar, *Safe Withdrawal Rates For Retirees In The United Kingdom*, 01.05.16



over the last few years, and in recognition of the importance of dividend income to shareholders, it's unsurprising that the trust's board has deemed it appropriate to utilise a relatively moderate amount of the income reserves – earnings having been retained every year since launch for a 'rainy day' – in supporting dividend payments: £917,000 of the £8,081,000 accrued at the start of the financial year was deployed in order to deliver a total dividend increase from 5.70p to 6.00p per ordinary share for the year to 31 August 2020.<sup>3</sup>

Returning to the central theme of dividend reliability, equity income investors will be abundantly aware that the key attraction of vehicles which invest with that objective in mind is that they deliver two components of return: capital and income. Often, the two are viewed as one – a commonplace error driven by the fact that the capital volatility masks the income stability. Take the UK market, as represented by the FTSE All-Share and FTSE 100 Indices: in the 30 years since 1989, they both returned a discrete capital gain in 20 of those years, whereas they both, of course, had positive income returns in 100% of the years. Put simply, whilst there may not have been capital gains in any year, an income was always paid. For many investors – those using the trust to generate an income in retirement for example – the lack of any pressing need to sell renders any short-term fluctuations in capital value largely irrelevant.

The typical answer provided by most wealth managers when asked to construct a long-term investment portfolio would be largely based on Modern Portfolio Theory, as devised by the Nobel prize-winning economist Harry Markowitz. The essence of the theory is that there is no gain to be had in investment without risk, but that the risk can be contained within limits set by the investor via appropriate asset diversification. In its simplest form, the gains, and therefore the risks, come from equities, while the containment, and traditionally the main source of income, is

provided by bonds. In the past therefore, the industry's answer to providing a low-risk secure income, such as that required by a retired person, was often a portfolio of high-quality bonds. For many years, such a portfolio could be relied on to provide a 'natural' income from interest receipts that kept pace with or exceeded inflation.

Things have changed. For better or worse, the collapse in interest rates has compelled investors to revisit their assumptions and diluted the attractions of high-quality bonds. Inflation has also fallen in recent years, but not enough to offset the fall in interest rates. Equity income has come into its own. The appeal of equity vehicles as a reliable income generator is illustrated well by a seminal research piece conducted relatively recently by data provider Morningstar.<sup>4</sup> The chart above is an extract from the research and, in the context of a hypothetical retiree, it shows the probability of success of meeting withdrawals at various predetermined rates (made up of income and capital where necessary) over a 30-year period using different equity allocations – ranging from 0% to 80% – within the portfolio. 'Success' is defined as withdrawals being sustained throughout the 30-year period, without the value of the portfolio being exhausted.

Traditionally, the 0% equity portfolio would have been seen as the least risky and the 80% equity-heavy portfolio the higher risk ... and yet this is not borne out by the results. It is striking that, in every withdrawal rate scenario shown, the highest equity allocation displays the least risk of the fund being depleted: in other words, the least risk to long-term income.

These are challenging times for the world. There is no modern precedent for a pandemic such as this one, but Henderson International Income is well equipped to weather periods of economic uncertainty and to take advantage of opportunities as they arise. UK interest rates are likely to remain at, or close to, current lows and, against this backdrop, the objective of delivering an appealing income from an internationally

diversified portfolio of holdings remains highly relevant. The trust will therefore continue with its existing strategy of identifying companies that are

attractively valued, pay a sustainable dividend and have the capacity to grow their dividends over the medium to long term.

## GLOSSARY

**Bond** – A debt security issued by a company or a government, used as a way of raising money. The investor buying the bond is effectively lending money to the issuer of the bond. Bonds offer a return to investors in the form of fixed periodic payments, and the eventual return at maturity of the original money invested – the par value. Because of their fixed periodic interest payments, they are also often called fixed income instruments.

**Dividend** – A payment made by a company to its shareholders. The amount is variable and is paid as a portion of the company's profits.

**Yield** – The level of income on a security, typically expressed as a percentage rate. For equities, a common measure is the dividend yield, which divides recent dividend payments for each share by the share price. For a bond, this is calculated as the coupon payment divided by the current bond price.

**Gilts** – British government bonds sold by the Bank of England, done to finance the British national debt.

**Diversification** – A way of spreading risk by mixing different types of assets/asset classes in a portfolio. It is based on the assumption that the prices of the different assets will behave differently in a given scenario. Assets with low correlation should provide the most diversification.

**Capital appreciation** – The rise in an investment's market price. Capital appreciation is the difference between the purchase price and the selling price of an investment.

**Volatility** – The rate and extent at which the price of a portfolio, security or index, moves up and down. If the price swings up and down with large movements, it has high volatility. If the price moves more slowly and to a lesser extent, it has lower volatility. It is used as a measure of the riskiness of an investment

**Discrete capital gain** – The increase in an asset's value of a defined period of time.

<sup>1</sup>Source: Janus Henderson Global Dividend Index, Link Group UK Dividend Monitor, for the year to 31.12.19; Henderson International Income dividend contribution for the one-year period to 31.08.20

<sup>2</sup>As at 17.11.20

<sup>3</sup>Source: Henderson International Income Trust plc, Annual Report 2020, as at 31.08.20

<sup>4</sup>Morningstar, Safe Withdrawal Rates For Retirees In The United Kingdom, 01.05.16

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**ALIBABA**

(BABA) \$227.37

**Loss to date: 11.3%****Original entry point:****Buy at \$256.22, 23 December 2020**

IT'S BEEN A very rocky start for **Alibaba (BABA)** in our top 2021 picks portfolio and the stock is currently being kicked from pillar to post by investors not sure what to make of recent events.

Speculation has intensified that tightening regulatory scrutiny on Alibaba might lead to large fines or even a forced break-up. And the mysterious apparent disappearance of its flamboyant founder Jack Ma has stoked worries that Alibaba remains a political plaything of China's Government.

'Jack Ma's inability to be seen in public is just one of the reasons why we believe China equities are uninvestible', Carson Block reportedly said last weekend. Block runs the Muddy Waters short selling activist fund.

While the 11% fall since we said to buy the stock for 2021 is bad enough, it is really a continuation of a stock slump since October from over \$300.

Going on the missing list just days after Ma's comments at a conference in November criticising the Chinese banking and its regulatory environment has led to all sorts of internet conspiracy theories, splitting opinions among fund managers and analysts.

Some believe Jack Ma is keeping a sensibly and self-inflicted low profile, while others think detention by Chinese authorities is possible.

Whatever the reason for Ma's absence from the public eye many experts believe that the fundamentals of Alibaba's business remain strong. 'The Chinese economy has come out of the Covid slump far better than anyone else', said Richard Windsor of equity analysis business Radio Free Mobile. 'The shift of retail towards online transactions is continuing.'

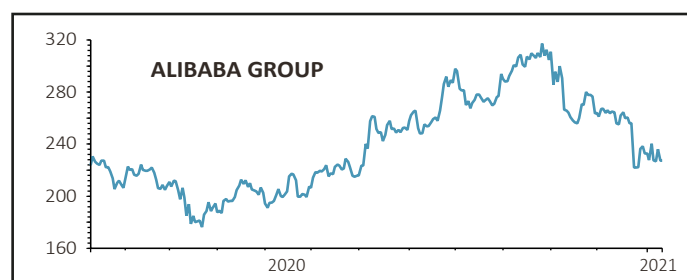
While Ma retired from the Alibaba board in 2019 and has slashed his stake to an insignificant level (based on Refinitiv data), the entrepreneur retains influence at the company.



He is a lifetime member of the Alibaba Partnership, a group of a few dozen employees with tremendous power over the company's board and leadership, as well as its bonus pool, according to reports, while he is also the decision-maker at Ant Financial, the digital payments business whose IPO was shelved at the 11th hour in November.

However, Radio Free Mobile's Richard Windsor continues to see upside in Alibaba stock as it now trades at a significant discount to both its US peers and its main Chinese competitor Tencent. The latter trades on a 12 months PE of 30.6 versus Alibaba's equivalent 19.2, according to Refinitiv data.

'I don't think that the China Communist Party has any real interest in disrupting Alibaba's progress or of the development of digital financial services in China', says the analyst. 'I think that regulatory interference at Alibaba may result in a fine or two but nothing that is going to fundamentally damage the company.'

**SHARES SAYS: ↗**

**Alibaba's discounted stock remains worth owning long term. [SF]**



## GAMMA COMMUNICATIONS

(GAMA:AIM) £16.35

**Gain to date: 9.4%**

**Original entry point:**

**Buy at £14.95, 9 July 2020**

GUIDING INVESTORS TOWARDS sensible targets and then beating them is a very good habit for a stock to develop and it's a box that **Gamma Communications (GAMA:AIM)** ticks.

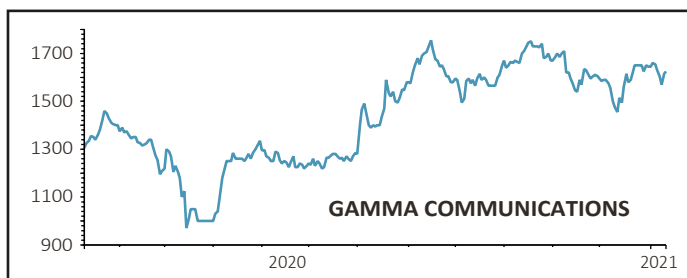
The company recently revealed that earning for 2020 would be 'slightly ahead' of forecast with revenue at the top of the range.

The consensus range had been pitched at revenue of between £371.8 million to £396.7 million, adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) of £73.9 million to £76 million.

The scale of the beat may be modest but as analysts at Megabuyte point out, organic revenue growth close to double-digits during this pandemic is 'impressive'.

To remind readers, Gamma is a Unified Communications-as-a-Service (UCaaS) supplier, providing 21st Century cloud-based, integrated systems with access to the latest tools and apps. This is one of the few a growth areas in the otherwise mature telecoms space and is where US stock star Twilio has proved a real Covid winner. Its stock surged 250% in 2020 and now trades on a near-3,000 PE.

Maybe Gamma doesn't deserve to be rated like that but it puts its own 12-month PE of 28.1 from a modest-looking 20% share price run into sharp relief.



**SHARES SAYS: ↗**

**A quality business still worth buying for the long-run. [SF]**

## IP GROUP

(IPO) 100.8p

**Gain to date: 21.4%**

**Original entry point:**

**Buy at 83p, 15 October 2020**

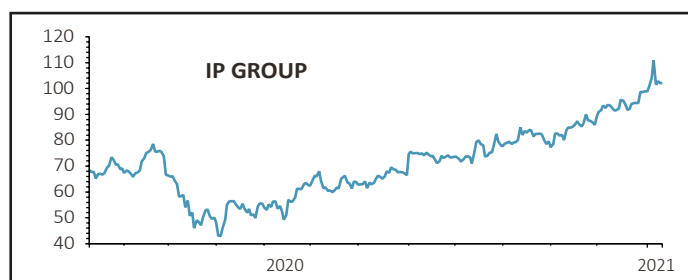
SINCE WE TURNED positive on the developer of intellectual property-based businesses **IP Group (IPO)**, several positive developments have propelled the shares from a 15% discount to net asset value to the current 5% as estimated by Berenberg.

The portfolio's largest holding Oxford Nanopore has made good progress on the development of its real time Covid-19 testing product LamPORE securing a multi-year UK government contract which could be worth double the firm's 2019 revenues.

Berenberg reckons that Oxford Nanopore is well positioned to go public via an initial public offering sometime this year which would provide 'substantial returns' and another cash realisation for the group.

In early December portfolio company Artios announced a strategic collaboration with German Pharmaceutical firm Merck KGaA on developing novel DNA Damage Response targets in cancer. Artios will receive a \$30 million upfront payment and is eligible to receive up to \$860 million for each target as well as royalty payments.

Portfolio company Hinge Health completed a \$300 million funding, valuing the company at around \$3 billion and IP Group's stake at £42.1 million representing an unrealised gain of roughly £30.7 million.



**SHARES SAYS: ↗**

**We remain buyers of IP Group. [MG]**

## GRESHAM HOUSE

(GHE:AIM) 810p

**Gain to date: 29.2%**

**Original entry point:**

**Buy at 627p, 23 July 2020**

LAST MONTH'S PURCHASE by **Gresham House (GHE:AIM)** of Irish alternative asset manager Appian for a total potential outlay of €10 million isn't just a case of management seizing an opportunity to add critical mass on the cheap, although the price certainly looks attractive.

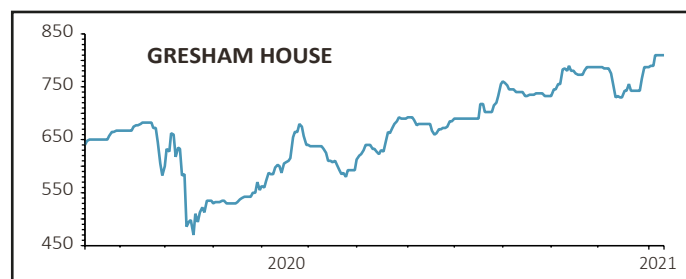
Appian is a well-established, active manager in its own right with €330 million of assets invested across various strategies including equities, property, infrastructure and forestry, which aligns neatly with Gresham House's own approach.

Of particular note is the Appian Burlington Property Fund, which invests in suburban Dublin and major regional centres and which won the

MSCI UK and Europe Property Investment Award for Ireland last year.

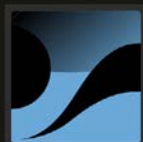
The deal diversifies Gresham's asset base outside the UK, while also providing an EU base so that it can continue to access continental clients and funding in a post-Brexit world.

In exchange, Gresham brings Appian its know-how, branding, distribution, and opportunities to cross-sell products, as well as its expertise in social housing in the lead-up to the launch of Appian's shared-ownership housing fund.



### SHARES SAYS: ↗

**This is a smart move and confirms our faith in management. [IC]**



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UK Individual Shareholders Society

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**JANUARY/FEBRUARY 2021**

TITLE	Type of event	Date	Link to register
<b>SUPERMARKET INCOME REIT (SUPR)</b>	Company Webinar	26 Jan 2021	<a href="#">Click here to register</a>
<b>ESG (SPONSORED BY JUPITER ASSET MANAGEMENT)</b>	Investing Masterclass	9 Feb 2021	<a href="#">Click here to register</a>
<b>FINANCIAL ANALYSIS</b>	Investing Masterclass	16 Feb 2021	<a href="#">Click here to register</a>

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# The **BREXIT DEAL** and **VACCINE BOOST**



## Why UK stocks can break free from lockdown shackles

By The Shares Team

**W**e are championing UK stocks despite the introduction of the latest lockdown measures. For more than four years London-listed shares have trailed in the wake of nearly all other major global markets, but the early Christmas present of a Brexit deal should end much of the uncertainty which led to this underperformance.

We are already seeing a dramatic reversal in fortunes with the FTSE 100 going from one of the worst performers in recent years up until the end of 2020 to one of the best in 2021 to date.

While Covid-restrictions will extend and deepen the economic impact in the first quarter of the year and have a big impact on certain sectors, the UK is also well placed for a vaccine roll-out.

The **AstraZeneca (AZN)** and Oxford University jab is being manufactured in the UK and unlike in some countries most Britons seem happy to receive it.

UK stocks may have enjoyed some gains since late December 2020 but there could be a lot further to go as we move from Covid restrictions to a reopening of society. In this article we flag five ways to play a bounceback for Britain.

### FTSE 100 outpaces its rivals in 2021...

Index	Year-to-date performance
FTSE 100	6.1%
DAX (Germany)	2.5%
Nikkei 225 (Japan)	2.5%
S&P 500 (US)	1.3%

### ...having trailed since the Brexit vote

Index	Performance close on 23 Jun 2016 to close on 31 Dec 2020
S&P 500 (US)	77.7%
Nikkei 225 (Japan)	69.0%
DAX (Germany)	33.8%
FTSE 100	1.9%

Source: SharePad, as at 8 January 2021



# WHAT A BREXIT DEAL MEANS FOR UK STOCKS

Catalysts linked to a Brexit deal should help UK shares play catch up in 2021. An agreement could act as a driver for money from both inside and outside the country, which has been sitting on the side-lines pending clarity on the future relationship with Europe, to flow.

In a briefing note after the deal consultancy the Centre for Economics and Business Research said: 'We would expect business investment in the UK, which has been very subdued since the 2016 referendum, to recover in 2021.'

As we discuss below, it also creates more favourable conditions for incoming M&A as overseas predators look for undervalued opportunities on these shores.

In terms of the immediate market response, after fears we were heading for an end to the Brexit transition period without an agreement proved unfounded, domestic-facing stocks rallied.

Some of the most popular investments being bought by customers of the AJ Bell Youinvest investment platform in the weeks since the Brexit

deal was announced include **Lloyds Banking (LLOY)**, and ETFs with a UK focus like **iShares Core FTSE 100 (ISF)** and **Vanguard FTSE 250 (VMID)**.

Stocks and funds with global horizons like pharmaceutical giants **AstraZeneca (AZN)** and **GlaxoSmithKline (GSK)** and popular global growth investment trust **Scottish Mortgage Trust (SMT)** were in favour too.

The advances for UK-focused assets were concentrated on 23 December and the morning of 24 December amid anticipation a deal would be reached built. The retail, housebuilding, financial and real estate sectors were among those most in demand as the table of best-performing stocks shows.

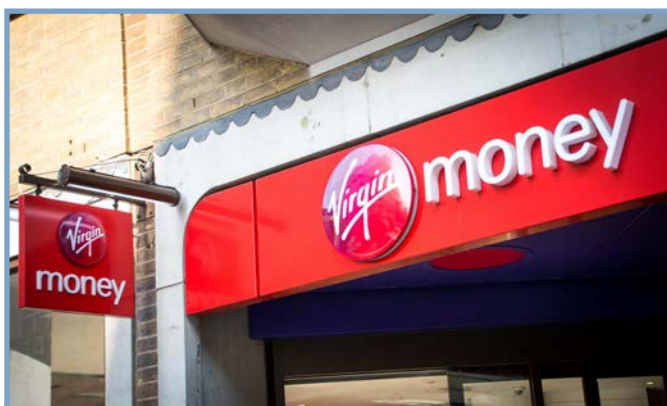
After the deal was announced a portion of these gains was eroded and sterling's gains against other major currencies were more muted than some had forecast.

This may have reflected the market adage that it is better to travel than arrive when investing but could also imply some disappointment over the details of the deal.

After all, not everything has been resolved by the trade agreement. Nigel Green, CEO of deVere Group comments: 'Let's be very clear. Whilst better than nothing, this UK/EU deal is a thin and narrow one. It only covers goods, not services, which account for 80% of the UK economy – and even with an agreement for goods there will be additional rules and further costs.'

Edward Park, chief investment officer at Brooks Macdonald says: 'Services are a problem for 2021 but this is where the EU imports more from the UK than the other way round, so this could be a particularly difficult area. It is the importance of services to the UK economy and poor 2021 growth forecasts which explain the fairly muted response by the markets to (the) trade deal.'

A lot of focus has been on the negotiations around financial services given how central the City of London is to the UK economy. Most observers expect limited access for UK institutions into Europe. The long-term impact of this on the City is hard to determine but it is worth noting it has been a major centre for global finance for an extremely long period of time, pre-dating UK membership of a European trading bloc.



Selected Brexit winners

Company	Performance close 22 Dec to close 24 Dec 2020
Hammerson	13.7%
Lloyds Banking	11.3%
Mercantile Investment Trust	11.1%
Henderson Smaller Companies	10.9%
Virgin Money	9.5%
St Modwen Properties	9.5%
Vistry	8.7%
Redrow	8.3%

Source: SharePad, as at 8 January 2021



## Could Brexit deal prompt UK M&A boom?

ACCORDING TO data from Refinitiv companies have agreed more than \$2.3 trillion worth of deals since July 2020, an 88% increase from the first half of last year which was interrupted by the pandemic.

Cheap money and coordinated central bank and government stimulus has emboldened corporates to look through the pandemic towards economic expansion once economies reopen.

Now that Brexit risk has been removed there could be a flurry of mergers and acquisition (M&A) activity looking to take advantage of the UK stock market's laggard performance as well as sterling weakness.

Almost on cue, on the first business day of the new year gambling giant **Entain (ENT)**, formerly GVC and owner of Ladbrokes received a takeover offer from its US partner MGM Resorts International.

The all-share offer valued the company at £13.83, representing a 22% premium to the prior closing price.

Management have rejected the offer on the grounds that it undervalues its prospects to exploit the \$20 billion US opportunity over the next few years.

## LOCKDOWN 3.0 IMPACT

In anticipation of prime minister Boris Johnson's latest lockdown, now in place and set to last until at least mid-February, shares in a number of lockdown losers weakened (as the SharePad data from the close of trading on 31 December to the close of play on 4 January illustrates).



Selected lockdown 3.0 losers

Company	Performance close 31 Dec to close 4 January
Superdry	-10.8%
Go-Ahead	-9.9%
Saga	-9.1%
FirstGroup	-8.4%
Foxtons	-8.4%
Marston's	-8.1%
EasyJet	-7.9%
Rolls-Royce	-7.2%
Restaurant Group	-7.2%
Card Factory	-7.1%
Hammerson	-7.0%
Stagecoach	-7.0%

Source: SharePad

These included the likes of London-focused estate agent **Foxtons (FOXT)**, shopping mall operator **Hammerson (HMSO)** as well as travel and leisure names such as budget airline **EasyJet (EZJ)** and cruise operator **Carnival (CCL)**.

News of a third lockdown provided another hammer blow to non-essential retailers including greetings cards-to-gift bags seller **Card Factory (CARD)** and Primark, the discount retail arm of **Associated British Foods (ABF)** now expected to suffer as it did back in Spring 2020.

Other companies that could find life exceptionally difficult include leisure group **Hollywood Bowl (BOWL)** and the commuter

football dependent sandwiches-to-salads maker **Greencore (GNC)**, among the main casualties of the structural work from home shift triggered by the pandemic.

However, tighter restrictions should provide another boost to the major supermarkets including **Tesco (TSCO)**, **Sainsbury's (SBRY)** and **Morrisons (MRW)**, as well as other designated 'essential retailers' upon which the nation will once again rely.

**Sainsbury's (SBRY)** reported (7 Jan) a record increase in sales over the Christmas period, enabling the UK's second largest supermarket to raise full year earnings guidance. Lockdown 3.0 should provide a further boost to both its brick and mortar and online grocery sales, while also sustaining the positive momentum behind its toys-to-home products business Argos.

Others strongly positioned for restrictions include essential retailers such as B&Q-to-Screwfix owner **Kingfisher (KGF)**, which has seen its sales soar as people stuck at home splash out on home improvements. Another noteworthy name is **B&M European Value Retail (BME)**, the general merchandise discounter that has traded unencumbered during the pandemic. B&M reported (7 Jan) strong sales for the third quarter including Christmas and thanks to its copious cash generation and strong balance sheet, treated investors to a third special dividend since March 2020.

**Pets at Home (PETS)** could continue to take market share across all channels during lockdown as UK consumers prioritise spending on the health and wellbeing of their canine and feline friends.

Other potential beneficiaries of a brick and mortar shutdown are the online retailers including web-based electricals seller **AO World (AO.)**, online musical instruments seller **Gear4music (G4M:AIM)** and fast-fashion retailers **Boohoo (BOO:AIM)** and **ASOS (ASC:AIM)**. Restrictions on social life will also create helpful conditions for online wine retailer **Naked Wines (WINE:AIM)**, which should do well as pandemic-induced stress encourages online wine ordering.

Elsewhere, chocolatier **Hotel Chocolat (HOTC:AIM)** has proved effective at switching channels from its stores to online and third-party partners in response to the pandemic and could profit from gifting spend around Valentine's Day and then Easter.

## THE BIG REOPENING

Should coronavirus vaccinations be rolled out in record time and a majority of the population gets immunity by spring, the sectors of the economy hardest hit by lockdown measures could very well be the ones that bounce back strongest.

This includes the travel sector, as well as leisure and hospitality, with businesses in these areas forced to close outlets or stop the majority of operations to curb the spread of the virus.

Statistics from the Bank of England show high levels of consumer cash savings during lockdown, with over £150 billion put into cash accounts last year.

That combined with pent-up demand for everything from a holiday to a trip to the cinema or a good meal out, could well translate to a big recovery in revenue and earnings for firms in the travel and leisure sectors in the second half of this year.

In travel in particular, the market is pricing in a large degree of recovery by summer with a number of airlines and tour operators – particularly **Ryanair (RYA)**, **Wizz Air (WIZZ)** and **On The Beach (OTB)** – either above or nearing their share price a year ago.

According to forecasts compiled by Refinitiv, most of the airlines and tour operators should see a large degree of recovery in earnings during 2021 with a full recovery by 2022, or early 2023 at the latest.

There is a consensus among analysts and fund managers that there is a lot of pent-up demand for holidays, and tour operators **TUI (TUI)** and **Jet2 (JET2)** previously reported that summer bookings for 2021 have been 'encouraging'.

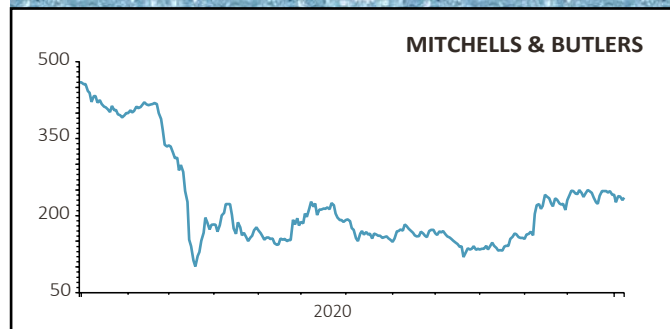
However some stocks, notably **EasyJet (EZJ)** and **TUI**, remain 50% down on their share price pre-pandemic, with concerns centering around their balance sheet compared to their peers.

For example **TUI** is saddled with over €5 billion in net debt, and while **EasyJet** has a more manageable £1.1 billion debt load, its cash burn remains notably above the level of its peers.

Meanwhile hospitality could be the area to benefit most if the vaccine rollout is successful and most restrictions are lifted in the second quarter of the year, especially as valuations are still depressed for virtually all stocks in the sector.

The share prices of pub groups like **JD**





**Wetherspoon (JDW) and Mitchells and Butlers (MAB)** are still around 30% and 50% below their pre-pandemic levels, yet according to consensus forecasts compiled by Refinitiv, both are expected to swing back into profit this year and bounce back completely by 2022.

It is worth considering however comments by Mitchells and Butlers in its first quarter trading update, in which it welcomes 'recent positive news on vaccine approval and roll-out' but warns the future facing the sector 'remains extremely uncertain'. The firm adds, 'It is not possible to estimate with any confidence what restrictions on our ability to trade lie ahead of us and for how long.'

For all these businesses, one important factor to consider is that those first booming months after a recession has peaked can sometimes be the most dangerous, as overtrading sets in and supply doesn't keep up with demand. This presents a real danger of a business potentially going bust very quickly.

Why? Relief over the reemergence of growth post-recession can be met with firms going back into panic mode, hiring more staff and buying higher amounts of supplies to keep up with increased demand.

But this can cause a problem with cash flow because there's a time lag between investing to keep up with demand and actually being paid. By the time supplies have been bought, manufactured and the customer has paid, that can be a long period of time and an acute shortage of cash can develop rapidly.

This mainly affects firms in the manufacturing sector but can be applied to other sectors and has been seen in the past with airlines and tour operators, as well as pub and restaurant firms.



## Can property market gains be sustained?

THE HOUSING MARKET roared back from the March 2020 lockdown and the newly introduced restrictions leave this space largely untouched. After emerging from deep freeze in May, the introduction of a stamp duty holiday on property transactions in July supercharged house prices. Nationwide reported that UK house prices rose another 0.8% in December, taking the total increase for 2020 to 7.3%.

There is concern about what happens when the stamp duty relief ends in March, particularly given rising unemployment and the new lockdown measures. Shares' conversations with suppliers and service providers to the property market in recent months have suggested some confidence there will be a further Government intervention to support the market, possibly by extending the stamp duty relief period.

There is logic to this when you consider the Conservatives like to style themselves as the party of home ownership and such a move would be a clear positive for the housebuilding sector. Liberum Capital analyst Charlie Campbell says that balance sheet risk has been largely eliminated with most sector constituents enjoying net cash positions.

'Anyone worried about the impact of widespread job losses on the property market should consider that those most at risk of unemployment are more likely to rent than to own homes', he adds.



# FIVE WAYS TO PLAY A BOUNCEBACK FOR BRITAIN

Bellway (BWY) £29.39



That **Bellway (BWY)** was one of the first housebuilders to announce a return for dividends should not come as a surprise given it sustained dividend payments throughout the 2007/8 financial crisis. It also has a long track record of growing volumes which can help offset margin pressure if there is a dip in house prices.

Catalysts include potentially positive trading updates scheduled from its peers in January and any further support doled out for the housing market by chancellor Rishi Sunak. In a December 2020 trading update Bellway reported net cash of £242.9 million and a forward order book up 18.7% to £1.77 billion. This should underpin plans to grow the payout and invest in land at an opportune moment in the cycle when valuations are depressed.

Based on Liberum forecasts for the July 2022 financial year the shares offer an attractive yield of 3.5% and trade in line with net asset value (NAV) compared with an average premium to NAV of 59% for the wider peer group (though this number is inflated somewhat by the premium ratings enjoyed by **Persimmon (PSN)** and **Berkeley (BKG)**).

Hays (HAS) 148p



Recruitment companies such as **Hays (HAS)** are typically the first to see an improvement in the economy. That's because when firms plan to grow they usually need to hire more people.

Deutsche Bank recently turned positive on the sector saying staffing agencies could fully benefit from the recovery at the start of the economic cycle.

Hays has been expanding its global footprint over the last few years to over 33 countries across 20 different sectors and today the UK generates 23% of the firm's net fees.

In the difficult 2020 financial year Hays achieved all its profits in the first nine months to March with the final quarter breaking even. Overall profits dropped by 45% to £135 million.

Hays is strategically well positioned to profit from economic recovery with 44% of its business exposed to cyclical markets and 56% exposed towards structural growth.

WHSmith (SMWH) £15.36



A vaccine-driven recovery in global travel numbers should reignite the growth story at **WH Smith (SMWH)**, the books, magazines and snacks retailer with a balance sheet robust enough to weather the remainder of the crisis.

WHSmith's long-run bull case has centred around the opening of international airport and train station stores, so it has been hit hard by the suspension of flights and the fact flocks of commuters are now working from home. Bold investors should look past the figures for the

current year to August 2021 and focus on 2022, when the recovery of the travel business should (hopefully) be underway.

Broker Peel Hunt expects the US to emerge quickest from the crisis as 85% of the country's air travel is domestic. Closer to home, the end of lockdowns will ride to the rescue of the embattled UK high street business.

During the pandemic, Carl Cowling-led WHSmith has cancelled the dividend and boosted liquidity whilst bearing down on costs, so the retailer will benefit from a positive operational gearing effect as the global travel market returns to growth.

### Mercantile Investment Trust (MRC) 250.5p

If you want a broad spread of assets to tap into Britain's bounce back potential the JP Morgan-run **Mercantile Investment Trust (MRC)**

is an excellent option. Exclusively focused on the UK, but geared particularly to the FTSE 250, investors get exposure to many of the sector themes we have discussed.



Housebuilder **Countryside Properties (CWY)** join robust retailers like **Dunelm (DNLM)** and **Games Workshop (GAW)**. Bus and coach operator **National Express (NEX)** is also in the portfolio alongside other industrial, financial and consumer stocks that could benefit from improving economic stability.



Past performance is impressive, the stock outstripping its investment trust all companies benchmark over one, three and five years as its typical 8% to 9% discount to net assets narrowed to just 0.2% now. Net asset premiums of the past are not out of the question given total returns of more than 12% a year over the past decade, based on Morningstar data, twice that of its benchmark.

Annual charges of 0.44% are relatively inexpensive for an active fund, while it pays quarterly dividends designed to match or better inflation that promise a 2.6% income yield.

### Vanguard FTSE 250 (VMID) £33.19



The FTSE 250 is well-known for being easiest way to play UK stocks, and so for investors looking to get exposure to the great British economy it should naturally be the index of choice.

However, it is perhaps less exposed to UK than investors may think with around 50% of companies in the index focused on the domestic economy. That means investors would therefore get overseas diversification as well, which could act as a nice support as economies across the world also stage a recovery.

The best way to play the FTSE 250 is through the **Vanguard FTSE 250 (VMID)** exchange-traded fund (ETF). This ETF is the cheapest of all the options available, with a total expense ratio of 0.1% a year. It's also the most popular, meaning the extra cost of buying and selling (the bid-ask spread) is lower than for other FTSE 250 ETFs. For the dividend-paying option, choose the aforementioned ETF, but if you want dividends reinvested go for the accumulation version, **Vanguard FTSE 250 ETF GBP Acc (VMIG)**.

*AJ Bell is the owner and publisher of Shares magazine. The editor (Daniel Coatsworth) and all of the authors own shares in AJ Bell referenced in this article. The editor (Daniel Coatsworth) owns shares in Vanguard FTSE 250 UCITS ETF and one of the authors (Steven Frazer) owns shares in Scottish Mortgage Investment Trust also referenced in this article.*



# WHY CLEAN ENERGY, AND WHY NOW?

ADVERTORIAL



**PICTET**  
Asset Management



> 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](https://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.

# Fund managers best ideas for 2021



The professionals tell us their biggest winners and losers for 2020 and the stocks exciting them now

**I**n the first of a two-part series *Shares* invites top fund managers to reveal which stocks they were most pleased with in 2020, which stocks they were most disappointed in, and which they have high hopes for in 2021.

Their answers reveal an interesting mix of names across the market cap spectrum. Recent float, materials company **HeiQ (HEIQ)**, for example, crops up twice in this set of responses. We will follow up with another round of manager insights in next week's feature.



**Miles Nolan**

**MI  
Sterling  
Select  
Companies  
(0270892)**

## MOST PLEASED WITH IN 2020: CODEMASTERS (CDM:AIM)

'We started acquiring shares in racing-focused games developer **Codemasters (CDM:AIM)** in March 2020 and our average cost stands at 220p a share. The group has benefited from "stay at home" lockdown gamers and achieved a doubling of sales and adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) in the first half of its financial year. It is now in a potential bid tussle with industry giant Electronic Arts offering 604p a share, but the original bidder Take-Two is yet to say if it will increase its offer.'

## BIGGEST DISAPPOINTMENT OF 2020: CHURCHILL CHINA (CHH:AIM)

'Our fund has long held ceramics specialist **Churchill China (CCH:AIM)** on the basis of its strong management team and solid market position. Sadly Covid-19 has decimated its customer base and given the ongoing difficulties in the hospitality sector, we struggled to see much upside for a while and were compelled to exit our position.'

## MOST EXCITED FOR IN 2021: HEIQ (HEIQ)

'Recent new issue **HeiQ (HEIQ)** is a Swiss-based materials company – put simply its technology adds functionality to textiles, be it improving cooling, warming or even odour prevention. Moreover, its antiviral surface protection effectively kills off infectious diseases such as Covid-19.

'HeiQ serves over 300 clients including IKEA where it helps produce curtains to purify the air and Burberry (water resistant trench coats). The UK market has few globally scalable businesses which enjoy high margins and we welcome HeiQ to the portfolio.'







Kartik Kumar

Artemis  
Alpha Trust  
(ATS)

#### MOST PLEASED WITH IN 2020: PLUS500

'This performed well and as expected. Most volatility hedges decay and have a cost – this has grown and delivered us a good yield.'

'**Plus500 (PLUS)** is an online trading platform for retail investors to express short-term views. You should expect online trading platforms to thrive when volatility is high as it was last year, and that's what it did – revenue up to Q3 was up 200% and operating profit increased 270%.'

'Most equities are inversely correlated with volatility; when volatility goes up it tends to reflect greater investor uncertainty and share prices fall.'

'Plus500's share price rose by 60% and paid a 7% yield. It helped the portfolio by increasing in value when markets were falling, allowing us to have more capital to redeploy into areas where we saw greater opportunity.'

#### BIGGEST DISAPPOINTMENT OF 2020: GLAXOSMITHKLINE (GSK)

'You might have expected the world's largest vaccine maker to have prospered in a year like 2020. The year-end increase in market value of dedicated vaccine makers and large pharmaceuticals involved with a Covid-19 vaccine was more than \$100 billion.'

'In contrast **Glaxosmithkline (GSK)** declined in value by c.\$22 billion or 25%. Half of its profits come from vaccines and consumer staples – areas where company share price performance has been very strong.'

#### MOST EXCITED ABOUT FOR 2021: EASYJET (EZJ)

'We have been proponents of holding on to low-cost carriers through the crisis. The vaccine results had a powerful impact on share prices but performance was far from even. The share prices of **Wizz Air (WIZZ)** and **Ryanair (RYA)** rose whilst **EasyJet (EZJ)** was down over 40%.'

'EasyJet is perceived by the market to have had a worse crisis than its peers. I do not think that is justified in reality. There is a lot of pent-up demand for travel – in October, customers were flocking to the Canary Islands when they were open. The longer we are restricted, the more pent up demand will grow. Key competitors have been weakened and capacity is down sharply. The coming years could be very good for EasyJet.'





**Trevor Green**  
Head of UK  
Institutional  
Equities

**Aviva  
Investors**

## MOST PLEASED WITH IN 2020: B&M EUROPEAN VALUE RETAIL (BME)

'This is a business which over the years has executed well in the UK with an impressive rollout of new stores, which has clearly widened its target audience as more and more consumers get to hear of them and understand their value offering. The pandemic has materially accelerated their customer footfall further which they are confident of keeping in the future.'

## BIGGEST DISAPPOINTMENT OF 2020: SCIENCE IN SPORT (SIS:AIM)

'This is disappointing from a performance perspective rather than the business itself. Considering the headwinds of lockdown affecting their retail channel sales and no sports for large parts of the year they have executed very strongly on their online offering and impressively moved their gross margin up markedly. The hype around **The Hut Group (THG)** and the valuation investors have put on their Myprotein division has shown the potential for businesses operating in this area.'

## MOST EXCITED ABOUT FOR 2021: EAGLE EYE SOLUTIONS (EYE:AIM)

'Unquestionably the pandemic and the related global lockdowns have forced everyone to do more work and leisure related activities online and I do not believe this trend will suddenly reverse because a vaccine is now being rolled out. For consumer-facing companies, we have long moved on from them just having a website – they now need a much greater level of sophistication in understanding and how they interact with their customers.'

'**Eagle Eye Solutions (EYE:AIM)** provides a digital platform that helps companies to deliver incentives and rewards to consumers. Recently major contracts have been announced with blue chip international companies validating their offering beyond just the UK. UK clients include Pret A Manger, **JD Sports (JD.)** and **Sainsburys (SBRY)**.

'I am optimistic that businesses operating in this area should benefit as companies prioritise investing in their customer interaction capabilities.'





**Anna  
Macdonald**

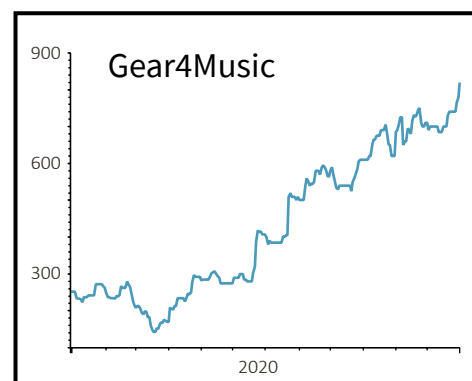
**TB Amati  
UK Smaller  
Companies  
Fund  
(B2NG4R3)**

#### MOST PLEASED WITH IN 2020: GEAR4MUSIC (G4M:AIM)

'Gear4Music (G4M:AIM) was one of the best performers for the Smaller Companies Fund. 'This online musical equipment retailer had been through a tough time, and issued profit warnings, as gross margins were hit by competitive pricing pressures and the struggle to meet demand in 2018/19.

'However, CEO Andrew Wass put all the lessons learned from this experience in place, and went into 2020 in a strong position, with well-invested warehouses and technology platform, a flexible fulfilment model, and confident pricing that was supported by higher margin own brand products.

'The company was able to match the extraordinary demand for musical instruments during lockdown and beyond, and competitors haven't been able to keep up. Analysts upgraded sales and earnings expectations throughout the year. Shares rose 214%.'



#### BIGGEST DISAPPOINTMENT OF 2020: RWS (RWS:AIM)

We held both **RWS (RWS:AIM)** and SDL, two language translation and technology companies that performed pretty robustly after the initial early sell-off in 2020. An all-share merger was announced in August, which was effectively a takeover of SDL by RWS.

'The logic is sound – SDL has some fantastic machine learning translation technology, but not the associated high margins owing to a historically bloated cost base.

'With RWS's client base across life sciences, IP and big tech, the combination made sense. Initial share price rallies soon petered out, as technical selling weighed on the share prices of both. It is possible some of SDL's shareholders could not hold shares in RWS, which is AIM-quoted, and an end-of-year trading statement failed to put the wind in its sails, as management remained (typically) cautious about the outlook and cost savings.'

#### MOST EXCITED ABOUT FOR 2021: HEIQ (HEIQ)

'HeiQ (HEIQ) is a textile technology company based in Switzerland, creating some of the most effective, high-performance fabrics available. It is an IP-rich business across multiple patent families and technology platforms to its name.

'New products and formulations accounted for an astonishing 50% of revenues in the first half of 2020, based principally around Virobloc, a formulation for a fabric which kills viruses and bacteria that come into contact with it, currently in high demand for face masks and other coverings.

'We made a large investment in the IPO which listed in early December, and despite a strong performance in the share price so far, we remain enthused about the opportunity for what is now our largest holding. HeiQ has an abundance of technology, products to both help reduce carbon emissions and tackle the pandemic, it is founder managed, commercially proven and not aggressively valued.'



# Why Peloton can't peddle growth fast enough to keep the share price rising

A lockdown winner, we look at whether the stock is trading on substance or hype

**N**ASDAQ-listed **Peloton Interactive (PTON)** established itself as one of Wall Street's darlings this year as gyms closed their doors during worldwide lockdowns.

The connected fitness business has flourished as people were forced to rethink how they live, work, travel, and exercise. The pandemic crafted almost perfect conditions for Peloton to thrive as people looked for ways to workout in the relative safety of home.

As a result, the company has been posting record numbers and can't make its famous exercise bikes fast enough to sate demand.

We salute Peloton's lofty ambitions but remain very sceptical of its ability to meet them, or match investor's already stratospheric expectations. We suggest that buying one of its bikes will be better for you in the long-run than the stock.

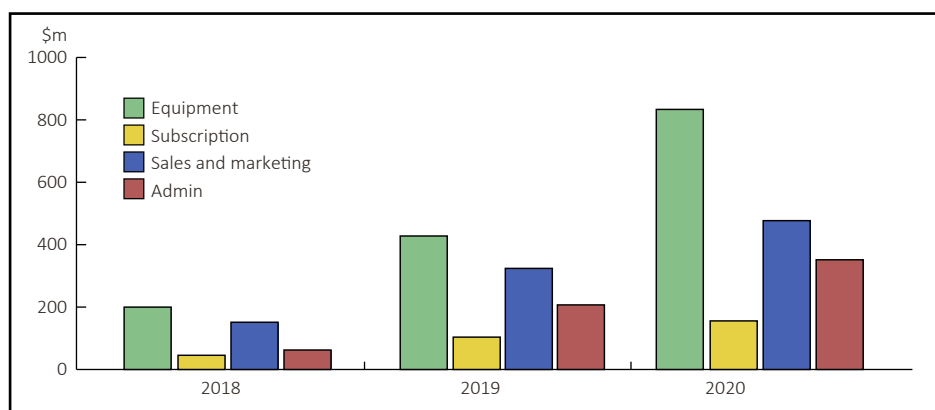
## BOLT FROM OUT OF THE BLUE

Peloton appeared to come out of nowhere as Covid-19 plunged the planet into pandemic chaos, emerging as one of the biggest success stories of 2020.

Founded by entrepreneur John Foley in New York in 2012, Peloton went public in



Peloton's soaring cost of sales



Source: Peloton

September 2019, pricing its initial public offering (IPO) at \$29.

The ambition is to shake-up the fitness industry much like Amazon has disrupted buying stuff.

Its flagship product is a £1,750 (\$1,895) internet-connected exercise bike with touchscreen, or there's a connected treadmill (from £2,295 or \$2,495) also with touchscreen. In both cases



users can stream or download fitness classes for a monthly £39 (\$39) fee which allows them to interact with instructors or other members, without having to leave home.

The company believes it could hit 100 million subscriptions with its bikes, treadmills and digital-only app, a £12.99 (\$12.99) a month service for equipment-free classes.

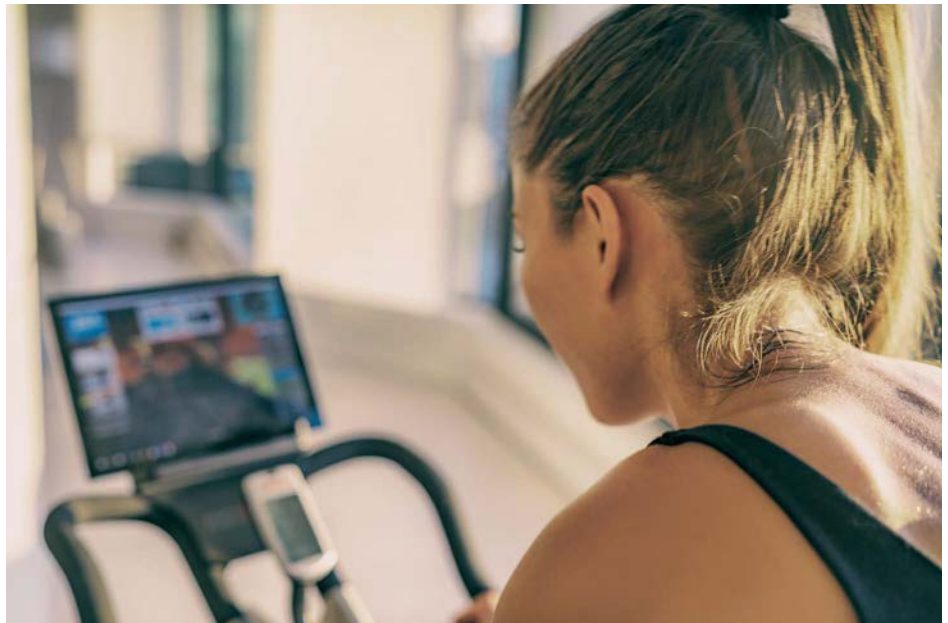
## POSITIVE DRIVERS

Fans see Peloton as a lifelong lifestyle choice, with dedicated customers committed to the brand that creates a valuable ecosystem of semi-predictable revenues. The overall experience of spin classes and fitness lessons are highly dependent on the quality of instruction, and Peloton's team of instructors have, in some cases, become minor online celebrities.

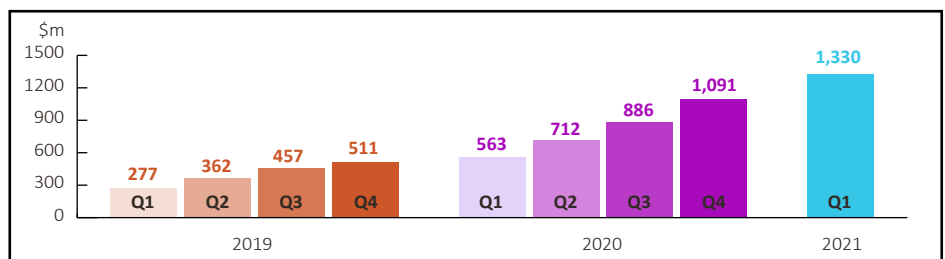
Being one of the first movers in the connected fitness space, Peloton has built significant brand value and user loyalty, as shown by churn of less than 1%. The company is also building social features which could help to engage users and build a sense of community around its platform.

Peloton saw connected fitness subscriber numbers jump 137% year-on-year for this year's first quarter to end September 2020 to more than 1.33 million, continuing two years of rapid growth. That meant sales surged 232% to \$757.9 million from \$228 million a year ago, topping expectations for \$748.1 million.

That saw earnings rise to \$69.3 million, or \$0.20 per share (EPS), from a loss of \$49.8 million (\$1.29 EPS) a year earlier,



Peloton's connected subscriptions



Source: Peloton

versus \$0.11 expected. This is a big deal for a company that has yet to post an annual profit but is forecast to make that breakthrough this year to 30 June 2021.

## COUNTER-ARGUMENT

The obvious objection to Peloton's long-run growth potential is the high cost of the kit. Even its cheapest bike plus subscription will set consumers back £2,218 in year-one, then nearly £500 each year after that.

While that makes for high switching costs which will keep churn low, a bog-standard exercise bike can be bought for as little as £50 (according to Amazon). Even better-quality ones with accompanying apps

and tablet holders are available for £500 or so, likely making Peloton's albeit high-end equipment prohibitively pricey for most people, even with its no-interest monthly payment plan.

The pandemic will also eventually end (even if it doesn't feel like it now), allowing people to return to gyms as normal. Not everyone has the space for bulky fitness equipment at home and gym memberships give access to lots of different machines for a more varied workout. But it also offers that face-to-face human experience that most of us have missed so much during lockdown, the chance to workout with friends.

Building that vast ecosystem of subscription revenues is key

to Peloton's future but what if its rapid growth so far is low-hanging fruit picking? It might be that the forced closure of gyms during lockdown has sparked a rush of easy sales and that attracting new customers will become incrementally harder.

Gym memberships are often cheaper than Peloton's £39 a month and can be cancelled hassle-free with a month's notice. The UK's largest operator PureGym, for example, offers a contract-free, 24/7 access plus membership from about £20 to £25 a month with classes thrown in.

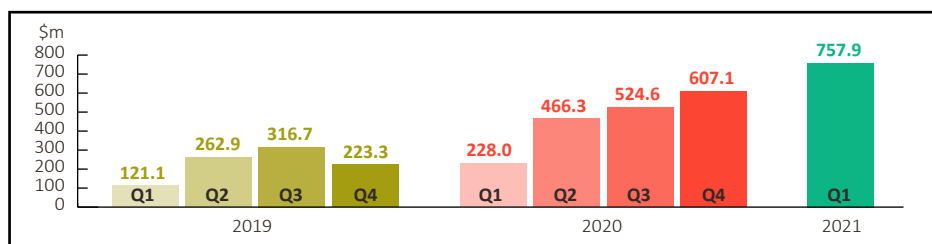
There's also masses of free workouts available online for those not fussed to go to a gym. A simple 'workout' search on YouTube returns tons of free content for fat-burning, muscle-toning, high cardio, with and without weights, and even plenty of bike fitness sessions. Just look at what Joe Wicks has been doing through lockdown, making Peloton's app-only memberships look like a growth red herring.

## COSTLY SCALABILITY

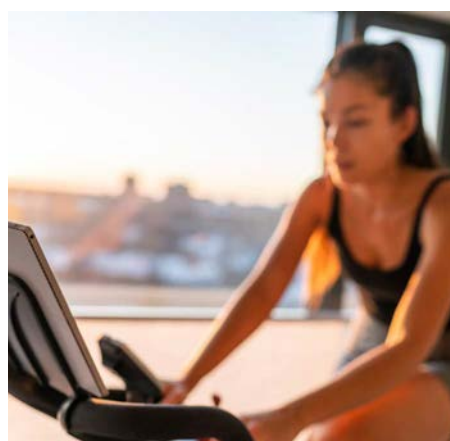
A capital-light online platform business model would not sell any physical products and have zero marginal costs to serve increasing users with a digital-only offering. But by designing, manufacturing, delivering, and installing high-end fitness equipment Peloton requires more capital as the company grows to greater size.

It has also seen Peloton struggle to up manufacturing to meet demand spikes in recent months. This issue saw the company buy US fitness kit company Precor just before

## Total quarterly revenue



Source: Peloton



Christmas in a \$420 million deal, upping its manufacturing capacity and providing new expansion opportunities. Perhaps a connected rowing machine is the next obvious product to develop.

That may solve the latter problem but the cost of scaling up remains.

Over the past three years hardware revenues have been stable at around 80% of turnover with content subscriptions making up the balance. Gross margins are also relatively stable with equipment earning roughly 42% to 44%, while the rise in subscription margins in 2020 to 57% was presumably thanks to app-only subs, which you would expect to be at much higher margins due to the limited cost of running online workouts alone.

Research and development

was 5% of turnover last year while sales and marketing was 26% of revenue. There was also another \$351.6 million of general admin expenses, more than 19% of sales. Overall costs relating to sales jumped 71% in the 2020 full year (to June), versus 99.6% growth in revenue. This probably suggests that vast marketing and admin costs will continue to race higher in future because the proposition needs to be constantly visible to win new customers, a bit like it does with gambling firms.

The stock's 462% 2020 rally is right up there with other 'Covid winners' Zoom (+406%) and Moderna (+435%), the drug developer behind one of the three successful vaccines.

The stock is currently changing hands at \$158.88, which means that even if the company hits the \$1.21 EPS forecast by analysts in the year to June 2023, the price to earnings (PE) multiple is still at a scorching 131. Even with most analysts firmly in the buy camp (only one sell and three holds of 26 covering the stock) the consensus target price remains at \$150, below the current price.



By **Steven Frazer**  
News Editor





**bakersteel**  
capital managers

## Could 2021 be a transformational year for precious and speciality metals?

2020 will go down as one of the most challenging years on record for societies, economies and financial markets around the world. The COVID-19 crisis brought business activity to a standstill, forced seismic changes across many sectors, and prompted unprecedented action by governments, at a time when rapid technological and societal change is already transforming whole industries.

While the natural resources sector faced difficulties during 2020, precious metals delivered strong performance and many industrial metals have recovered after the initial pressure. Mining companies have largely demonstrated operational resilience during the crisis, enabling them to emerge well-positioned to take advantage of the key themes that are developing out of this extraordinary year.

### Key themes for 2021:

- The gold price is backed by a supportive macroeconomic and geopolitical environment.
- Gold miners are benefitting from margin expansion and dividends are increasing.
- The global movement towards sustainability will drive a surge in demand for certain metals.
- Historic levels of economic stimulus will boost broad demand for industrial and speciality metals.
- Geopolitical tension and “reshoring” of supply chains could impact metals producers.
- Environment, social and governance (“ESG”) factors will become an even bigger focus.

With far-reaching implications for the metals and mining sector, these themes indicate a year of strong performance ahead for gold and silver producers and for producers of certain speciality and industrial metals.

**Baker Steel Capital Managers LLP** is a leading natural resources focused fund manager with a long track record of outperformance. With the new year only just underway, there has never been a better time to get to know our award-winning strategies and engage with our specialist team during what we believe to be a generation-defining moment for the precious and speciality metals sector.

Fund info

Precious metals equities – Invest here

Speciality metals equities – Invest here



**bakersteel**  
capital managers

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# Secrets of the income statement revealed

Financial statements can appear intimidating at first but with practice they are incredibly useful

**T**o really understand a company you need to go back to the fundamentals of its performance. This is the first in a series of articles on company financial statements where we delve into the numbers and highlight what is important and how to get the most out of the accounts.

First, we look at the profit and loss statement in two parts.

### THINK LONG TERM

Investing should be a long-term endeavour, and if you start early enough you will have a long period in front of you in which to grow your portfolio over the years.

This puts the private investor at an advantage compared with institutional investors who get judged on quarterly and monthly performance.

The focus should be trying to figure out what a company might look like in a few years' time. After all, shareholders are owners of the equity of a company and have an economic claim on all future net cash flows after interest payments and taxes have been deducted.

### WHY DO COMPANIES HAVE DIFFERENT YEAR-END DATES?

It might seem obvious but it's worth pointing out that the report and accounts are a 'point-in-time snap-shot' of a business.



Management and their accountants are free to choose the year-end date and often choose a date that shows a business in its 'best light'.

For example, airlines tend to choose a winter or spring year-end because they receive cash for holidays up front and people tend to book their summer holidays in the winter.

For seasonal businesses, it's also a matter of practicality because it would be difficult and confusing to produce year end accounts and audit them during the busiest time of the year.

For example, most retailers close their year between the end of January and April, after the busiest trading period over Christmas.

### FOCUS ON THE TRENDS

A single set of accounts won't tell you much about the direction of travel for the business, so it's far more fruitful to look at how sales and profits have developed over a longer period. We will explain these terms later.

Similarly, companies don't operate in a vacuum, so it's also worth comparing how competitors in the same business have performed.

You are aiming to understand how a business makes money and judge how reliable profits are as well as estimate their future growth. Profit growth is far more important than revenue growth.

Double-digit revenue growth may show there is demand for the product or service which is a good sign, but it's of no use if those extra revenues don't at some point end up in higher profits.

Competition is also important to address because it's probable that other companies are chasing the same growth opportunities and that will impact future profitability. Winners and losers are a fact of business life.

Sometimes there can be a justifiable lag between revenue growth and profits. For example, online retailer **Ocado (OCDO)** has been pursuing growth in



order to build scale and exploit its first mover advantage.

One final point to consider is that the income, cash flow and balance sheet statements should be read in conjunction with each other.

For example, profit should always be compared with cash generated by the business. The higher the cash element the better. That's because from an accounting perspective cash is cash, while profit can be whatever management wants.

Let's run through the profit and loss or income statement from clothing retailer **Next (NXT)** with the aid of the 10-year financial summary provided by the company and Stockopedia's income and cash flow statements.

Revenue or sales are broadly interchangeable terms and sometimes referred to as the top line. They represent the total income generated through selling products and services or commissions earned on

selling products.

For most companies like Next, accounting for revenue is straightforward but it is worth being aware of longer timing differences that can exist between a company making a sale and receiving the cash.

Industries like defence and engineering can sometimes wait a long time to collect cash and consequently require more working capital to operate and expand.

At the other extreme are

CONSOLIDATED INCOME STATEMENT		NEXT ANNUAL REPORT 2020	
		52 weeks to 25 January 2020 £m	52 weeks to 26 January 2019 Restated £m
<b>Continuing operations</b>			
<b>Revenue</b>		<b>3,997.5</b>	<b>3,917.1</b>
Credit account interest		268.7	250.3
Total revenue (including credit account interest)		4,266.2	4,167.4
Cost of sales		(2,584.20)	(2,562.20)
Impairment losses on customer and other receivables		(41.5)	-(52.7)
<b>Gross profit</b>		<b>1,640.50</b>	<b>1,552.50</b>
Distribution costs		(517)	(457.5)
Administrative expenses		(267.7)	(255.4)
Other (losses)/gains			
<b>Trading profit</b>		<b>854.3</b>	<b>841.0</b>
Share of results of associates and joint venture		(0.4)	0.1
<b>Operating profit</b>		<b>853.9</b>	<b>841.1</b>
Finance income		0.2	0.4
Finance costs		(105.6)	(107.9)
<b>Profit before taxation</b>		<b>748.5</b>	<b>733.6</b>
Taxation		(138.3)	(134.5)
<b>Profit for the year attributable to equity holders of the Parent Company</b>		<b>610.2</b>	<b>599.1</b>
Earnings per share			
Basic		472.4p	441.7p
Diluted		468.8p	439.3p



## NEXT SALES TRENDS

	2011	2020	CAGR %
Stores (£m)	2222	1852	-2
Online (£m)	936	2147	9.6
Total (£m)	4362	3293	3.2

Source: Next. CAGR=Compound Annual Growth rate

subscription type businesses like **Relx (RELX)** or the airlines and food retailers who get paid upfront.

We will cover working capital in a future balance sheet article, but briefly it is investment in inventory and raw materials and accounts receivable (customers who haven't paid yet) minus creditors.

It's worth checking the notes to the accounts to understand each company's revenue recognition policy.

Next's online revenue has grown almost 10% a year to reach £3.1 billion while revenues from physical stores have shrunk by 2% a year to £1.9 billion reflecting a move to own fewer, out of town larger stores.

The next important line to spend some time on is gross profit which represents the added value created by the product or service. Dividing gross profit by revenue produces a gross margin percentage.

Given that Next generates most of its revenue online it is interesting to compare margins with online groups **Boohoo (BOO)** and **ASOS (ASC)**.

Next generates a gross margin of 39% compared with Boohoo and ASOS which achieve 51% and 48% respectively. This may mean that the pure online retailers' goods are perceived by customers of higher value or that the companies squeeze more costs out of their suppliers.

Where possible these

numbers should also be put into a wider industry context and here all three companies have higher than average gross margins, implying more pricing power.

The gross profit to total assets ratio was first identified by Robert Novy-Marx in an academic paper which found that more profitable companies on this measure produced higher share returns than lower profitability firms.

Next has a ratio of 45% which compares to Boohoo and ASOS on 117% and 78% respectively, demonstrating their 'asset light' models compared with Next which still has a large retail estate. A number above 40% is considered very good

The next most important line in the income statement is the operating profit line, sometimes called earnings before interest and taxes (EBIT).

It is what is left after deducting payroll, marketing and general administration expenses from revenues. Depreciation and amortisation are also deducted where a company has fixed assets. Depreciation reflects the 'wearing-out' of the asset base.

Most assets have a fixed life and a common policy is to write assets down over their useful life. The useful life assumptions can be found in the notes to the accounts. Companies in the same industry tend to use similar assumptions, so differences are worth investigating further.

When comparing companies in the same sector it is often useful to use the operating profit margin which is operating profit as a percentage of revenues. Again, looking at the trends

## NEXT GROSS PROFIT ANALYSIS

	Next	ASOS	Boohoo
Gross Profit £m	1682	1547	666
Total Assets £m	3673	1989	569
Gross Profit to Assets Ratio	46%	78%	117%
Revenues £m	4266	3256	1235
Gross Profits £m	1682	1547	666
Gross Margin	39%	48%	54%

Source: Stockopedia, Refinitiv



## NEXT OPERATING PROFIT ANALYSIS

	2011	2020	CAGR %
Stores (£m)	329	164	-4.6
Online (£m)	222	400	6.8
Total (£m)	4362	3293	3.2

Source: Next. CAGR=Compound Annual Growth rate

rather than single years gives a better perspective.

Operating margin is a good measure for comparison because it reflects earnings before interest and taxes are

deducted. These latter items may differ widely between different companies.

For example, if one company employs debt financing and another doesn't. Companies

may also have differing tax rates depending on where they operate.

Next has averaged relatively high 20% operating margins compared with Boohoo and ASOS which have averaged around 7% and 4% respectively.

The impact from the shift to online trading is more clearly seen at the profit line with the retail estate seeing profit halve to £164 million while online profit has grown by 6.8% a year to reach £400 million.

Next week we will tackle the bottom half of the income statement including interest, taxes, profits and earnings per share as well as calculating shareholder value.



By **Martin Gamble**  
Senior Reporter

**AJBell** SHARES  
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# Discover the funds offering a 30% instant boost and tax-free dividends

VCTs can potentially be a decent wealth builder, but you need an appetite for risk and be willing to lock your money away for at least five years

**T**he new venture capital trust (VCT) offer season is now in full swing where investors can apply for new shares and enjoy immediate tax benefits.

Recent offers from Amati AIM VCT and Octopus AIM VCT have already closed, having hit their subscription target. Others are filling up quickly.

Each year VCTs seem to attract money faster than the previous year, meaning interested investors need to act fast once offers go live – although it is important to understand all the risks involved before making an investment decisions.

This article will explain all the essential points about what VCTs are, why you might consider investing in them, how to purchase, and the important things to note if you want to lower the risk of losing money.

## 1 STEP ONE: UNDERSTANDING VCTS

VCTs are close-ended funds which invest in early stage companies. You can't get your money back for five years, but to compensate for that factor and the risk of investing in young businesses, you can claim up



to 30% income tax relief on an investment of up to £200,000 a year. You will also have a capital gains exemption on disposal.

If you do want your money back before the five years are up, you must pay back the tax relief.

By investing in VCTs, the idea is that you are helping Britain's exciting, entrepreneurial businesses to grow. There is also the bonus of tax-free dividends.

One of the main objectives for VCT managers is to provide shareholders with consistent and if possible progressive dividend payments, something which is often funded by the money made from exiting companies. But VCTs will usually look to hold companies for at least five years and can sometimes hold them for more than 15 years.

## 2 STEP TWO: WHO WOULD VCTS SUIT?

Individuals on higher-rate or additional rate tax bands are naturally drawn to VCTs because of their tax benefits.

They can also be of interest to someone who wants to invest in early stage growth companies or individuals who have maxed out allowances on various wrappers such as ISAs and hit or exceeded the £1,073,100 pension lifetime allowance.

But contrary to popular opinion you don't need to be a high net worth individual to invest in VCTs, with the average investment size in VCTs being around £12,000 and the minimum subscription for many



of them being £5,000.

These funds are also popular among those looking to supplement their income as VCTs pay dividends, which are tax free and it is common to achieve a yield of around 5%.

Octopus Investments managing director Paul Latham says a typical VCT investor is someone in their 40s to 70s and can often be people who are investing with a view to supplementing their pensions. They also need to be taxpayers.

Latham explains: 'It tends to be the mass affluent, often people in their 50s or 60s – their pensions are maxed out so they're looking to do something a bit different. It's often a reason to be thinking about VCTs, hopefully getting a good tax-free dividend stream.'

### 3 STEP THREE: WHO ISN'T SUITABLE FOR A VCT?

Clearly if you want your money before five years, VCTs are not for you.

Also, those who don't see investing in the stock market as an option shouldn't consider VCTs, as they can invest in firms at an even riskier stage in their life, with a stock market float often being the exit stage.

### 4 STEP FOUR: UNDERSTAND THAT NOT THE HOLDINGS IN A VCT WILL SUCCEED

Many businesses in VCTs end up failing but there are a number of success stories, some of them quite spectacular, and it's these winners which ultimately drive positive returns for VCTs.

Latham explains: 'VCTs invest in smaller companies, and they are deemed by the Financial Conduct Authority as a high-risk investment. We would say overall that the returns do outweigh the losses, but you need to be comfortable with that level of uncertainty.'

Malcolm Ferguson, investment manager at Octopus Ventures, concedes that a majority of exits tend to be failures, but points out that this outweighed overall by the success stories.

Giving an insight into how the exits work, he says: 'Exits tend to be in three categories: mistakes – we don't sell them,

we write them off; quite good – these tend to be in the £50 million to £100 million range, and we usually sell those to private equity funds or trade buyers; and excellent, the companies with revenue of £100 million plus, we float them on a stock market or sell them to a huge corporation, companies like Twitter, Microsoft, Nestle, **Unilever (ULVR)**, etc.'

### 5 STEP FIVE: CHARGES CAN BE HIGH

Another point worth considering is the charges. Initial charges for VCTs are typically in the region

#### Current VCT offers still open

Name	Type
Albion VCT	Generalist
Baronsmead VCTs	Generalist
Hargreave Hale AIM VCT	AIM
Maven Income and Growth VCTs	Generalist
Octopus Titan VCT	Generalist
ProVen VCTs	Generalist
Blackfinch Spring VCT	Generalist
British Smaller Companies VCTs	Generalist
Calculus VCT	Generalist
Downing ONE VCT	Generalist
Foresight Williams Technology Shares	Generalist
Octopus Apollo VCT	Generalist
Pembroke VCT	Generalist
Puma Alpha VCT	Generalist
Puma VCT 13	Generalist
Seneca Growth Capital VCT	Generalist
Triple Point VCT 2011	Generalist

Source: FE Fundinfo, data as of 4 Dec 2020

of 4%, on top of an approximate 2% annual management charge and possibly other fees for administration costs, running costs and performance fees.

It's worth pointing out though that these costs arguably reflect the complexity of the space and the need to make sure investments qualify for the relevant tax relief.

## 6 STEP SIX: HOW TO BUY A VCT

You should buy VCTs direct from the fund manager or a specialist VCT broker during the offer periods to get all the tax benefits.

You can buy VCTs on the open market (also known as the secondary market) but you would lose the 30% income tax relief.

## 7 STEP SEVEN: WHAT DO THEY INVEST IN?

Most of the companies in VCT funds are start-ups, and the rules mean managers have to invest at least 80% of their portfolios in qualifying companies.

These are firms that promote innovation and industrial change but are not generating enough cash flow to get loans or other traditional sources of finance, and need a lot of capital, usually between £100,000 and £2 million.

Among these firms there are some well-known names that have come through the VCT route, including Zoopla, Secret Escape, Graze.com, while there are also VCTs that invest in AIM stocks and these funds have backed companies that have gone on to become successful



such as **Abcam (ABC:AIM)** and **Tristel (TSTL:AIM)**.

## 8 STEP EIGHT: VCTS CAN HAVE DIFFERENT STRATEGIES

Another thing to consider is that managers can take different approaches to what they choose to invest in. Andrew Wolfson, who runs the **Pembroke VCT (PEMB)**, prefers to back either consumer facing businesses or firms that supply tech that enables companies to reach consumers.

He says: 'We look for companies that are disrupting their sector and have that product uniqueness with their offering. But we don't like businesses where the consumer needs education. Put it this way, I don't back businesses that I don't understand – so I don't back medtech, fintech, proptech, etc.'

Pembroke's top holdings include Popsa, an app which makes photobooks from the photos on your phone or tablet, organic juice firm Plenish and womenswear brand ME+EM.

Other managers can take a different approach. Chris

Hutchinson, manager of the **Unicorn AIM VCT (UAV)**, takes pride in the fund's relative lack of exposure to consumer-facing companies, with some of its top holdings including Abcam and Tristel, as well as others like biotech firm **MaxCyte (MXCT:AIM)**, software business **Tracsis (TRCS:AIM)** and brake disc manufacturer **Surface Transforms (SCE:AIM)**.

Hutchinson says: 'We do a lot of work getting to know the management teams as closely as we can. We don't claim to be experts in areas like life sciences, but my team has bucket loads of experience and I think we're really good at telling which management teams are genuine long-term builders of value and which are just short-term "get rich quick" merchants.'

'We often ask management blunt or what they might view as "stupid" questions, but those questions are carefully designed to get a sense of what motivates them.'



By **Yoosof Farah**  
Reporter



# FINDING INCOME IN A DIVIDEND DROUGHT: A CONTRARIAN APPROACH

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

## Why income investors should look globally

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

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

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

## A contrarian approach can pay dividends

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

The Scottish has a dividend yield of around 3.2%, which is currently the highest in the AIC global sector. The recently announced final dividend extends the Company's long track record of annual regular dividend increases to 37 consecutive years.

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

## A dividend reserve – the benefit of long-term thinking

Over the years, The Scottish has prudently built a substantial revenue reserve in preparation for leaner times. As at 31 October 2020, this reserve was greater than 2.5 times the targeted annual dividend for the year to 31 October 2021. It gives the Company the ability to keep paying its shareholders when many businesses opted to curtail dividend payments.

Although not guaranteed, The Scottish's intention to continue to grow the regular dividend over the longer term backs up our status as a 'dividend hero' (as recognised by the Association of Investment Companies). ■

12 January 2021

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# The FTSE 100 stocks with the most buy or sell ratings at the start of 2021

Ironically it was the most popular 'sell' rated stocks that beat the index last year, not the 'buy' rated ones

**T**he UK stock market is off to a flier so far as 2021 is concerned. The FTSE 100's 6.4% gain between Monday 4 and Friday 8 January represented the index's fastest ever advance over the first five trading days of a new calendar year.

One question to address now is whether this sets the trend for the coming 12 months or whether it is just a case of every dog having its day, after the UK's terrible showing in 2020, when the FTSE 100 was the worst performer of all of the major developed market indices.

Another is whether it matters all, because investors should never forget that they are dealing with a market of stocks here – the index simply reflects the performance of its underlying constituents, a viewpoint backed up by the huge divergence in returns from the FTSE 100's constituents in 2020.

Six members the FTSE 100 as of 31 December 2020 generated a positive total return that exceeded 50%, namely **Scottish Mortgage (SMT)**, **Pershing Square (PSH)**, **Ocado (OCDO)**, **Fresnillo (FRES)**, **Flutter (FLTR)** and **Antofagasta (ANTO)**.

Only two firms in the FTSE 100 at the end of last year generated a negative total return of worse than 50%, namely **International Consolidated Airlines (IAG)** and **Rolls-Royce (RR.)**. However, **Carnival (CCL)** was relegated to the FTSE 250 in June and did worse than either of those. Worst of all, NMC Health's shares were suspended in March as the firm went into administration amid allegations of fraud.



This begs the question of how investors can find winners – or at least avoid portfolio-damaging losers.

## PICK OF THE PACK

One possible way is to identify which firms are more and least preferred in the research written by analysts at the leading investment banks and broking firms.

Granted, this is primarily intended for institutional investors but websites such as Sharecast and Marketscreener provide a summary of how many analysts cover a stock and how many rate the stock a 'buy' or a 'sell' (or are sat on the fence with a 'hold').

This column has back-tested the performance on the most least popular stocks at the start of a year for the past several years, and its conclusion remains that broker research needs to be treated with a degree of caution (assuming you can get your hands on it in the first place).

This is not to poke fun at the analysts. It just shows how hard picking individual stocks can be, even if it is your full-time job.



Now 2020 was clearly a tricky year and some allowance can be made for how the FTSE 100 stocks with the greatest percentage of 'buy' ratings went down. Unfortunately, the news was worse than that as the 10 most popular names did far worse than the index, on a total return basis. It was actually the 10 stocks with the greatest percentage of 'sell' ratings which managed to beat the index.

### Most popular, FTSE 100, one year ago

	% of 'buy' ratings	Total return in 2020
Melrose Industries	92%	-25.8%
NMC Health	90%	-100.0%
Coca-Cola HBC	86%	-4.7%
M & G	86%	-3.0%
Vodafone	83%	-12.2%
International Cons. Airlines	83%	-61.4%
DCC	80%	-19.0%
Smurfit Kappa	80%	21.8%
British American Tobacco	79%	-9.7%
JD Sports Fashion	78%	2.7%
<b>TOTAL</b>		<b>-21.1%</b>
<b>FTSE 100</b>		<b>-11.5%</b>

### Least popular, FTSE 100, one year ago

	% of 'buy' ratings	Total return in 2020
Hargreaves Lansdown	67%	-18.4%
Kingfisher	67%	24.6%
Rightmove	58%	2.7%
Sage	57%	-20.5%
Intertek	55%	-1.6%
Admiral Group	50%	33.4%
Standard Chartered	50%	-34.6%
InterContinental Hotels	50%	-9.9%
Ocado	50%	78.8%
Pearson	50%	10.6%
<b>TOTAL</b>		<b>6.5%</b>
<b>FTSE 100</b>		<b>-11.5%</b>

Source: Sharecast, Refinitiv data. Popular/least popular = by analyst rating



### LOOKING FOR THE NEW ACTION

Some slack must be cut for the beleaguered analysts, since 2020 was a fiendishly difficult year. Stocks collapsed in the first half of the year only to rally hard in the second half. In many cases macroeconomic trends, such as the pandemic, recession, and government and central bank policies trumped company-specific developments.

Yet the data show their analysts' top picks failed to beat the index in 2015, 2016, 2017, 2018 and now 2020, despite their diligence.

Those investors who are of a contrarian bent may therefore be concerned to see that the broking community is carrying the highest percentage of 'buy' ratings on FTSE 100 stocks since AJ Bell began this annual survey back in 2015. Last week's quickfire gains at least mean that the analysts are off to a good start in 2021.

### Brokers seem more bullish now on FTSE 100 stocks than at any stage since 2015

	Buys	Holds	Sells
<b>2015</b>	47%	39%	14%
<b>2016</b>	47%	40%	13%
<b>2017</b>	45%	40%	15%
<b>2018</b>	49%	37%	14%
<b>2019</b>	52%	36%	12%
<b>2020</b>	46%	38%	16%
<b>2021</b>	52%	34%	14%

Source: Sharecast, Marketscreener

## RUSS MOULD

AJ Bell Investment Director



Insightful commentary on market issues

### THE WAY AHEAD

Anyone prepared to pick their own stocks rather than pay a fund manager or index-tracker fund to do it for them must do their own research on individual companies before they even think about buying or selling any of their shares.

At best, broker research may be a useful filter or a cheeky contrarian indicator which only confirms legendary investor Warren Buffett's old

maxim that 'you cannot buy what is popular and do well'.

With that in mind, investors might like to know which stocks are most liked – and disliked – by analysts at the start of 2020. The tables list the names which investors may wish to analyse in greater depth, or simply avoid altogether, depending upon their view of the value of the research provided.

#### Most popular FTSE 100 stocks at start of 2021

	% of 'buy' ratings
3i	100%
Barratt Developments	89%
Avast	86%
Vodafone	86%
British American Tobacco	84%
Entain	83%
Imperial Brands	83%
Persimmon	83%
Polymetal	83%
Intermediate Capital Group	82%

#### Least popular FTSE 100 stocks at start of 2021

	% of 'sell' ratings
Admiral Group	50%
Ocado	41%
Pearson	40%
Sage	40%
HSBC	39%
InterContinental Hotels	38%
Rolls Royce	37%
Antofagasta	33%
Hargreaves Lansdown	33%
Intertek	30%

Source: Sharecast, Marketscreener. Popular/least popular = by analyst rating

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# What to do with lockdown cash

Looking at the options for those fortunate enough to have enjoyed a pandemic savings boost

**A**nother lengthy lockdown is upon us and that means few options to spend money on the little pleasures we took for granted before the pandemic. But when you put together all the money spent on meals out, coffee stops, evenings in the pub, or just getting a haircut, it actually adds up to a pretty tidy sum.

As a result £120 billion was saved into bank and building society accounts between March and November 2020, up from £42 billion in 2019.

We're likely to see a similar trend in the coming months of social restrictions. While it's definitely a good idea to have an emergency cash buffer, a current account is almost certainly one of the worst places to keep it.

Currently the typical interest rate on a current account is just 0.13%, and £220 billion sits in instant access accounts paying zero interest. Savers can't do anything about the economic situation that has prompted such low interest rates, but they can take concrete steps to improve their own lot.

## PAY DOWN CREDIT CARDS

Paying down expensive debt is one of the best investments you can make. The average interest charged on credit card balances is currently over 17% according

to financial information company Moneyfacts, so by paying this off you are effectively getting a 17% guaranteed return, and that compares with getting 0.13% on average for money sitting in a current account.

You may even be able to get such a return without committing any cash, by transferring expensive credit card debt to a provider who is offering 0% on balance transfers. Make sure you factor in any fees charged for the balance transfer, or ongoing fees for the credit card.

## PAY DOWN YOUR MORTGAGE

After you've paid off more expensive debt, it's worth considering overpaying your mortgage. The average mortgage interest rate right now is 2.1%, which compares favourably to the best rate you can get on an instant access savings account, which Moneyfacts identifies as 0.75%.

There is a big *but* – many mortgages will only allow you to overpay a certain amount each year before you start to incur punitive charges, so you may find there is only a limited amount of cash you can funnel in this direction.

## ACTIVELY MANAGE YOUR CASH

Shopping around for the best



rate on your savings is always a good idea. You should also consider locking away your money for longer in a fixed term bond to harvest higher rates.

Normally the longer you lock your money away for, the higher the rate you will get. However, that picture is a little distorted at the moment because there are some expectations in the market that there will be an interest rate cut. Based on current rates, the best one year bond looks reasonable value, but there's not a great deal of compensation for locking your money around for longer terms, though that can change.

## Moneyfacts Best Buy Accounts

Instant access	0.75%
6 month bond	0.60%
1 year bond	1.00%
18 month bond	0.95%
2 year bond	1.04%
3 year bond	1.00%
5 year bond	1.25%

Source: Moneyfacts, January 2021, based on £25,000 lump sum

Savers also now have access to savings account supermarkets, or cash hubs. These portals give you access to savings accounts from a number of banks, building societies and even investment platforms paying competitive rates of interest in one place, making it much easier to manage your cash holdings.

## CONSIDER PREMIUM BONDS

While NS&I has slashed rates on many of its most popular accounts, premium bonds still look like a decent option, as the 1% interest rate on the prize pool remains higher than the best easy access account right now. On top of that it's tax-free so anyone who's used up their personal savings allowance would actually need to get an even higher rate from a standard taxable account to match the post-tax interest from premium bonds.

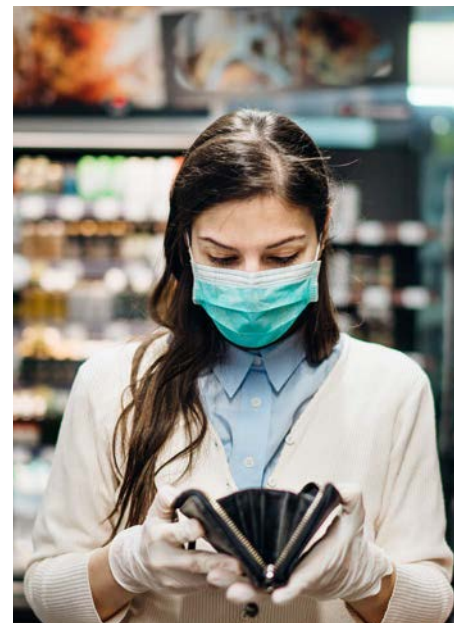
## SET UP OR TOP UP AN ISA

Cash ISAs allow you to receive interest tax-free. However, for many people this might not be so different to a normal savings account, seeing as there is currently a personal savings allowance of £1,000 for basic rate taxpayers and £500 for higher rate taxpayers. With interest rates as low as they are, you would therefore need a lot held in cash to start to pay tax. Unless you are an additional rate taxpayer and therefore don't get a personal savings allowance.

Rates on Cash ISAs also tend to be a bit lower than the best rates from other savings accounts. However, there are still some reasons to consider a Cash ISA. If in the future you decide you want to invest your money, Cash ISAs can be converted into Stocks and Shares ISAs without using any more of your ISA allowance.

Stocks and Shares ISAs are free from income tax and capital gains tax, though of course you must be willing to invest for the long term and be prepared to ride out the ups and downs of the stock market.

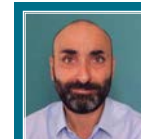
Annual dividends above £2,000 are taxable if not held in an ISA (or pension) and with the UK stock market tending to yield between 3% and 4%, it won't take a huge portfolio to make the ISA shelter worthwhile, particularly if you factor in stock market growth. Gains are also free from capital gains tax, so if



you have some big winners, you get to keep more of the profits.

## TOP UP YOUR PENSION

Another option if you're able to leave your money invested for the long term is to top up your pension. In the first instance, check if your employer will match any additional contributions you make. If they do, it will probably be on regular savings rather than lump sums, so you'll need to ask to increase your monthly contributions. If your employer doesn't match contributions and you want a wider investment choice than your workplace pension offers, a SIPP might be the way to go.



By **Laith Khalaf**  
Financial Analyst

New Premium Bond rate	Equivalent taxable rate required for taxpayers on:			Best buy*
	Basic rate	Higher rate	Additional rate	
1%	1.25%	1.67%	1.82%	0.75%

Source: Moneyfacts, AJ Bell, Shares. \*Moneyfacts easy access best buy 06/01/2021



# WATCH RECENT PRESENTATION **WEBINARS**

**Romania Asset Overview**

- Satu Mare Concession in northwest Romania
- 1000+ km² surface Romania
- 1000+ km² drilling interest
- License extension to 27 October 2021 plus further extension corresponding to the duration of the Romanian State of Emergency, which will be called once that
- Work commitments include two exploration wells, one to a depth of 1500 metres and the second well to a depth of 1400 metres - the 1st 1000 well has been accepted for the 1500 metre well
- Low risk development opportunity on existing gas discovery plus longer term exploration potential
- Estimated gas discovery only 12.8 Bcf of 2P Reserves
- A further 5.2 Bcf of risked 2C Contingent Reserves
- More than 181 MMboe un-risked or 73 MMboe of Mean Risked Recoverable Resources estimated to be available for development

## Serinus Energy (SENX) – Jeffrey Auld, President and CEO

Serinus Energy is an international upstream oil and gas exploration and production company that owns and operates projects in Tunisia and Romania.

**Material Upside from 20 Tcf<sup>1</sup> Deep, Tight gas Play**

Very large proven play

- 43 km wide significantly underexplored gas play (20-30 psf) present for 100+ miles
- Large play (100-1,000 km) (200-2,000 ft)
- Valeura's acreage covers ~80% of play, extending ~100 km
- Gas trapped in tight rock reservoir below 2,000 metres
- Material opportunity with 20 Tcf<sup>1</sup> gas
- Existing mechanical reserves, 100,000+ million barrels (including 10,000+ million barrels of gas)
- Drilled, tested and sealed 10 wells, 1,000+ ft deep

**Forward plan**

- Significant 20 Tcf<sup>1</sup> gas to present - opportunity to prove substantial commercial reserves
- Target sweet spot where 20 Tcf<sup>1</sup> gas (Super Reservoir 1) overlaps the dry gas window (highest pressure & best gas flow)
- Hemphill 1 top appraisal location identified and submitted to government for appraisal
- Secure a partner
- Resume drilling in 2021

## Valeura Energy (VLU) – Sean Guest, President and CEO

Valeura Energy 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.

**Financial highlights March 2020**

Group revenue	Adjusted	Loss before tax
£8.3m (2019: £1.1m)	£0.6m (2019: £0.1m)	£4.7m (2019: £2.8m)

Costs: £1.7m (2019: £1.1m) | Successful fundraising: £6.0m gross in March 2020 (2019: £2.2m)

**Our history**

Timeline from 2005 to 2020 showing key milestones.

## Versarien (VRS) – Neill Ricketts, CEO

Versarien is engaged in the engineering materials business developing valuable new materials through the commercialization of new manufacturing processes.

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



## SHARES SPOTLIGHT

[www.sharesmagazine.co.uk/videos](http://www.sharesmagazine.co.uk/videos)



# What is my annual pensions allowance?

Our resident expert discusses how much you can put into your retirement pot

*I'm currently drawing down from a defined benefit pension scheme and I'm looking to set up a SIPP. Please can you tell me what my annual allowance will be – is it £40,000 or £4,000?*

**Julie**



**Tom Selby**  
AJ Bell  
Senior Analyst says:

The UK pensions annual allowance for 2020/21 is £40,000. However, not everyone can pay this much into their retirement pot during the tax year.

First of all, personal pension contributions which you can receive tax relief on are limited to 100% of your 'UK relevant earnings'. Relevant earnings include things like your employment income, bonuses and taxable benefits in kind.

Note that it is only personal – and not employer – contributions that are limited to 100% of relevant earnings.

If you have no relevant earnings you can still make up to £3,600 of personal pension contributions – inclusive of basic-rate pension tax relief – during the tax year.

You mention a £4,000 allowance in your question, which I suspect is a reference to the 'money purchase annual allowance' (or MPAA). The £4,000 MPAA kicks in when

someone 'flexibly accesses' their defined contribution (DC) pension from age 55.

There are a number of ways you can trigger the MPAA, including by receiving taxable income from your DC pension through drawdown, taking an ad-hoc lump sum, exceeding your maximum income limit in 'capped drawdown' or buying a 'flexible' annuity.

The MPAA will not be triggered if you buy a lifetime annuity or if you take income from a defined benefit (DB) pension. So, as you are taking a scheme pension from a defined benefit scheme it shouldn't affect you.

Finally, for very high earners the annual allowance may be reduced by the annual allowance 'taper'. There are two income measures that matter for the taper – 'threshold income' and 'adjusted income'.

If you have threshold income above £200,000 and adjusted income above £240,000, your annual allowance will reduce by £1 for every £2 of adjusted income above £240,000, to a minimum of £4,000 for those with adjusted income of £312,000 and above.

Broadly speaking threshold income is your taxable income minus personal pension contributions, while adjusted income is taxable income plus employer pension contributions.

You can read more detail about how the annual allowance taper works in this [AJ Bell guide](#).

One last thing to remember is 'carry forward', which could allow you to use unused annual allowances from the three previous tax years in the current tax year, as long as you were a member of a pension scheme.

Your personal contributions will still be restricted to 100% of relevant earnings, but using carry forward could allow you to benefit from up to a total allowance of £160,000 in the current tax year (3 x £40,000 allowances from the last three tax years plus £40,000 from the current tax year).

Again, you can read more about how carry forward works in detail [here](#).

## DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to [editorial@sharesmagazine.co.uk](mailto: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.

# 15 “what ifs” for the year 2030

ADVERTORIAL

Schroders

From climate change to working from home, we identify 15 possible scenarios that will affect the way we invest in Asia in the next decade.



By Robin Parbrook,  
Co-Head of Asian Equity  
Alternative Investments

As a very challenging 2020 draws to a close, everyone is looking to the future: when will the vaccine arrive? When will life return to normal? When will I be able to go to the pub with my friends again?

But as a fund manager, it's important to not only [look to the short term](#), but also to think much further out. Forget what 2021 will look like - what will 2030 look like?

That's why my colleague Lee King Fui and I came up with 15 investment “what ifs”

for the year 2030, which are laid out in the chart below.

Some of these things might not happen. It's possible that none will. But we think it's helpful to consider and debate among ourselves what could lie ahead when you're investing for the long-term.

Rather than discussing all 15 here, I'll just expand briefly on a few of those that are having a more direct bearing on how we invest in Asia.

## 1. Peak oil was in 2019; total oil consumption falls by 30% by 2030.

We are now convinced that oil is indeed a sunset industry. As the chart below from oil major BP demonstrates, we are probably close to peak oil.

Oil companies are cheap. But they are cheap for good reason. They either face long-term structural

decline and becoming ESG (environmental, social and governance) pariahs, or have to reinvent themselves by diversifying to become green energy plays. Given this is a whole different skill set, we expect most to fail in this area. We would be unlikely to invest in any oil and gas companies.

## 2. New car sales in 2030: 70% are electric vehicles or plug-in hybrid electric vehicles, and in many countries are fully autonomous.

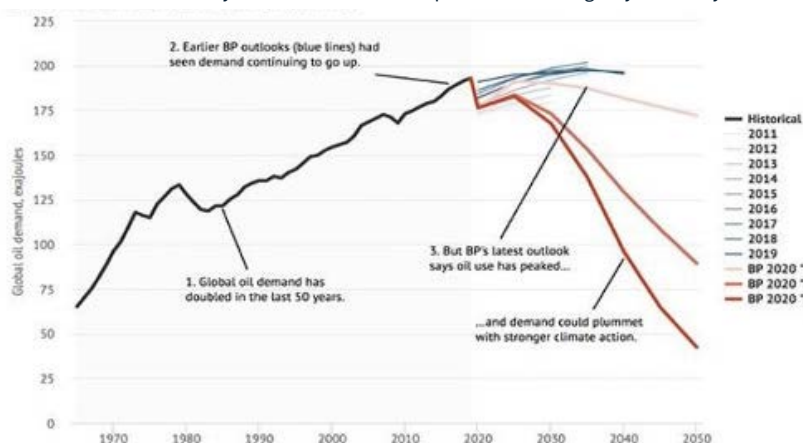
We believe that it's going to be hard to differentiate between mass market electric vehicles (EVs) in the years to come. They have far fewer moving parts (versus a traditional car) and standardised technology. The batteries, motors and electronics for mass market EVs are going to be broadly the same. We wonder if EVs will become like large panel TVs, personal computers and smartphones – a fairly standard product where it is hard to differentiate between brands. As a result, profit margins become wafer thin.

Ultimately, given much of an EV is actually an electronic product we would also not be surprised if they are at least in part manufactured by large contract assembly companies like Hon Hai and Flextronics.

We are staying away from all auto-related stocks, whether internal combustion engine-

## BP now concedes that oil demand has already peaked – and could soon plummet

Last year's outlook has seen peak oil still being 15 years away



Source: CarbonBrief, September 2020

focussed or EV focussed.

Looking at the near-term, we think current moves in this sector in Asia are irrational and symptomatic of a bubble. The valuations in Chinese EVs right now look extreme – with the market assuming all are going to be the next Tesla. This is despite the fact there are estimated to be around 500 new start-up EV plays in China according to Arthur D Little management consulting, of which only 60 have produced vehicles. Many are well-funded, but produce few vehicles. Just lots of losses.

Tesla is very different to all these overpriced companies. Along with a visionary product, it has software, charging infrastructure and has mastered how to build its visionary products to scale. We expect inevitably most Chinese EV start-ups will fail and many investors will lose a lot of money.

### **3. Globalisation rescinds: global trade volume as a % of GDP falls back to 1970s levels (i.e. from 60% in 2018 to 30% in 2030).**

The current gradual decline in trade volumes as a share of global GDP is one we find interesting. Is this structural and long-term or just cyclical and shorter-term?

We increasingly think it may be structural as the world moves to services and software. That is, we move to a virtual world, and manufacturing at least in part gets moved back on-shore as there is a greater desire for self-sufficiency. This would see a move away from optimised supply chains, especially where they are

centred on China.

What does this mean for investing? We are cautious long-term on shipping and ports but also wary of export companies based in one location. It also poses a challenge to emerging markets who have an economic growth model that is based on becoming a manufacturing export base.

### **4. Intangible assets (non-physical assets such as brand) are 50% of business investment in 2030; manufacturing shrinks as a % of GDP.**

As strength in services and successful investment in intangible assets becomes more important – this favours China, Taiwan, Korea, Singapore and possibly India over south-east Asian countries.

With intangible, non-physical assets rising in importance and accounting for a larger share of GDP, analysing how companies are investing will become much more interesting and trickier going forward. The days

when Asian equity indices were full of property, banks, manufacturing companies and telecom stocks are very much over.

### **5. Leisure travel returns post Covid-19; business travel does not.**

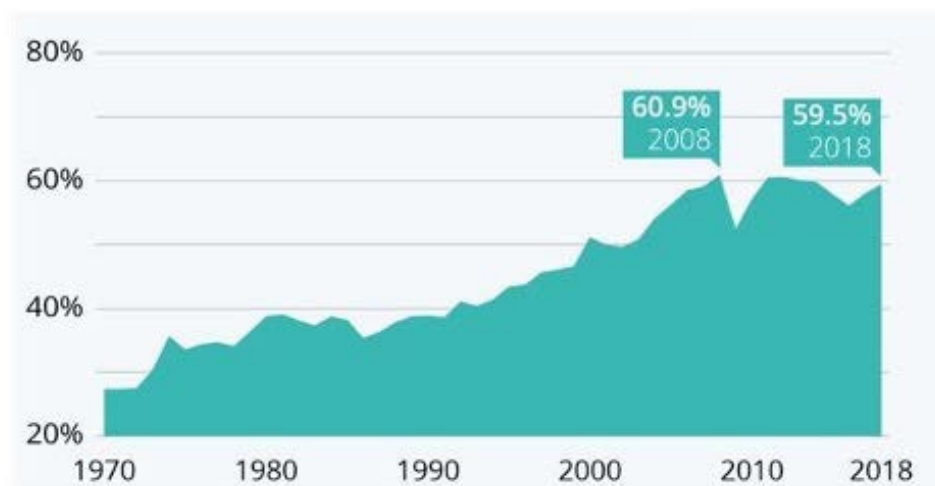
### **6. Office workers spend 50% of work hours at home in 2030 (vs. 5% pre-pandemic).**

Will we go back to our offices in the brave new post-Covid world? For sure we will, but we doubt to the same extent. This could make city centres a very different place. Offices could be smaller and more local.

But we still think we will need offices, and in places like Hong Kong and Singapore maybe the environment doesn't change so dramatically, given cramped housing conditions and excellent connectivity. We actually think as a contrarian value trade, Hong Kong and Singapore office property is interesting. We are less interested in retail property – as we explain below in relation to “what if” number 7.

#### **Has globalisation passed its peak?**

Global trade volume as a percentage of GDP since 1970\*



\*Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product.  
Source: World Bank, Statista, May 2020



**7. 40% of retail sales are online in 2030 (vs. around 10% of total retail sales in 2018).**

Our forecast of 40% of global retail sales to be online by 2030 could be conservative. In some countries like China we are already there.

For investment purposes, we think the decline in rents and capital values for retail and a lot of office property will be dramatic. This leaves us cautious on property stocks and banks in Asia (given much of the security for bank loans is property). And this is even before we start talking about government interference in banks and disruption resulting from new financial technologies, or “fintech”.

**8. Terrestrial television and printed newspapers no longer exist.**

**9. Healthcare in wealthy countries is tailored, online, predictive and preventative.**

**10. Agriculture is massively disrupted; technology changes the most traditional industry of all.**

**11. “Sin taxes” become an ever bigger source of government income; large scale sugar, plastic and environmental taxes.**

**12. Banks, transport, utilities - all become quasi or fully-owned/controlled by government, rendering them uninvestable.**

**13. MMT (Modern Monetary Theory) is adopted by most Western countries to inflate away debts; socialism returns.**

**14. JM Keynes’ prediction from 1930 comes true - that in 100 years’ time, his generation’s grandchildren will work a 15-hour week and have more leisure time.**

**15. Climate change accelerates faster than anticipated; we are already past the tipping point. Last, but certainly not least, climate change is an issue we take very seriously when investing in Asia.**

Because of its geography and high population density, Asia is one of the regions most likely to be negatively affected economically by a warmer climate. There is significant debate at the moment on the acceleration of climate change. We are not experts, but it does look like numbers are currently trending at the high end of past climate model forecasts.

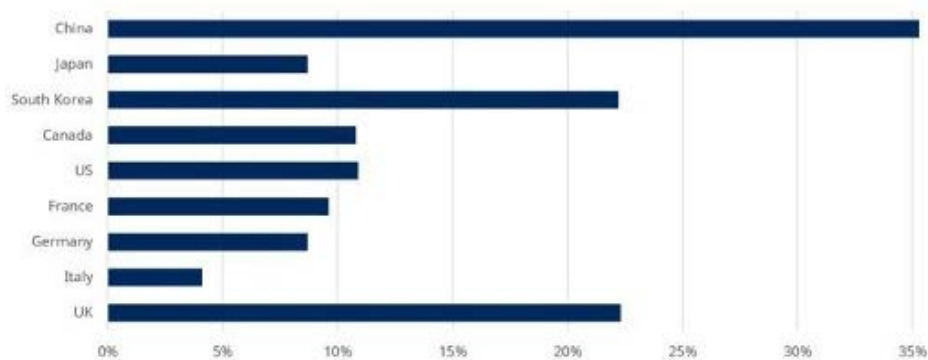
This is worrying for a region with huge populations sitting on deltas and also large agricultural bases already facing water stress, particularly in India and Northern China.

Our belief is that the focus on the climate when investing will ratchet up very quickly in Asia – this is set to become a much bigger issue. For our part, we are looking for companies that are part of the solution and avoiding those that are potentially creating the problems.

Robin and King manage the Schroder Asian Total Return Investment Trust. For more information on the Trust, subscribe to the Schroder Investment Trust newsletter [here](#).

**Retail ecommerce sales penetration, by country**

2019, % of total retail sales



Source: eMarketer, February 2019

**Important information:**

Any references to companies is for illustrative purposes only and not a recommendation to buy and/or sell.

The article is not intended to provide, and should not be relied on for investment advice.

Information and opinions contained herein

are subject to change. Reliance should not be placed on any views or information in the article when taking individual investment and/or strategic decisions.

The value of investments may go down as well as up and you may not get back the amount you originally invested.

# The income and renewable funds going cheap

We look at trusts trading at a greater discount or premium to NAV versus their 12-month average

**I**nvestment trusts differ from other types of fund as they can trade at a discount or premium to the value of their underlying assets. This can present interesting opportunities, particularly when trusts are trading at larger than usual discounts to net asset value (NAV).

To offer insights into some of the trends in this area *Shares* is going to start regularly tracking movements in trust share prices



relative to their NAV using data from Winterflood.

In each article we will shine a spotlight on one part of the investment trust universe and discuss the dynamics around how its constituents trade relative to their assets.

The NAV in these tables is calculated with any debt held by the trusts at book value, which is how much it will cost to repay the lender when the loan is due, rather than fair value, which is

SCOTTISH  
MORTGAGE  
INVESTMENT  
TRUST

**Successful investing  
is as much about what  
you don't know.**

**So, we never stop  
learning.**



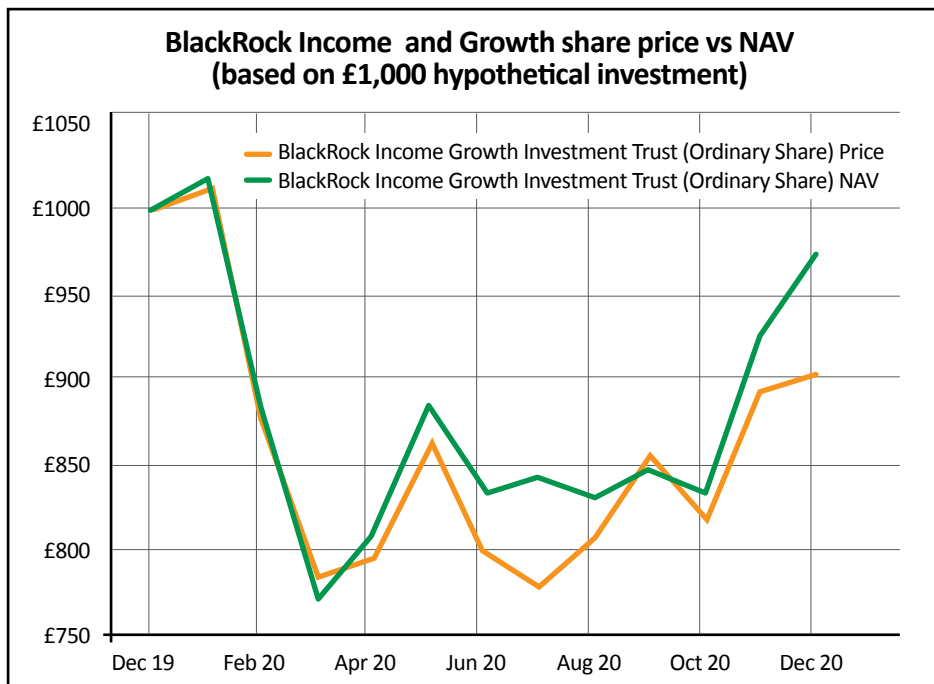
how much the debt is worth now.

We have ignored Real Estate Investment Trusts and more complex products which invest in areas like hedge funds and structured finance. Our focus is on trusts which are trading at larger discounts or premiums to NAV than their 12-month average.

It is worth noting this 12-month average currently encompasses a period of significant volatility when the premium or discount to NAV will have swung wildly at times due to the coronavirus market sell-off in early 2020.

## TRUSTS AT LARGER THAN AVERAGE DISCOUNTS

It is not surprising to see several income-related trusts trading at larger than average discounts



Source: Citywire

given the impact the pandemic had on dividends.

At 12.7%, UK-focused **BlackRock Income & Growth**

**(BRIG)** trades at a significantly larger discount to NAV than its 3.5% 12-month average.

Investment trust researcher

What's next? It's a question we ask ourselves every day. So, we speak to academia, to authors, to people who think differently, to help us imagine the future. This helps us seek out those genuinely innovative businesses which are providing new solutions, and disrupting existing industries. As actual investors we believe it's our task to find these companies, and make sure they reach your portfolio. Over the last five years the **Scottish Mortgage Investment Trust** has delivered a total return of 326.5% compared to 152.8% for the sector\*. And **Scottish Mortgage** is low-cost with an ongoing charges figure of just 0.36%\*\*.

Standardised past performance to 30 September*	2016	2017	2018	2019	2020
<b>SCOTTISH MORTGAGE</b>	<b>37.0%</b>	<b>30.3%</b>	<b>29.0%</b>	<b>-6.4%</b>	<b>97.8%</b>
<b>AIC GLOBAL SECTOR^</b>	<b>29.0%</b>	<b>26.2%</b>	<b>19.2%</b>	<b>-0.2%</b>	<b>34.5%</b>

^Weighted average.

Past performance is not a guide to future returns. Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.

**Find out more by watching our film at [scottishmortgageit.com](http://scottishmortgageit.com)**

A Key Information Document is available. Call 0800 917 2112.



*Actual Investors*

\*Source: Morningstar, share price, total return in sterling as at 30.09.20. \*\*Ongoing charges as at 31.03.20 calculated in accordance with AIC recommendations. Details of other costs can be found in the Key Information Document. Your call may be recorded for training or monitoring purposes. Issued and approved by Baillie Gifford & Co Limited, whose registered address is at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, United Kingdom. Baillie Gifford & Co Limited is the authorised Alternative Investment Fund Manager and Company Secretary of the Trust. Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority (FCA). The investment trusts managed by Baillie Gifford & Co Limited are listed UK companies and are not authorised and regulated by the Financial Conduct Authority.



Kepler comments: 'The Covid-19 pandemic and the lockdowns that followed have clearly proven a substantial challenge to dividend generation globally, as a vast swathe of companies found their operations either impeded or forced to stop entirely.'

'Secondary impacts to resources demand (energy) and interest rates (banks and insurers) further affected many significant contributors to UK dividends.'

Kepler notes the board has 'substantial' revenue reserves and has previously displayed its willingness to deploy them to sustain dividend payments.

The increased discount at **Premier Miton Global Renewables (PMGR)** of 11.7% (versus 6.7% one-year average) might seem counter-intuitive given the last 12 months has seen growing interest in investments linked to ESG (environmental, social, governance) themes.

However, the company attracted some investor dissent having switched its focus from a broader infrastructure remit in 2020.

Another trust which experienced changes last year was **Brunner (BUT)** which saw the departure of well-regarded lead manager Lucy Macdonald who had successfully narrowed the discount on the trust during her tenure.

## TRUSTS AT LARGER THAN AVERAGE PREMIUMS

In terms of trusts trading at larger than average premiums to NAV, there are several which tap into popular themes.



### Selected trusts trading significantly above 12-month average discount to NAV

Trust	Discount to Nav (%)	12-month average discount to NAV (%)	How much above average prem/discount to NAV (%)
<b>BlackRock Income &amp; Growth</b>	-12.7	-3.5	-9.2
<b>Brunner</b>	-17.5	-11.8	-5.7
<b>Premier Miton Global Renewables</b>	-11.7	-6.7	-5.1
<b>BlackRock N. American Income</b>	-8.4	-4.1	-4.3
<b>North American Income</b>	-8.9	-5.4	-3.5
<b>Henderson International Income</b>	-6.3	-3.2	-3.1

Source: Winterflood Securities. Data as 8 January 2021.



### Selected trusts trading significantly above 12-month average premium to NAV

Trust	Prem to Nav (%)	12-month average prem to NAV (%)	How much above average prem to NAV (%)
<b>Syncona</b>	45.1	17.2	27.9
<b>Augmentum Fintech</b>	14.6	-7.2	21.8
<b>US Solar Fund</b>	13.4	0.4	13.1
<b>JPM Japan Small Cap Growth &amp; Inc</b>	1.5	-9.4	10.9
<b>Baillie Gifford Japan</b>	8.6	-1.9	10.5
<b>Baillie Gifford China Growth Trust</b>	9.8	0.3	9.5

Source: Winterflood Securities. Data as 8 January 2021.

## WHY DO PRIVATE EQUITY TRUSTS TEND TO TRADE AT A DISCOUNT?

### Private equity trusts typically trade at discounts to NAV

Trust	Prem/disc to NAV (%)
HgCapital Trust	8.2
Apax Global Alpha	-6.8
Princess Private Equity	-12.8
HarbourVest Global PrivEq	-17.1
BMO Private Equity	-18.0
Pantheon International	-18.0
ICG Enterprise	-18.2
Oakley Capital Investments	-19.6
Standard Life Private Equity	-24.6
NB Private Equity	-25.1

Source: Winterflood Securities. Data as 8 January 2021.

MOST PRIVATE EQUITY trusts trade at a discount to net asset value. This reflects their exposure to unlisted assets which do not have a daily market value. As a result, they offer more limited transparency to investors and they also have less liquid underlying assets – or in other words they are harder to buy or sell. Trusts in this space include those making direct private equity investments and those investing in several different

private equity portfolios managed by third parties. **Hg Capital (HGT)** is notable in that it currently trades at a premium, unlike most of its peers. This likely reflects the make-up of the portfolio which as broker Numis observes: ‘Includes high quality, resilient and high growth companies providing non-discretionary software and services, typically with highly predictable business models and high levels of robust, recurring revenue.’

The build in an already hefty premium from 17.2% to 45.1% at life science focused trust **Syncona (SYNC)** reflects the prominence of healthcare amid the Covid-19 pandemic. In the words of Numis: ‘We believe that Syncona has an exceptional management team that have built a strong track record and are one of the leading investors in the cell and gene therapy space.’

Coronavirus has seen an increasing number of activities shift online – so it is no surprise to see increased appetite for **Augmentum Fintech (AUGM)** in that context, with the portfolio made up of financial technology start-ups across Europe. It has gone from an average 7.2% discount to NAV to trade at a 14.6% premium.

The election of Joe Biden to the US presidency is seen as good news for green industries across the Atlantic – with **US Solar Fund (USF)** benefiting handsomely.

The strong performance of Japanese equities – with the flagship Nikkei 225 recently marking record highs – has also helped Japanese-focused trusts attain decent premiums. While the more rapid recovery from the pandemic in China, relative to the West, helped lift **Baillie Gifford China Growth (BGCG)** to a substantially higher premium of 9.8% versus a 12-month average of 0.3%.



By **Tom Sieber**  
Deputy Editor

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**William Dawes, CEO**

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**Tim Watts, CEO**

Shield is a commercial stage, specialty pharmaceutical company delivering innovative pharmaceuticals to address patients' unmet medical needs.



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**Jay LeCoque,  
Executive Chairman**

SourceBio International is an international provider of integrated state of the art Laboratory Services and Products. Headquartered in the UK, with offices in UK, Europe and the USA.



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AIM	
Abcam	42
ASOS	23, 38
Boohoo	23, 38
Churchill China	28
Codemasters	28
Eagle Eye Solutions	30
Gamma Communications	18
Gear4Music	23
Gresham House	19
Hotel Chocolat	23
MaxCyte	42
RWS	31
Science in Sport	30
Surface Transforms	42
Tracsis	42
Tristel	42

ETF	
iShares Core FTSE 100	21
Vanguard FTSE 250	21

Investment Trusts	
Augmentum Fintech	57
Baillie Gifford China Growth	57
BlackRock Income & Growth	55
BlackRock Latin American	11
Brunner	56
Hg Capital	57
Mercantile Investment Trust	26
Pembroke VCT	42
Pershing Square	44
Premier Miton Global Renewables	56
Scottish Mortgage	21, 44
Unicorn AIM VCT	42
US Solar Fund	57

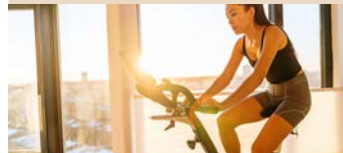
IPO coming soon	
Dr Martens	8
Moonpig	8

Main market	
Antofagasta	44
AO World	23
Associated British Foods	22
AstraZeneca	20, 21
B&M European Value Retail	23, 30
Bellway	25
Berkeley	25
BP	3
Card Factory	22
Carnival	22
Carnival	44
Countryside Properties	26
Dunelm	26
EasyJet	22, 23, 29
Entain	22
Flutter	44
Foxtons	22
Fresnillo	44
Games Workshop	26
GlaxoSmithKline	21
Greencore	23
Hammerson	22
Hays	25
HeiQ	28, 31
Hollywood Bowl	22
International Consolidated Airlines	9, 44
IP Group	18
JD Sports Fashion	3, 30
JD Wetherspoon	24
Jet2	9, 23
Kingfisher	23
Lloyds Banking	21
Mitchells and Butlers	24
Morrisons	13, 23
National Express	26
Next	37
Ocado	9, 44
On The Beach	23
Persimmon	25
Pets at Home	23
Plus500	29

Rolls-Royce	44
Royal Dutch Shell	3
Ryanair	9, 23, 29
Sainsbury's	12, 23, 30
Tesco	13, 23
THG	9, 30
TUI	9, 23
WHSmith	8, 25

Wizz Air	9, 23, 29
----------	-----------

Overseas shares	
Alibaba	17
Peloton	32



## KEY ANNOUNCEMENTS OVER THE NEXT 3 WEEKS

### Full year results

**18 January:** AFH Financial. **19 January:** Watkin Jones.

### Half year results

**19 January:** Knights Group, Time Finance, U and I. **20 January:** Van Elle. **21 January:** IG Group, Sensyne Health.

### Trading statements

**19 January:** Experian, Henry Boot, Kier, Premier Foods, Rio Tinto. **20 January:** Antofagasta, BHP, Burberry, Cairn Energy, City of London Investment Group, CMC Markets, Diploma, JD Wetherspoon, WH Smith. **21 January:** AJ Bell, Arrow Global, Close Brothers, Countryside Properties, Energean, Eve Sleep, Luceco, Sage.

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