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BIG GOLD MINER TARGETS UK INVESTORS WE TAKE A CLOSER LOOK AT RESOLUTE MINING

What could put markets in a sunnier mood?

We look at the steps which could put equities back on the front foot

The prospect of financial stimulus in Germany and China has lifted the market mood a touch but there is still plenty of doom and gloom around about the prospects for equities.

This is not unwarranted given the long list of risk factors being weighed at present. However, an interesting way to look at the current situation is to consider the events required for investors to become more cheerful.

New research from investment bank Morgan Stanley is instructive in that regard. Its strategists are currently negative on both bonds and stocks but they identify four developments which would make them change their mind.

One: Better short-cycle data such as purchasing managers' index would make the team more optimistic that earnings estimates can be hit.

Two: Trade mitigation, with de-escalation needed from both the US and China

Three: Central banks over-delivering versus expectations or these expectations being lowered.
Four: Valuations moving closer to average levels.

WHAT TO LOOK FOR

Short-cycle data offering insight into the health of different economies has not been too encouraging of late. UK PMI data is released at the beginning of each month, but more relevant given the size and influence of their respective economies are the releases for China and US. The closely followed China Caixin PMI data is out on 2 September, with the US release following on 3 September.

China and US are also the key actors in the current global trade tensions. The delay to tariffs on Chinese imports to the US recently announced by the Trump administration was positive.

However, a resumption of talks with a realistic hope of resolving the situation would have a more telling impact. There are hopes that negotiations could resume in September.

MONETARY POLICY CLUES

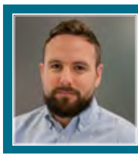
It might be difficult for central banks to deliver more than expected, given expectations over the pace of rate cuts have ratcheted up rapidly so far in 2019.

However, the apparent willingness of authorities in China and Germany to take action to prevent an economic slowdown could be a signal these expectations are about to be surpassed.

The Jackson Hole symposium, a big meeting of leading financiers and central bankers which is due to get underway on 22 August, could offer some insights into current thinking on monetary policy.

The final piece of the jigsaw for Morgan Stanley is a shift in valuation down to 'average' levels. However, for investors in UK stocks this is less of an issue.

While many developed markets, most notably the US, are trading at elevated levels, the uncertainty around Brexit means British shares have been depressed for some time. The looming 31 October date for the UK's exit from the EU means clarity on this issue one way or another could be imminent.



By **Tom Sieber** Deputy Editor

Contents

CFA UK Publication of the Year
CFA UK Journalism Awards 2019

Why we could be heading for another global recession

And why investors have been hit hard by Argentina, including one who lost $1.8bn in a single day

Investor fears over the future of the global economy ramped up a notch this week as Germany's central bank admitted the country could be heading for a recession.

The news adds to a so-called 'wall of worries', already featuring a no-deal Brexit and the looming prospect of an all-out unification bout between the US and China to declare the undisputed heavyweight (trade) champion of the world.

All of which has led to an inverted yield curve, which matters as it is historically a precursor to a global recession one or two years down the line.

An inverted yield curve is where the return on short-dated government bonds is better than the return on long-dated ones.

Two-year US Treasuries, UK gilts and German bunds give a better return than 10-year ones, while something similar has been seen in government bonds from Japan, Australia, Hong Kong, Singapore and South Korea.

Bond investors normally expect to get a better return for holding bonds that aren't due to be repaid for a long time because of the added risk.

But now with yields negative on some 10-year bonds investors are effectively paying to lend the government money because they'd rather guarantee a small loss now than risk a big one later on.

Fund managers, analysts and economists believe such indicators point to an imminent global recession, but others think the worries could be overblown.

The fortune of the world's economy is typically tied to how the US does, and both president Donald Trump and his chief economic advisor Larry Kudlow have both dismissed the prospect of a recession, with Kudlow optimistic on the US economy.

EMERGING MARKET INVESTORS HIT BY ARGENTINA

Argentina has been in the doldrums recently, and the past week has seen the economy minister resign with the country's currency shedding 20% of its value against the dollar.

That came after market-friendly president Mauricio Macri suffered a resounding defeat in the first poll of the country's elections.

And it has hit some emerging market investors hard. Star fund manager Michael Hasenstab, who runs bond funds for Franklin Templeton, lost $1.8bn in a single day as he had a lot of money invested in Argentine bonds.

But he might not be the only one affected. Though Argentina only makes up 2.6% of the commonly used MSCI Emerging Markets Index, JP Morgan noted that investing in Argentine stocks was one of the most popular trades by emerging market investors last month.

Greene King's £4.6bn bid is 'too cheap' say analysts

Investors should sit tight and see if a better offer comes along

Several analysts suggest the 850p per share takeover offer for pubs group **Greene King (GNK)** is too low. Investors already holding the stock should sit tight and await a higher offer, either from the current suitor or a counterbid.

Hong Kong-based property developer and investor CK Asset is offering £4.6bn for the business including its large debt pile. The offer is pitched at a 25% premium to net asset value and 9.5 times trailing EBITDA (earnings before interest, tax, depreciation and amortisation).

EI Group (EIG) recently received a takeover bid from Stonegate for the equivalent of 11.4 times trailing EBITDA and Punch Taverns was acquired in 2017 by Heineken and Patron Capital on a 10-times multiple. Canaccord Genuity analyst Nigel Parson says Greene King's offer really needs to be on a similar level to these other pub companies.

Greg Johnson, analyst at stockbroker Shore Capital, says 950p would be a more attractive takeover price for Greene King in order to secure shareholder approval.

Parson implies a counterbid could be possible, potentially from an overseas brewer wishing to enter the UK market. He says the most obvious bidder is Molson Coors, whose brands include Carling, Cobra and Doom Bar.

INVESTORS RACE TO OWN LEISURE STOCKS FOLLOWING GREENE KING BID

STOCK	SHARE PRICE FOLLOWING GNK BID*
Marston's	9%
Wetherspoon	8%
Restaurant Group	6%
Mitchells & Butlers**	6%

*19 August 2019 one-day change
**Owns more than 650 pubs
Source: SharePad

Investors flocked to other UK-listed pub companies following the Greene King news, speculating they too could be takeover targets. **Marston's (MARS)** – which is a running *Shares Great Idea* – was the biggest riser, jumping 9%.

The Marston's pub estate is valued at 95p per share, equal to 10 times EBITDA. Marston's also has a beer business which Johnson at Shore Capital believes could be worth a further 60p to 80p per share (9 to 12 times EBITDA). Its shares currently trade at 117.1p.

Pub companies are seen as attractive targets for overseas buyers because the current weakness in sterling makes them cheaper for a foreign company to buy and many also benefit from large asset-backing. For example, Greene King says 81% of its estate is either freehold or long leasehold.

In a similar fashion, Premier Inn hotel owner **Whitbread (WTB)** is seen as a takeover target due to its 60% freehold property exposure. **Fuller Smith & Turner (FSTA)** earlier this year sold its brewing business to Japan's Asahi for £250m.

Should a higher offer fail to emerge for Greene King, investors may be interested to note that investment bank UBS doesn't believe CK Asset will have any trouble paying for the acquisition. It says the suitor has HK$59.5bn (£6.26bn) cash and is expecting HK$23bn (£2.4bn) soon from residential property sales.

Food and drink industry on alert

Leaked government paper on no deal Brexit and retail pressure add to woes for the sector

There were two bombshells in the weekend press for the UK food industry. First, leaked government files predicted that in the event of a no-deal exit from the EU, supplies of fresh food would be reduced.

Second, Lidl's Irish subsidiary reminded its suppliers that as of 1 November they would need to cover all import duties from the UK.

Despite protestations from ministers that the leaked report, code-named Operation Yellowhammer, was 'old' and represented a worst-case scenario, Westminster officials insisted that it was compiled this month and painted a picture of 'likely, basic, reasonable scenarios – not the worst case'.

Meanwhile Lidl, which has 162 stores and a 12% grocery market share in southern Ireland, served notice that it expects suppliers to foot the bill for EU import tariffs under its 'delivery duty-paid' agreements, raising the prospect of higher costs for UK food and drink exporters to the whole of the EU.

'NOT PROJECT FEAR'

Whitehall insiders described the leaked dossier, which revealed details of the government's behind-the-scenes efforts to ensure supplies of fuel, food and medicine, as 'the most realistic assessment of what the public face' in the event of no deal.

According to the dossier, a no-deal exit would not only impact the availability of fresh food but also key ingredients and even the chemicals required to treat drinking water. Due to a lack of vets and abattoir staff there could also be a major bottleneck in meat processing.

For the industry, the timing of the UK's leaving the EU could not be worse as there is no flex in the system ahead of Christmas, with frozen, chilled and ambient warehouses already full.

DOUBLE WHAMMY

For UK food producers exporting to the EU there was already the prospect of major delays at Channel ports lasting into the New Year. The government report suggests that up to 85% of British lorries may not be ready for extra French customs checks by October, but there is also the issue of border checks in Ireland.

Adding to their problems, the warning from Lidl Ireland that UK suppliers will need to pay all EU import tariffs means they could be subject to higher costs not just in Ireland but across the EU.

While the UK government can set tariffs on EU goods entering the country, it has no say on EU tariffs on UK goods being exported, and Lidl is unlikely to be alone in demanding that suppliers stump up the increased duties under a no-deal exit.

One of the UK's biggest food exports by value is Scotch whisky, with £4.7bn of sales last year of which 30% went to Europe. For drinks giant **Diageo (DGE)**, 24% of its sales or £2.5bn were to Europe last year including whisky.

Why WeWork's IPO doesn't work for investors

Despite the appealing narrative, the risks are too many and too great

On the face of it WeWork's proposition makes sense and the timing of its initial public offering (IPO) couldn't be better.

WeWork provides serviced offices on flexible contracts with all the bills taken care of so that companies can concentrate on growing, and demand has taken off as office vacancy rates fall across the globe.

However the risks to investors are such that, as with another disrupter, Uber, we would recommend staying away.

LACK OF SUPPLY DRIVING DEMAND

As property experts Knight Frank observe in their 2019 global outlook, 'office occupiers from all sectors and of all sizes are seeking product that better aligns real estate to their disrupted, fast moving operational reality. Flexible space will be in demand particularly in tech dominated markets such as Berlin, London, Boston and Singapore.'

In the last year alone the amount of available office space in London has fallen almost 20% to 5.6%, its lowest level since autumn 2007. This lack of supply is driving up rents which in turn is driving demand for flexible, serviced space.

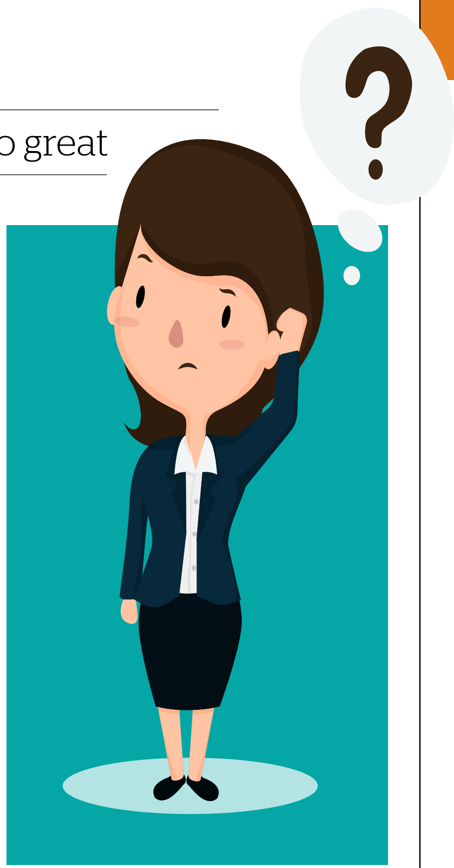
In Berlin, Paris, Hong Kong and Tokyo the office vacancy rate was just over 2% last year according to Knight Frank, and new supply over the next three years will barely make a difference.

GONE BANANAS

However the WeWork IPO has been described as 'bonkers', 'bananas' and a 'triumph of hype over fundamentals' by the US financial press.

The filing admits that WeWork has 'a history of losses' – it lost $1.9bn in 2018 on $1.8bn of revenues and has already lost nearly $700m this year – and that it has no idea when or if it will ever turn a profit. Comparisons with Uber are inevitable.

wework



It hopes to raise $3.5bn in its listing, valuing its office-rental business at $47bn or more than US semiconductor maker Micron Technologies (which is expected to generate pre-tax earnings of $7bn this year).

RISKS PILING UP

As well as valuation risk there is business risk. WeWork makes losses because it leases offices on a long-term basis, spends a fortune refurbishing and advertising them, and re-lets them on a short-term basis. This means it needs a constant stream of new tenants, which may or may not cover its costs.

Its model also makes it highly vulnerable in a downturn when demand dries up, rents fall and vacancies rise as it still has high fixed costs.

Finally, there is corporate governance risk. The founder's shares – which are backed by a $500m credit line secured on another class of shares – have 20 votes each against one vote for common shares, meaning he has control of hiring and firing the board of directors among other things.

The founder and other board members have previously leased properties to the firm, while the founder's wife – WeWork's 'chief brand & impact officer' – gets to choose who succeeds her husband in the event of his death, rather than the board or the shareholders.

Body armour deal sparks value creation excitement for Avon Rubber

Defence technology firm's deal will see it supply US military with life-saving protection kit

Investors are excited about the potential of increased earnings and substantial costs savings after **Avon Rubber (AVON)** unveiled a long-mooted US acquisition.

On 7 August the £535m defence technology company announced plans to acquire the ballistic protection business from US specialist materials conglomerate 3M, including the rights to the Ceradyne brand, which makes body armour and helmets for the US military.

The acquisition will cost $91m with up to an extra $25m payable depending on the outcome of various legacy product contract tenders. The deal will be funded out of existing cash and borrowing facilities.

This is a deal that some analysts have been watching and waiting for 18 months to happen, but it is only during the past week that the full scope for financial benefits to Avon Rubber have appeared in updated forecasts.

'This is a quality acquisition that surpasses our expectations both strategically and financially, and drives our 20% to 34% earnings upgrades,' said Berenberg's capital goods and engineering team.

Berenberg's analysis runs along twin lines. They see the deal widening Avon's product range, bolstering average content per soldier, deepening its already strong relationship with the US Department of Defence and strengthening its own research and development capability.

But stripping out duplicated costs form a second line of value for Avon Rubber and its' shareholders down the line. Estimates suggest up to $5m a year of savings can be delivered over the next couple of years from a $10m upfront investment, creating value for investors beyond 2020.

Beyond these calculations there is also thought to be considerable scope to cross-sell Ceradyne products to Avon's customers outside of the US, where Ceradyne currently earns more than 90% of its revenues.

The market was quick to react to the implied benefits to the Avon investment case, with the company's share price jumping 19% from £13.24 to £15.72 on the day that the acquisition was announced. In the days since then the stock has continued to rally strongly, hitting a record £17.26 on 20 August.

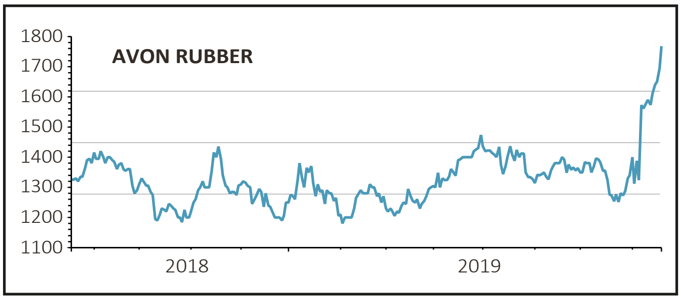
This implies a 31 December 2020 price to earnings multiple of 18.1, falling to 15.5 for the 2021 calendar year.

Berenberg believes that acquisitions are likely to remain a significant part of Avon Rubber's strategic roadmap in the near-term.

HOW AVON RUBBER'S EARNINGS FORECASTS HAVE CHANGED

	2019	2020	2021
Was	77.3p	79.9p	82.9p
Is now	77.4p	95.5p	111.4p

Source: Berenberg earnings per share estimates



Ted Baker shares are just too cheap to ignore

Shares in the quirky and quintessentially British fashion brand have fallen too far

We think you should buy lately-unloved global lifestyle brand **Ted Baker (TED)** at 912p.

This isn't a trade for the faint of heart as the current valuation is discounting that already-downgraded profit estimates may yet be missed, but *Shares* still has faith in the strength of the Ted Baker brand and its global growth potential.

WHY TED'S DOWNTRODDEN

Shares in Ted Baker have tumbled 62% from their one-year peak of £23.78 on a flurry of earnings downgrades.

Recent trading disappointments reflect a toxic combination of consumer uncertainty, heightened promotional activity across global markets, bad weather in North America, adverse currency moves and womenswear product issues.

Sentiment towards the stock was also hit by the resignation (4 Mar) of founder and chief executive officer (CEO) Ray Kelvin following a probe into 'hugging' claims (strenuously denied by Kelvin) made by some employees.

TED LOOKS TEMPTING

Ted Baker has issued two profit warnings since February and because such setbacks tend to come in threes, recovery investors should brace themselves for further volatility as the retailer could be forced to cough up another earnings alert.

TED BAKER ↗ BUY
(TED) 912p
Stop loss: 729.6p

Market value: £401.77m

Yet the quintessentially British clothing label remains an outstanding brand and Ted Baker is still a high-quality, well-invested business with a growing e-commerce operation and considerable scope for growth in overseas markets.

Moreover, given the current bombed-out valuation, the shirts, suits and fragrances designer appears vulnerable to an approach which 'could come from a number of different sources' according to Liberum Capital.

Ray Kelvin was recently rumoured to be considering a bid with private equity backing in order to take the retailer off the stock market. Any takeover bid would surely need to be pitched at a substantial premium to current levels to win over shareholders, notwithstanding Kelvin's 35% stake.

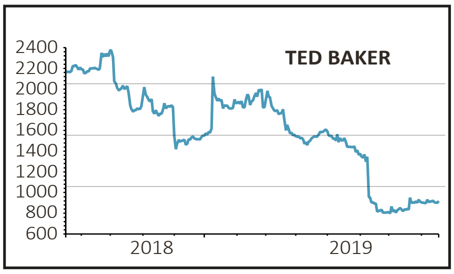
NEXT LEVEL OPPORTUNITY

And in an exciting development, Ted Baker has signed (16 Aug) a new product licence agreement with **Next (NXT)** — replacing an existing deal with Debenhams – in order to accelerate the expansion of its childrenswear collections.

Partnering with Next brings Ted Baker access to the clothing giant's global sourcing and distribution capabilities. Over time, this deal should drive incremental growth for Ted Baker's high margin licensing division, which chips in over 30% of group earnings before interest and tax (EBIT).

For the year to January 2020, Liberum, whose £12.80 price target implies 40% potential upside, forecasts an adjusted pre-tax profit drop to £50.3m (2019: £63m) ahead of recovery to £53.2m and £56.3m for 2021 and 2022 respectively.

Based on this year's earnings per share forecast of 88.1p (2019: 114.1p) and 45.3p (2019: Ted Baker looks too cheap on a budget-looking prospective earnings multiple of 10.4 with a yield approaching 5%.



Buy copper giant Antofagasta before sentiment improves

Copper is weak now, but long term it should rebound and Antofagasta is best placed to capitalise

ANTOFAGASTA ↗ BUY
(ANTO) 810p
Stop loss: 648p

Market value: £7.8bn

Want to buy a best-in-class company while market sentiment is poor? Now's your chance with Chilean copper miner **Antofagasta (ANTO)**.

A 20% share price fall since April is partially down to the price of copper recently slipping to levels not seen since the last global recession.

The shares have been dragged down by fellow copper miner **KAZ Minerals (KAZ)** recently cutting its dividend and saying the short term outlook for copper is weak due to US China trade tensions and a slowdown in the Chinese economy.

But KAZ believes the long term outlook for copper 'remains robust', and virtually all analysts covering the sector agree the fundamentals for copper remain strong, with significant long term structural growth forecast for both its demand and price.

Therefore, we think the current dip in Antofagasta's share price, and its prospective 2.7% dividend yield, means now could be an attractive buying opportunity to gain access to the long term copper market.

Admittedly all mining stocks are higher risk investments as commodity prices can be unpredictable and mining operations volatile. Therefore this is not a stock for the faint-hearted.

Antofagasta is the biggest pure-play copper miner on the London Stock Exchange, and operates in what is seen as a low-risk jurisdiction with all of its mines in Chile.

Considered by analysts at investment bank Jefferies as the lowest risk play on the copper price, the firm has avoided some of the operational issues which have dogged other miners.

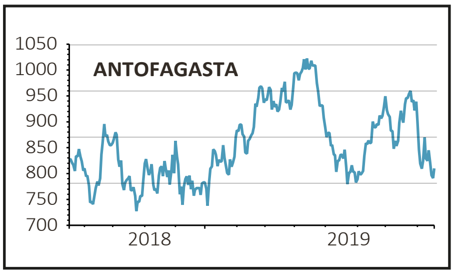
Its latest quarterly production report was in line with expectations, and showed an operationally strong business with copper production rising 5.3% to 198,600 tonnes as a result of higher production from all of its mines.

For the first six months of the year, production was up 22.2% because it was able to process more copper at a better grade at most of its operations.

It also managed to reduce its costs, producing copper at $1.62 per pound in the second quarter of this year and $1.66 per pound overall in the first half, 4.7% lower than the first quarter and 13.5% lower than in the first half of last year.

This is down to the productivity programme Antofagasta introduced in 2015, though it's worth noting the figures were also helped by a weaker Chilean peso.

While the price of copper may not improve significantly by the end of this year, analysts remain bullish on Antofagasta with investment bank BMO saying it looks 'extremely well placed for the second half of the year'.



NATIONAL GRID

(NG.) 864.3p

Gain to date: 0.9%

Original entry point:

Buy at 856.5p, 15 November 2018

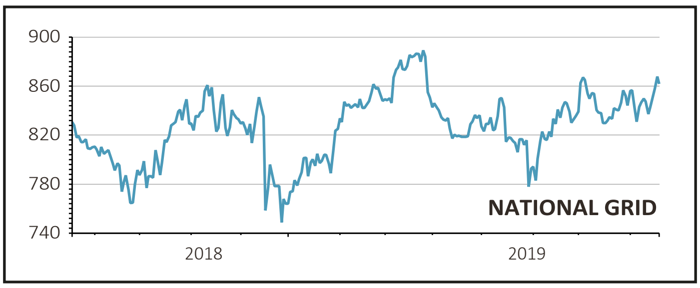
THE ENERGY SUPPLY group **National Grid (NG.)** has been thrust into the news after a grid power blackout on 9 August, hitting homes, businesses and infrastructure. That prompted government ministers and regulator Ofgem to ask hard questions.

The media coverage since may have been unhelpful for a company which is responsible for keeping the lights on. Yet in investment market terms, the share price barely blinked, falling 1.5% in the immediate aftermath, losses that have been completely recovered since, with modest gains to spare.

That could change if Ofgem's official probe ends up meaning a hefty fine for shareholders to stomach, although National Grid's quick response and explanation to date seems to ease that threat.

Aside from this kerfuffle the big issues facing the group and investors remain the same; dividend sustainability in light of more hawkish regulator demands and longer-term, the threat of nationalisation in any future Labour government.

Quite how any of this will play out is impossible to say right now but looking at the stock market tea leaves suggests no need for panic.



SHARES SAYS:

Analysts see this year's annual dividend to 31 March 2020 increasing by roughly 3% to 48.79p per share implying a 5.65% yield, with similar incremental gains forecast for 2021 and 2022.

PRUDENTIAL

(PRU) £14.13

Loss to date: -9.7%

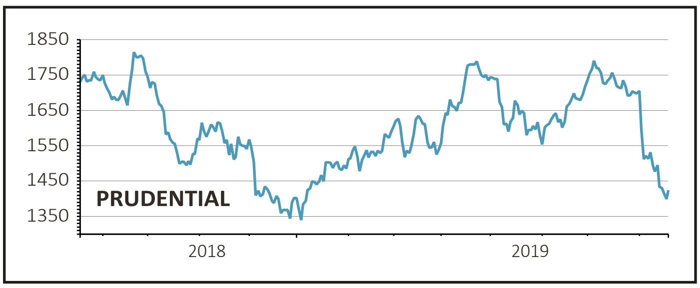
Original entry point:

Buy at £15.64, 4 April 2019

GLOBAL INSURANCE BUSINESS **Prudential (PRU)** has had a tough time in recent weeks. Its large exposure to Asian markets is a key attraction but that has also contributed to the volatility seen in the shares as Sino-US trade war fears spook investors and tensions escalate in Hong Kong.

The response to the company's first half results (14 Aug) was fairly downbeat too. This seemed a touch harsh given the strength of the numbers which saw a 14% increase in profit. Plans to demerge its UK operations from its Asian business are also on track for the fourth quarter of 2019.

Subsequent to the results announcement, the transfer of £12bn of annuities from Prudential to Rothesay Life was blocked by the High Court in London (16 Aug), which looks like a blow to the demerger plans, although the company stresses these are unaffected by the news. For our part we remain optimistic on the long-term prospects for Prudential.



SHARES SAYS:

Despite the turbulence we believe investors should stay in the course. Moving closer to the demerger should focus attention on the value and potential of both entities.

Kepler | Trust Intelligence

The key to unlocking **emerging markets**

AN INVESTOR IN the US or UK markets has a wealth of information at their fingertips: company reports, analysts' research, news stories. They can readily meet with management teams and suppliers, who will be, at most, a short plane ride away.

Emerging markets present a different proposition. Information is scarce and investors may need to dig deep for relevant data – and when it does arrive, that data may be in an unfamiliar language and format. At the same time, shareholder culture is often less advanced and management teams can be uncommunicative.

This is a key part of the opportunity in emerging markets: a lack of research means emerging market companies are incorrectly priced. However, success depends on finding a fund manager who can navigate these challenges effectively.

GLOBAL REACH

While few fund managers attempt to manage emerging markets from a single desk in London – local knowledge is key to understanding domestic politics and cultural sensitivities - having information sources located around the world can present its own challenges, such as ensuring that the same information is consistently available.

Global fund groups can have the edge here, due to their sheer scale. JPMorgan Asset Management's emerging markets team, for example, mandates every single analyst to produce research in the same way.

This may sound like a niche concern, but it allows Austin Forey, the longstanding manager of the JP Morgan Emerging Markets Trust (JMG) and his team to readily compare companies globally. They can look at India private sector banks on an equal footing to a Chinese beer company. Over the five years to 1 July 2019, JMG outperformed its benchmark by over 20%, demonstrating the effectiveness of this coordinated approach.

IN THE KNOW

For the team, it means that they always have the right information at hand when they go into company meetings, including the economics of the business, how well it is run and its risk profile – helping to identify the 'true' valuation of the company.

The global resources of JP Morgan can also help identify market dynamics and pivot resources towards areas of growth. For example, the opening up of the 'A' shares market represents a notable opportunity. MSCI began to include A-Shares in the MSCI Emerging Markets index in May 2018, and by November 2020 there will be over 400 domestically-listed China stocks represented in the mainstream index. In response, JP Morgan has made a significant investment in its China coverage, growing its China research team.

The world is also increasingly integrated. Supersized companies like Apple have important parts of their supply chains in Asia and Western companies are regularly opening new outposts in emerging markets. As such, the fortunes of developed and emerging market companies are often intertwined. JP Morgan brings its emerging and developed market analysts together to ensure this broader perspective is captured.

Effective emerging market investment requires significant amounts of information, from thousands of different sources, to be brought together effectively and efficiently. The strongest emerging market teams have been building these networks for decades – supported by the resources of management companies that are able to move with the times, in an ever-evolving market.

DISCRETE PERFORMANCE

	1 YEAR	3 YEARS	5 YEARS	10 YEARS
Share price	16.23%	53.34%	92.28%	176.58%
NAV	8.44%	42.82%	78.68%	167.58%
Benchmark	4.98%	42.32%	51.89%	127.55%

Benchmark : MSCI Emerging Markets Index (Net) Source: J.P.Morgan Asset Management/Morningstar. Net asset value performance data has been calculated on a NAV to NAV basis, including ongoing charges and any applicable fees, with any income reinvested, in GBP.

Continuing our look at the FTSE 350, this week we consider consumer stocks and pick five of our favourites. Three are from the FTSE 100 and two are from the FTSE 250. We've woven our picks in with some brand-new market research on Britain's Favourite Brands which came out at the start of the month.

During June and July **YouGov (YOU:AIM)** surveyed some 9,000 British consumers to find out their favourite brands across a whole range of products and services which touch our everyday lives, from snack foods and dining out to fashion and the broader retail market.

The results are gold-dust for researchers and marketers because unlike many surveys of the biggest or most valuable brands, which are typically compiled by industry experts and topped by names like Amazon, Apple, Coca-Cola or McDonald's, the responses are from actual consumers.

Those polled were asked a) if they had a positive view of a product, which gave it a 'popularity' score, and b) if they had heard of the brand, which gave it a 'fame' score. The overall scores were then weighted by age group and region to make them representative of the overall population.

Surprisingly none of the mega-brands mentioned above were even close to getting into the top 10 most popular brands in Britain.

The Top 10 Favourite food and snack brands were:

OUR TOP CONSUMER PICKS	
STOCK	**RATIONALE**
B&M EUROPEAN VALUE	Unique play on value and convenience trends
GREGGS	Best in class out-of-home/convenience food seller
NEXT	Best high street fashion retailer with online skills
TESCO	Best supermarket, tapping convenience market
UNILEVER	Most popular brands, pricing power, currency hedge

FOOD & SNACK BRAND	OWNER	LOCATION
Heinz	Kraft-Heinz	USA
Kit Kat	Nestle	Switzerland
Walkers	PepsiCo	USA
Kellogg's	Kellogg's	USA
Jacob's	Pladis	UK
Twix	Mars Inc	USA
Aero	Nestle	Switzerland
Galaxy	Mars Inc	USA
Pringles	Kellogg's	USA
Magnum	Unilever	UK/Holland
Source: YouGov survey June-July 2019		

Having established the list of the most popular products, YouGov mined the data further to show significant statistical correlations.

For example, Heinz was more popular with women than men, but equally popular with Baby Boomers (those born between 1946 and 1964), Generation X (1965 to 1981) and Millenials (1982 to 1999).

Also, statistically speaking, people who ranked Heinz as their favourite food and snack brand tended to like **ITV (ITV)** shows, singer Stevie Wonder, actor Robert De Niro and the Marie Curie charity.

On the other hand, people who plumped for second-ranked Kit Kat were statistically more likely to prefer Disney films, 1980s 'New Romantic' group Spandau Ballet, actor Anthony Hopkins and Windows software.

MAGNUM FORCE

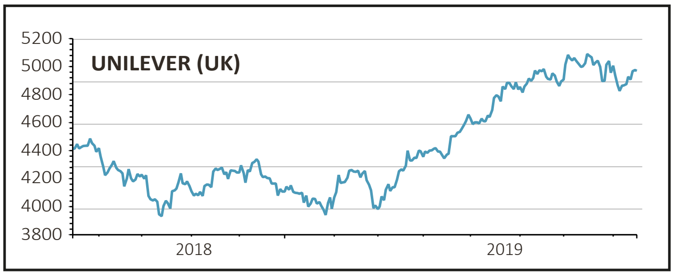
Given that Cadbury was bought by Mondelez in a heated takeover battle back in 2010, the only listed UK company to make a mark on the Top 10 Food and Beverage lists is **Unilever (ULVR)** which owns both the Magnum and PG Tips brands.

Unilever also owns another eight of the 100 most popular British snack, food & beverage brands, which are – in order of popularity – Cornetto, Walls, Hellman's, Ben & Jerry's, Viennetta, Colman's, Knorr and Marmite.

Foods & Refreshment make up just under 40% of the firm's turnover and in the first half of this year all of the growth in underlying revenues came from pushing through price rises. It seems that when it comes to food and drink, we're willing to pay a little bit extra for brands that we trust.

It's a similar story abroad, where brands like Magnum are able to command a premium price compared with locally-made products.

Thanks to its large overseas exposure, Unilever's revenues are mostly in foreign currencies which means that the shares benefit from a weak pound. This can be useful in offsetting some of the risk of holding mostly UK-facing stocks.



The shares aren't expensive on 14 times this year's earnings and they pay a 3% dividend yield which is amply covered. They even meet the exacting criteria of **Fundsmith Equity (B41YBW7)**, making Unilever one of only 27 stocks in the world which Terry Smith and his team consider to be sufficiently high-quality with good growth momentum and yet still attractively valued.

Nick Train, manager of the highly-regarded **Finsbury Growth & Income Trust (FGT)** which owns just 20 stocks, also gives it his seal of approval: 'Would that we had more boring investments like Unilever'.

EVERY LITTLE HELPS

Unsurprisingly, in the supermarket sector the German discounters scored well with Aldi taking the top spot and Lidl taking third place. Fans liked both brands' value proposition with Lidl singled out for the 'quality and range' of its fresh produce.

However the discounters were split by the **Marks & Spencer (MKS)** food brand, which suggests that while we like a bargain we still like 'a bit of posh' on the side. Fans described it as 'classy' and 'attractive', while at the same time 'accessible'.

Although **Sainsbury's (SBRY)** polled well, and its Argos subsidiary came second in the list of Retail Brands, we believe that **Tesco (TSCO)** is both a better business and a better investment.

Sainsbury's failed merger with Asda, whose parent WalMart would gladly have offloaded it given the chance, leaves the pair of them in

BEVERAGES	OWNER	LOCATION
Robinsons	Britvic	UK
PG Tips	Unilever	UK/Holland
Schweppes	Coca-Cola	USA
Yorkshire Tea	Bettys & Taylors	UK
Ribena	Suntory	Japan
Fanta	Coca-Cola	USA
Twinings	AB Foods	UK
Nescafe	Nestle	Switzerland
Coca-Cola	Coca-Cola	USA
Sprite	Coca-Cola	USA

Source: YouGov survey June-July 2019

no-man's land and at the mercy of the discounters. With its 27% market share, Tesco has enough clout with suppliers to negotiate favourable deals and maintain clear water between it and the German discount duo.

While the grocery business may not be rip-roaring, Kantar Worldpanel shows the supermarkets are passing through average price

rises of between 1% and 1.5% this year which has helped make up for static volumes. The British Retail Consortium shows food prices rising slightly faster, by an average of 1.9% in the first half of the year, with like-for-like sales growing modestly.

SUPERMARKETS	POPULARITY	FAME
ALDI	1	1
M&S FOOD	2	7
LIDL	3	3
SAINSBURY	4	8
TESCO	5	2
MORRISON	6	6
ASDA	7	4
ICELAND	8	5
CO-OP FOOD	9	9
WAITROSE	10	10

Source: YouGov survey June-July 2019

Meanwhile, Tesco's 2018 takeover of wholesaler Booker has brought the Budgens, Londis and Premier brands into the fold, positioning Tesco as a major supplier to the convenience store market which is higher-growth than the food-at-home market which is its bread and butter.

On 13 times this year's earnings and with a dividend yield approaching 4% we think Tesco is a good defensive option in a slowing economy. 'Food retailing is still competitive but investors like long-term plans that are successfully delivered' says Scottish Investment Trust's Alasdair McKinnon.

PILE 'EM HIGH AND SELL 'EM CHEAP

The top three Retail Brands are something of a mish-mash but we wholeheartedly agree with the number four choice of **B&M European Value (BME)**. Fans rated it as 'good value', 'for everyone' and 'reliable'.

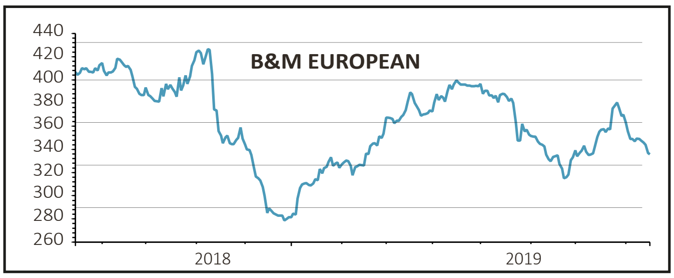
At a time when there is blood on high street, B&M offers a compelling play on the demand for value and convenience. Its low-cost approach and ability to continue rolling out stores in under-served areas means there is plenty of scope to keep growing in fair or foul economic weather.

The bulk of B&M's revenues come from frequent-visit customers, who flock to its stores to top up on food or fast-moving consumer-goods essentials, or to purchase competitively-priced seasonal, garden and home-ware products.

Much like sixth-placed Poundland, during good times it benefits from higher average transaction values and in bad times it sees rising footfall and volumes.

'Discount retailing is here to stay and B&M has the ability to take materially greater UK market share' says Trevor Green, head of UK Equities at Aviva Investors. 'The combination of a growing market and a company expanding within it make a positive investment case'.

B&M is also rolling out its formula in Europe's two biggest consumer markets, Germany and France, via



ASHLEY LEFT OUT IN THE COLD

Sports Direct (SPD), the 'black sheep' of the retail sector and now out of favour even with the auditing community, is a distant 34th in terms of popularity with the public despite scoring highly in terms of 'fame' and winning praise for its 'value' offering.

Ironically, although footfall is down across every region and every format this summer, from high streets to retail parks and shopping centres according to retail consultants Springboard, spending on sporting goods this year has been remarkably healthy.

Data from the Office for National Statistics show sales of sporting equipment grew by an average of more than 20% in value terms over the first seven months, so in theory Sports Direct stores ought to be cleaning up, but there are so many other issues at play that we think investors would be better served avoiding the shares.

the *Jawoll* and *Babou* chains respectively.

Considering the growth potential, we don't think the shares are expensive on 16 times this year's earnings and 13 times next year's earnings.

NEW BOOTS AND PANTS

In a turn-up for the books, Somerset-based shoemaker Clark's tops the list of Britain's favourite fashion brands showing global giants Adidas and Nike a clean pair of heels. Fans liked the quality of its products and trusted its brand.

Of the high-street brands, Primark may have edged it over **Next (NXT)** on the basis of value for money and affordability, but the latter was lauded as being 'reliable', 'respected' and 'trustworthy' and makes it onto our list of top consumer stocks.

Despite tough prior-year comparisons the retailer continues to beat revenue forecasts and earlier this month raised its guidance for both full-price full year sales and pre-tax profits.

Having operated a mail-order business alongside its stores for years, Next was one of the first to make the transition to online retailing and is still one of the most successful 'clicks and mortar' operators.

Also, as Invesco fund manager Mark Barnett argues, having a large physical store estate is actually not a bad thing. 'Next combines the best of offline with online'. Many online orders are click and collect, which is driving traffic to its stores, but 'these stores may not look the same in the future as they do today' says Barnett.

The shares are inexpensive on 12 times this year's earnings with a 3% dividend yield and thanks to the company's prodigious cash generation shareholders are treated to regular share buybacks.

FASHION & CLOTHING	POPULARITY	FAME
CLARKS	1	5
LEVI'S	2	8
ADIDAS	3	3
NIKE	4	1
PRIMARK	5	2
NEXT	6	6
GEORGE	7	30
MATALAN	8	12
TK MAXX	9	11
DR. MARTENS	10	29
Source: YouGov survey June-July 2019		

JD SPORTS	30	13
SPORTS DIRECT	34	4

EAT TO THE BEAT

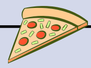
In the out-of-home (OOH) dining market the hands-down winner, scoring top with two out of three demographics and as popular with women as with men, was pasty- and sausage roll-purveyor **Greggs (GRG)** which was praised for its bakery, 'tasty snacks' and 'good value'.

We think the shares are worth buying too despite what looks like a premium rating of 24 times current year earnings. With alternatives **Wetherspoons (JDW)** and **Domino's Pizza (DOM)** both trading on 23 times earnings and both with issues – Domino's more than 'Spoons, in fairness – we would rather 'keep calm and plough on' with Greggs' tried and tested formula.

Sales continue to exceed expectations thanks to innovations, if they can be called that, such as adding lighter lunches of salads and soups to the menu, and the now-legendary vegan-friendly sausage roll.

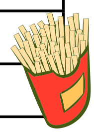
While we expect sales growth to moderate and input costs to rise going forward, the firm's continued investment in its food offering (more hot dishes), its store estate (longer opening hours) and its digital platform (trials are running with Uber Eats, Deliveroo and **Just Eat (JE.)** should improve the customer proposition further.

The current yield of 2.2% is below the market average but dividends are growing by double digits and there is a special dividend of 35p per share or 1.75% later this year.



DINING BRAND	POPULARITY	FAME
GREGGS	1	19
WETHERSPOONS	2	10
MCDONALD'S	3	13
SUBWAY	4	15
PIZZA HUT	5	17
PIZZA EXPRESS	6	8
DOMINO'S PIZZA	7	26
COSTA COFFEE	8	9
KFC	9	1
TOBY CARVERY	10	6

Source: YouGov survey June-July 2019



M&S NEEDS TO STRIP DOWN

Marks & Spencer (MKS) is one of *the* most iconic British brands yet the YouGov survey finds a huge disparity between the popularity of its food and clothing offerings.

Food was ranked second, even if its fans admitted it was somewhat pricey, but the mainstream clothing brand didn't even register. Only *Per Una* made the list of popular fashion and clothing brands, in a lowly 79th place.

Even more of a slap in the face, budget supermarket clothing brands George (part of Asda), Tu (Sainsbury's) and F&F (Tesco) were in the top 30.

Successive management teams have spent years trying to grow the appeal of the clothing business and failed dismally. In the financial year to 30 March, M&S Food sales were £5.9bn, down 0.6% on 2018 (due to Easter falling in April this year) but up 39% on a decade ago. Clothing & Home sales were £3.5bn, down 3.6% on 2018 and incredibly down 10% on a decade ago.

This summer Jill McDonald became the latest head of Clothing & Home to move on, after just two years, leaving chief executive Steve Rowe to take charge yet again.

M&S claims it has identified the problems: its range is too wide, the shops are hard to navigate, the sizing doesn't appeal to the 'contemporary family age customer' they want and there are still problems with the supply chain.

THE FUTURE OF CONSUMPTION

CONSUMER-FACING COMPANIES wondering who their customer base will be in 10 or 20 years' time need look no further than today's Millenials, who will soon make up 40% of all consumers globally influencing annual sales of around $40bn according to research by consultants Deloitte.

In terms of food, for now Millenials are still big buyers of brands owned by multi-nationals as the table shows but they are increasingly willing to try new brands. The popularity of vegetarian and vegan diets is also growing, with the success of Beyond Meat and Impossible Burger paving the way for new brands.

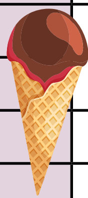
In the 'dining out' market, Millenials are the biggest users of digital solutions and food delivery apps such as Just Eat, Deliveroo and Uber Eats to bring products and services to them, making it increasingly a 'dining in' market.

Similarly, in the fashion and clothing market, a growing proportion of sales are being driven by customers shopping online, with 'connected' brands like **ASOS (ASC:AIM)** and **Boohoo (BOO:AIM)** continuing to take market share from established players.

According to the latest data from the Office for National Statistics, online retail clothing sales are growing by more than 10% a year in value terms while in-store sales keep falling. Companies who haven't properly developed their online offering, such as M&S, are at risk of losing their relevance and being left behind.

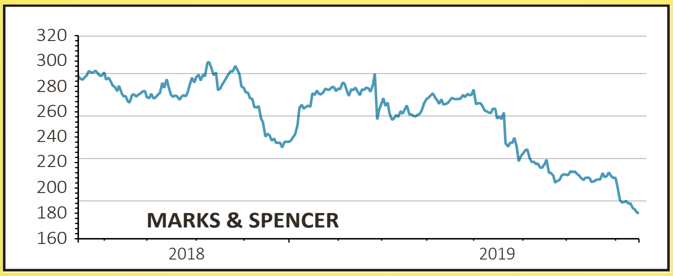
MILLENIAL FOOD & SNACK	POPULARITY	FAME
Walkers	1	19
Heinz	2	10
Pringles	3	13
Magnum	4	15
Galaxy	5	17
Cornetto	6	8
Kellogg's	7	26
Aero	8	9
Lindt	9	1
Kit Kat	10	6

Source: YouGov survey June-July 2019



Also its 'Sparks' loyalty card has been a total dud. Management's solution is to re-position and re-launch it next year, which is yet another distraction and mis-allocation of capital in our view.

In contrast the online food joint venture with **Ocado (OCDO)** which starts next year looks promising. YouGov data suggests that M&S and Ocado customers spend similar amounts on their weekly shop and are more willing to pay extra for good quality products than the average consumer.



Also, partnering with Ocado should help M&S connect with a younger customer base as well as 'foodies' who are looking for premium convenience, a part of the grocery delivery market which is generally under-served.

If management don't take the bull by the horns and split the business in two with a view to ditching Clothing & Home, we can see activist investors coming on board and forcing their hand.

NATURAL RESOURCES: **TIME FOR ANOTHER LOOK?**

The natural resources sector is changing: investors may want to rethink their long-held views.

BLACKROCK ENERGY AND RESOURCES INCOME TRUST PLC

Tom Holl
Co-manager of the BlackRock Energy and Resources Income Trust plc

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. The investor may not get back the amount originally invested.

The natural resources sector has seen considerable highs and lows in recent years. When China was seeing significant economic growth, it created a sustained period of high demand for raw materials, but this demand started to fall away as the pace of China's growth slowed. Investors may have been left with a lingering sense that the sector is just too unpredictable. However, on the BlackRock Energy & Resources Investment Trust, we believe there have been significant and enduring changes in the sector in recent years, that have notably changed its long-term prospects.

Long seen as a sector only likely to thrive at times of economic expansion, today the sector is hooked into a number of long-term structural trends in the economy. Resource companies are also improving their capital discipline and paying higher dividends to shareholders. This comes at a time when the supply of certain commodities is falling, but also when stock valuations look lower relative to history.

ENERGY TRANSITION

Climate change is becoming an increasingly insistent problem. As it moves from the focus of a few activists to a preoccupation for policymakers across the globe, the way energy is created and used is a puzzle that the resources sector has an important role in solving. Our portfolio is split approximately half and half between energy providers and mining, so the future of energy is an important consideration for us. The move to a lower carbon economy creates challenges for some companies within the sector, but other areas are proving part of the solution.

The rapid adoption of electric vehicles (EVs), for example, has been well-documented. However, relatively little examination has been made of the supply chain. Possibly the most important component of the EV is the battery system, which is the key determinant of the vehicle's overall performance and the driver's experience. Perhaps more importantly, it also determines the cost differential between an EV and an internal combustion engine vehicle (ICE). The speed with which battery costs can be reduced is likely to influence the adoption of electric vehicles.

EV batteries rely on key raw materials for their production. The namesake element of the lithium-ion battery, lithium, is produced through two district routes: hard-rock mining and brine processing. Most hard-rock lithium mines mine a mineral called spodumene to produce a spodumene concentrate, which contains around 6% lithium. Increased demand for lithium has been met in recent years primarily by growth in spodumene mining with several new mines coming into production in Australia and Brazil.

Other vital raw materials include cobalt, nickel, magnesium, copper and aluminium. For these elements, ores are mined, concentrated and converted into various compounds that go into the battery. Key considerations for us, as investors in producers of these metals, include: the grade of the companies' deposits (concentration of metal in the ore), the scale of their deposits, any contaminating materials in their deposits and their geography. In this way, certain natural resource companies look set to be one of the key beneficiaries of the drive to a low carbon economy. As investors, we need to make sure we are on the right side of this change.

GOOD GOVERNANCE

Elements of the resources sector have earned a reputation as 'Wild West' in their approach – employing excessive capital expenditure at the wrong time in the cycle, entering into reckless mergers and demonstrating poor corporate discipline. In some cases, this reputation was justified, but the mining sector has seen a profound change in recent years.

Capital expenditure has more than halved since its peak in 2013[1], as investors have put pressure on mining companies to rein in spending and better match supply to demand. Management teams are not embarking on new capital spending programmes and debt has reduced.

Mining companies have always been cash generative, but they have not been a particularly fruitful area for dividend investors. Previously cash flow was directed towards capital spending programmes. Today, that isn't happening, so free cash flow is being returned to shareholders. This means the sector is currently seeing its highest level of dividend pay-outs in two years. The growth in dividend income received by the Trust between 2016 and 2018 has been 38%[2].

SUPPLY SIDE CHANGES

In 2018, most commodities saw higher average prices compared with the previous year – notably nickel, coal, uranium and aluminium[3]. This year, this has been compounded by supply difficulties in several sectors. The iron ore market, for example, has been hit by the tragedy at Vale's Feijao Mine in Brazil in January. The copper market has also seen supply reduce. Copper mining companies continue to search for new projects across the globe, but it takes time to bring supply on stream. In the meantime, rating agency Fitch is forecasting that the copper market will remain under-supplied through to 2021[4]. Across the board, visible commodity inventories are below their long run averages in most cases. This should be supportive for the margins of commodity companies.

The resources sector today looks more stable. The companies themselves have improved their governance, while long-term structural trends such as the drive for clean energy, is working in some companies' favour. We believe the sector merits another look from investors.

For more information on this Trust and how to access the opportunities presented by the energy and resources markets, please visit www.blackrock.com/uk/beri

TO INVEST IN THIS TRUST CLICK HERE

[1]Bank of America Merrill Lynch, January 2019
[2]BlackRock, December 2018
[3]Datastream, January 2019
[4]Global copper market under supplied, demand on the rise — report, Mining, January 2019

Risk Warnings

BlackRock have not considered the suitability of this investment against your individual needs and risk tolerance. To ensure you understand whether our products are suitable, please read the Key Investor Documents (KIDs) and the Annual and Half Yearly Reports available at blackrock.co.uk/its which detail more information about the risk profiles of the investments. We recommend you seek independent professional advice prior to investing.

Trust Specific Risks

Exchange rate risk: The return of your investment may increase or decrease as a result of currency fluctuations.

Emerging markets: Emerging market investments are usually associated with higher investment risk than developed market investments. Therefore, the value of these investments may be unpredictable and subject to greater variation.

Mining investments: Mining shares typically experience above average volatility when compared to other investments. Trends which occur within the general equity market may not be mirrored within mining securities.

Gearing risk: Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.

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Know your fund: what's inside Scottish Mortgage?

Baillie Gifford-run investment trust has a brilliant record for low-cost, long-run returns

It has nothing to do with home loans and invests across the globe, **Scottish Mortgage Investment Trust (SMT)** is not one of those 'does what it says on the tin' funds.

Yet the FTSE 100 trust is widely thought of as manager Baillie Gifford's flagship and it has grown to become one of the most popular investment trusts with do-it-yourself investors up and down the UK.

First, let's put a popular misconception to bed. Scottish Mortgage is NOT a FANG fund or technology trust, FANG being an acronym for Facebook, Amazon, Netflix and Google-parent Alphabet. The underlying ethos of the trust is to identify and invest in the best growth companies the world has to offer, and hold on to them, at five years and often far longer.

We are talking about companies capable of out-sized returns over the long-term through industry disruption or socio-economic and demographic development.

The speed of widespread technological change and China's emergence as a world economic superpower are two of its core themes, while transforming industries such as online shopping, healthcare and financial services are represented in the portfolio.

Amazon is a great example. Scottish Mortgage first bought

into the online sales colossus in 2005 at around the $30 and $40 level. fourteen years later Amazon trades at $1,776, a staggering 50-fold or so return. Yet joint managers James Anderson and Tom Slater are as excited about Amazon's prospects and returns potential as ever, particularly around areas like new market opportunities like healthcare, overseas expansion (India) and cloud computing (Amazon Web Serives).

Amazon is now Scottish Mortgage's largest single holding, worth 9.3% of its £8.85bn assets.

It is the potential for massive returns such as this that make Scottish Mortgage put less emphasis on purchase price valuation, more on the capacity to compound super-normal growth over years.

WHAT ARE THE OTHER BIG STAKES

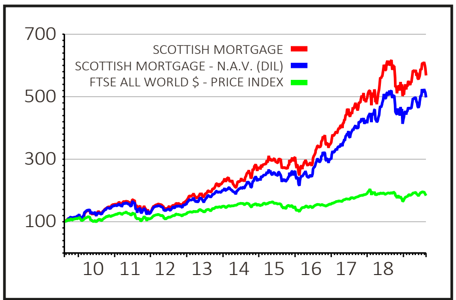
Most readers will be familiar with names like streaming TV service Netflix, Google-parent Alphabet and sports car maker Ferrari, all in the top 15 holdings as of 31 March. But there are plenty of exciting growth stories that you probably know less about.

For example, Scottish Mortgage is a heavy backer of China's Amazon lookalike called Alibaba (6.1%), and Tencent (6.5%), the Chinese social media and entertainment platform.

It also owns hefty stakes in Illumina in the US (7.1%), which is building advanced equipment to unlock the power of genetic science for all of us, and ASML, the Dutch semiconductor equipment manufacturer used in making the most complex microchips.

There are marmite stocks too. Not all investors would want to own Facebook, for example, almost continually caught up in privacy controversies. Elon Musk's stubbornly loss-making electric cars firm Tesla has at least as many foes and fans, while ride-sharing app Lyft is also on the trust's books.

It is also worth noting that Scottish Mortgage is more invested in privately-owned companies than ever regardless



TOP 10 HOLDINGS

	WHAT IT DOES	% TRUST
Amazon	Online shopping/cloud	9.3%
Illumina	Gene research equipment	7.1%
Tencent	Social media/entertainment	6.5%
Alibaba	Online commerce	6.1%
Tesla	Electric cars/batteries	4.4%
ASML	Semiconductor kit	3.4%
Kering	Luxury brands	3.3%
Ferrari	Sports cars	3.0%
Netflix	Steaming TV/films	2.8%
Ant International	Digital payments	2.6%

Source: Scottish Mortgage

of the recent Neil Woodford liquidity issues.

About £1.4bn of the trust's assets are in 37 unlisted companies led by payments business Ant Financial, spun-out of Alibaba, and Elon Musk's SpaceX, which runs many Nasa missions and developed the first re-useable rocket.

Interestingly, Scottish Mortgage's own analysis earlier this year pointed to a 419% returned on unlisted investments over the previous eight years, bettering publicly listed stocks. Big hits that have since gone public include Alibaba, music streaming business Spotify that floated last year at $30bn, and Lyft.

The trust remains convinced of its 'venture capital' talents and that scope for up to 25% of the trust to be unlisted gives it the freedom to tap early some of the most exciting growth companies at an early stage.

HIGH GROWTH, LOW COST STRATEGY

The bottom line is, investors will judge the success of Scottish Mortgage by how the share price performs, and that is surely the secret to the trust's immense popularity. Last year to 31 March 2019 Scottish Mortgage made an underlying 14.6% total return on net assets, underpinning a 16.5% total return for shareholders, beating the 10.7% gain from the FTSE All-World index, its benchmark.

That may look like a pretty decent performance but it is irrelevant, says the trust's top brass. 'I urge readers to pay little heed to them [the annual performance figures] such is strength of its pledge to the long-term. Scottish Mortgage wants to be judged on five-year rolling performance, its true measure.

It is knock-out. To 31 July 2019 net assets have gained 164.6% and the share price 176.8%, on a total returns basis. That's closing in on twice as good as its benchmark's 93.8%. Illustratively, the performance gap widens much further over 10 years, with NAV and share price up 518.9% and 629.2% versus 245.1%.

Only **Lindsell Train (LTI)** has done better of all the trusts listed on the Association of Investment Companies' Global sector.

Scottish Mortgage wants its investors to share in its thinking and observations and provides a plenty of data, insight and information on its Baillie Gifford-backed website, which *Shares* recommends following even if you don't buy the shares.

Costs are also reasonable, with an ongoing management charge if 0.37%. 'This gives this strategy an exceptional cost advantage relative to peers,' according to Morningstar analysis versus global large cap growth equity averages.

SHARES SAYS:

A clear long-term growth strategy aimed at uncovering super-normal returns, the style lends itself to short-term volatility. But this really is a buy and forget type investment, one that has proven itself tie and again. A long-run favourite of ours and it remains so.

By **Steven Frazer**
News Editor

'What tax free cash can I take from my retirement fund?'

AJ Bell pensions expert answers query relating to lifetime allowance

At the beginning of April 2016 my SIPP had a value of £911,240. In order to release some cash I withdrew my 25% pension commencement lump sum (£227,810), thus leaving £683,430 within the SIPP.

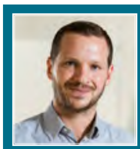
By June 2019, the SIPP had grown to £1,010,000. I will turn 75 in just over five years.

My questions are:

Is any further tax-free cash available for me to take?

Can I take small annual withdrawals to keep below the lifetime allowance test at age 75?

David



Tom Selby
AJ Bell
Senior Analyst says:

As I mentioned in last week's column, when you crystallise your fund by committing it to a retirement income route such as drawdown, you are able to take up to 25% tax-free. This is one of the major benefits of pension saving (along with tax relief on the money you pay in and tax-free investment growth).

Unfortunately, because you have crystallised your entire fund you won't be able to take any more tax-free cash from your SIPP.

There are certain circumstances under which a lifetime allowance test will be carried out. A test was carried out when you first crystallised your SIPP and potentially at other points throughout your life. As an example, when you reach your 75th birthday.

It's worth noting that when you crystallise your fund, the amount of lifetime allowance used up is calculated as a percentage of the maximum allowance available at that time.

On 1 April 2016 that would have been £1.25m - it was reduced to £1m from 6 April 2016 and linked to Consumer Prices Index inflation. The lifetime allowance currently stands at £1.055m.

Assuming this is the only pension you have crystallised, you will therefore have used up 72.74% of your lifetime allowance.

Based on the current lifetime allowance of £1,055,000, your fund could therefore grow by £286,010 (27.11% of £1,055,000) before the lifetime allowance becomes an issue. The actual amount of growth available when you reach 75 will depend on the level of the lifetime allowance at that point in time.

Any excess above the lifetime allowance left within your SIPP would face a 25% lifetime allowance charge. If you take the excess as a lump sum you will be charged at 55%.

You can make withdrawals from your fund before you reach 75 which would reduce the lifetime allowance charge you pay. These withdrawals would be taxed in the same way as income, however, so you may not actually benefit from a tax perspective.

One other thing you might want to consider is applying for 'fixed protection 2016'. If you do this, you'll have 27. of £1,250,000 lifetime allowance available, or £338,875 – although you can only apply for this provided you haven't contributed to a pension since 6th April 2016.

As always with the lifetime allowance, this is all quite complicated and I would strongly urge you to speak to a financial adviser before making any decisions.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

Please note, we only provide guidance 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.

A DISRUPTION BUBBLE?

by Alasdair McKinnon

When I look back, the final phases of the dotcom bubble of 1999/2000 and, separately, the financial bubble which peaked in 2007/8 were, unquestionably, the most educational periods of my career.

Both periods had very different characteristics from which specific lessons could be drawn. For example, the dotcom era taught that while investors can get very excited about a concept, a good story is not enough when confidence evaporates. Meanwhile the financial crisis demonstrated how superficial 'sustainable' profits could be. In the run up to that crisis, banks were involved in a virtuous circle of highly profitable lending, based on rising asset prices which formed the collateral for further lending, higher asset prices and, in turn, produced more 'sustainable' profit. This process lasted until the cycle turned vicious.

But the wider lessons I drew from these bubbles were not so much the specifics, for these will always be different the next time. Instead, the most interesting lessons were derived from how people behaved and the conclusions they drew as the bubble neared bursting point. It would appear that human nature doesn't change which is perhaps why financial markets have always been plagued by booms and busts.

Almost 20 years ago, the market had an insatiable demand for stocks that would give investors exposure to the internet. Indeed, companies that merely added '.com' to their name would see a positive price reaction. Noticing this, entrepreneurs and stock promoters began to rush new companies for 'beauty parades' with the intention to raise enough cash to justify a flotation.

As the callow junior analyst (this was before my time at The Scottish), I was frequently despatched to meet some of these potential newcomers. In my keenness, I went armed with questions, but it quickly became obvious that questions were neither wanted nor required. These 'internet incubators' did not really have credible plans, the founders became indignant when quizzed and there wasn't really anything of value other than the prospective cash that would be raised. The main selling point was instead the dangled prospect of a substantial return to someone who backed the flotation as the share price was expected to spike higher (or 'pop') on the first day of dealings and would trade on a 'multiple of cash' (a valuation metric a bit like someone offering to value your bank balance at a multiple of what it actually is).

Now, if this sounds crazy, it's because it was. But, shares in these companies sold like hot cakes. No doubt, some investors did believe in the long-term merits of these companies but the majority were merely confident that there was somebody behind them willing to pay more. Investors were able to successfully 'flip' several of these new businesses but, when the music stopped, the loss from a single flop more than offset the gains on the winners for many.

The reason I have dredged this anecdote from the depths of my memory is because conditions today make me draw parallels with that time. Today the buzzword is 'disruption', with an enthusiasm for privately held start-up companies valued at more than $1bn – known as 'unicorns' – that will achieve 'profitability at scale.' Perhaps some will, but many unicorns seem to have business models that rely on constant injections of cash which have been facilitated by an easy money environment and a high level of confidence in their long-term story.

Recently, there has been a rush to bring some of these companies to market, perhaps because the backers wish to exit while the going is still good. Watching one of the well-known business channels, I was surprised to see the guests discussing not the prospects of a grossly unprofitable business but instead the 'pop' in the share price that the investment bank would engineer on the first day of trading (ominously, the share price instead flopped).

All-in-all, it is hard not to see these unicorn flotations as the apex of a renewed case of unbridled enthusiasm for all things technology. While we have nothing invested directly in this area, the fact that this mentality exists and covers a large part of the market is a cause for concern.

“Investors were able to successfully 'flip' several of these new businesses but, when the music stopped, the loss from a single flop more than offset the gains on the winners for many…”

In recent months, President Trump seems to have interpreted market levels as a real-time opinion poll on the competence of his administration. It's easy to see where he is coming from – after all the mantra of President Clinton's original campaign was 'it's the economy, stupid.'

The trouble is that overall market levels generally do not reflect the current fortunes of the economy. Market levels, in fact, better reflect the degree of confidence in the aforementioned 'disruption' bubble. As we expect this bubble to deflate, we think it is highly likely that President Trump's vociferous campaign for the US Federal Reserve to cut interest rates and print more money will ultimately prove successful.

We expect our gold miners to be one of the principal beneficiaries of this shift in monetary policy. Whereas the value of paper currency is eroded by the unrestrained printing of new money, gold has historically maintained its purchasing power over long periods of time. We also see opportunities for long term investors in many areas overlooked in the current environment. ■

20 August 2019

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The investment trust on a quest for growth and value

Strategy is paying dividends for this trust's long-term shareholders

One of the largest and most liquid UK smaller company trusts, yet trading at a 10.2% discount to net asset value (NAV) that suggests value abounds, **Henderson Smaller Companies (HSL)** has been successfully managed by trained accountant Neil Hermon since 2002.

Hermon has established a formidably strong long-term track record by constructing a diversified portfolio with a focus on growth at a reasonable price (GARP).

In fact, the trust has delivered NAV total returns of 416% or 17.8% per annum over the last ten years. That compares with 225% (12.5% per annum) for the benchmark Numis Smaller Companies ex Investment Companies Index.

Admittedly, Henderson Smaller Companies marginally underperformed the index in the year ended 31 May 2019, but this was only the second year in the past 16 that Hermon has underperformed.

Cushioning the blow was a 9.5% hike in the total dividend to 23p, underpinned by the quality of portfolio companies' earnings and marking an impressive 16th consecutive year of dividend growth.

HENDERSON SMALLER COMPANIES TRUST

FUND MANAGER – **NEIL HERMON**

TICKER – **HSL**

SHARE PRICE – **792P**

DISCOUNT – **10.7%**

DIVIDEND YIELD – **2.9%**

Source: The AIC

GOING FOR GARP

Henderson Smaller Companies aims to maximise shareholders' total returns by investing in UK-quoted smaller companies, defined as any company outside the FTSE 100. Once a portfolio company enters the FTSE 100, Hermon (in normal circumstances) has six months to sell the stock.

Ably assisted by Deputy Fund Manager Indriatti van Hien and analyst Shiv Sedani, Hermon has an unwavering emphasis on finding quality growth businesses via bottom-up stock selection. The investment style aims to seek 'quality growth at the right price', which involves focusing on businesses with 'good growth prospects, sound financial characteristics and strong management, at a valuation level that does not reflect these strengths'.

REASSURINGLY DIVERSIFIED

The portfolio is reassuringly well diversified with over 100 holdings. The largest position, asset manager **Intermediate Capital (ICP)**, accounts for a modest 3.4% of assets.

The fund's universe for new purchases is stocks in the bottom 10% of the UK stock market and Hermon tends to focus on the larger more liquid stocks in the universe. The manager is willing to run his winners, although he will top-slice positions in order to maintain portfolio diversity.

As a result, 62% of the portfolio is currently in FTSE 250 stocks, among them housebuilder **Bellway (BWY)** and infrastructure projects powerhouse **John Laing (JLG)**, with the remainder split between FTSE Small Cap (21%) and AIM stocks (25%).

CHAMPIONING GROWTH COMPANIES

Hermon is willing to help fund the growth prospects of selective stock market newcomers, with the trust having participated in a number of IPOs.

Recent positions opened in more established market names include property agent **Savills (SVS)**, oil and gas play **Serica Energy (SQZ:AIM)** and **Vitec (VTC)**, a leading manufacturer of specialist camera/video accessories, lighting and sound equipment.

'Savills is a real estate services company offering retail and corporate sales, valuation, fund management, property facilities and consulting for a broad range of clients across Europe, America, Asia and Australia,' says Hermon.

The business has been significantly diversified over the years, 'reducing its exposure to transactional services towards more predictable revenue streams.

'Our investment in Savills provides us with a quality, diversified real estate business with a strong management team and opportunities for expansion through tactical acquisitions.'

Vitec has 'a high market share in each of its product categories and continues to outperform its peers through new product innovation', according to the small caps guru.

'Whilst the consumer camera market has shifted to the use of mobile phones, there still remains an active professional and amateur photographer market that buys high quality equipment.

'Our investment in Vitec provides exposure to a company with an improving demand cycle, increasing margins through efficient manufacturing and the potential for small acquisitions of other niche brands.'

Hermon has sold companies which he felt were set for poor price performance, including **Elementis (ELM)**, 'a speciality chemicals group where the company made a poorly judged and expensive acquisition of Mondo Chemicals, an industrial talc company. This boosted leverage to levels we were uncomfortable with'.


Bellway Homes features in their top ten holdings

TOP TEN HOLDINGS (As at 30 June 2019)

Company	Portfolio weight (%)
Intermediate Capital	3.40%
Bellway	2.90%
Clinigen	2.60%
John Laing	2.30%
Cineworld	2.20%
Renishaw	2.10%
RWS	2.10%
Paragon Banking	2.00%
AVEVA	1.90%
Dechra Pharmaceuticals	1.90%

Source: Janus Henderson Investors

M&A SUPPORT

Turning to the outlook, Hermon points out the UK economy is showing anaemic growth. 'Brexit deliberations stumble on and there is clearly a range of outcomes but what deal, if any, the UK will end up with is, at this point, unclear.

'Extra complication is added by the political uncertainty in the UK that is likely to weigh on consumer and business confidence, and delay and postpone investment and purchasing decisions, further dampening economic growth.'

Outside the UK, Hermon notes that 'Europe in particular is showing signs of economic slowdown and escalating trade tensions between the US and China are providing additional negative commentary.'

Yet Hermon stresses that 'conditions in the corporate sector are intrinsically stronger than they were during the financial crisis of 2008-9. Balance sheets are more robust and dividends are growing.'

In addition, 'a large proportion of UK corporate earnings come from overseas, even among smaller companies, and should be boosted by the relative weakness of sterling. With regards to valuations, the equity market is now trading below long-term averages and M&A remains a supportive feature for smaller companies.


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

Could high yield bonds be an answer to market volatility?

We look at how to track these fixed-income instruments through ETFs

Bonds are often seen as an answer at times of market stress and, with the FTSE 100 losing more than 6% of its value since the beginning of August there is plenty of reason for people to be seeking safe havens.

But the trouble is everyone has this idea, which means yields on the so-called 'safest bonds', such as government ones like some shorter-dated US Treasuries and UK Gilts, have now turned negative. In other words, you're paying the government for the privilege of giving them money.

HIGH YIELD BONDS THROUGH ETFS

One way to avoid this scenario, and to still get potentially less risk than shares, is through high yield bonds.

These tend not to be government bonds, but rather bonds issued by companies, known as corporate bonds, and always have a credit rating below BBB.

As always with anything that's not so easy to invest in otherwise, exchange-traded funds (ETFs) provide an accessible way to add high yield bonds to your portfolio.

BMO's head of ETF management for EMEA, Terry Wood, says the returns on high yield bonds tend to be similar to shares but with lower volatility.

This is because while shares and high yield bonds react in a similar way to market events, when it comes to the income side, returns from high yield bonds have less volatility because the yield investors get from the coupon, i.e. the regular payments investors get for holding the bond, is higher than other bonds or shares, so it provides that extra level of reassurance for investors.

Wood says, 'High yield bonds had a bad rep from the 80s, but it's quite a mature market now. And if an issuer defaults, bondholders get paid before common stockholders. There may be a haircut to it, but you still get the coupon too.'

REMEMBER THE RISKS

However, one of the world's biggest players in the ETF space, Vanguard, is not as keen and believes higher quality bonds, called investment grade, might be best for investors looking to add fixed income, i.e. bonds, to their portfolio.

James Norton, a senior investment planner at Vanguard, says, 'The primary role of fixed income in a portfolio is to reduce risk. High quality fixed income tends to perform well when equities perform badly, acting as a buffer in falling markets.

'High yield fixed income is further up the risk spectrum and has more equity like characteristic both in terms of risk and return.

'So in periods when markets are falling investors should not expect high yield to protect them in the same way higher quality

fixed income would, and be prepared that it is more likely to fall in line with equities.'

LOWER CREDIT RATING

Of course having a lower credit rating means high yields bonds do have more risk, and in times when there's an economic downturn, the number of firms that default on their debt could spike as lower earnings mean they could run out of cash to pay bondholders.

Defaulting is always a last resort for companies, because once they do that, their chances of getting people lend them money in future is practically zilch.

And the income element of such bonds, via the coupon paid to investors, means despite getting sold off with shares when markets go down, they will still tend to be less volatile.

For those looking to add high yield to their portfolio, here are a couple of possible options.

> "WITH THE FTSE 100 LOSING MORE THAN 6% OF ITS VALUE SINCE THE BEGINNING OF AUGUST THERE IS PLENTY OF REASON FOR PEOPLE TO BE SEEKING SAFE HAVENS"

TOP HIGH YIELD BOND ETFS

BMO Barclays Global High Yield Bond ETF (GBPH)

On AJ Bell's Favourite funds list, this ETF seeks to replicate the performance of the Bloomberg Barclays Global High Yield Bond Corporate Very Liquid ex-144A Hedged to GBP Index, which is a broad-based measure of global high yield corporate bonds and, as it says on the tin, is very liquid.

Holding bonds from the likes of Netflix, Barclays and T-Mobile, the ETF is comprised of 500 bonds in total across a wide range of industries.

The ETF is also hedged back to sterling, which ensures its performance is not affected by any currency fluctuations.

It has returned 3.75% a year over the past three years, has an attractive dividend yield of 4.78% and a relatively low cost of 0.35% per annum.

iShares Fallen Angels High Yield Corporate Bond ETF (WIGG)

This ETF invests in so-called 'fallen angels', bonds that were once considered investment grade, i.e. relatively safe, but have since fallen to 'junk' status due to a decline in the issuer's credit rating.

It follows the Barclays Global Corporate ex EM Fallen Angels 3% Issuer Capped Index, which includes bonds from companies that were once rated investment grade but have since fallen into the high yield category.

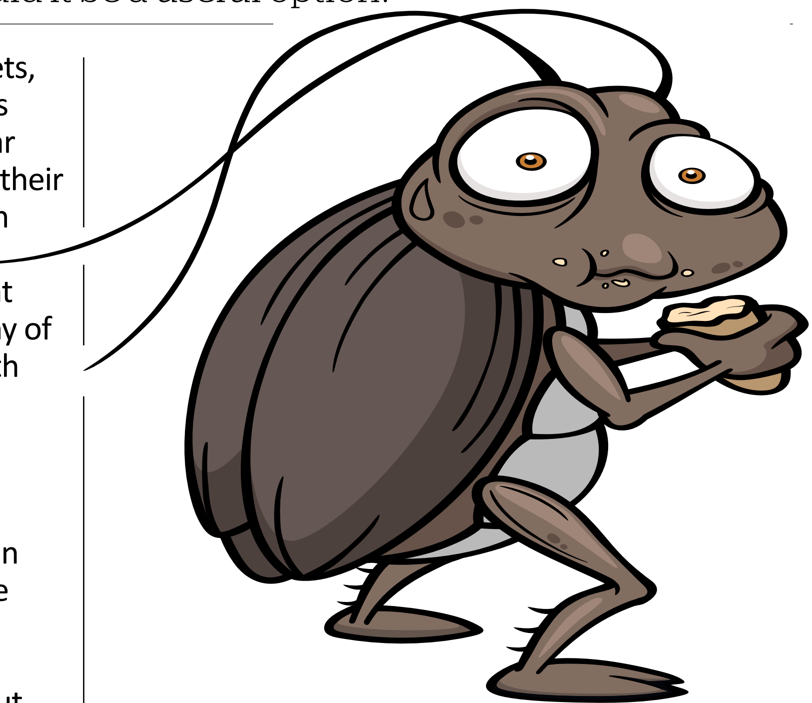
The index has an added layer of security though in that it excludes companies from emerging markets, only tracking the bonds issued by companies in developed countries.

While more expensive than the BMO ETF with a total cost of 0.55% a year, it has returned 10.29% so far in 2019 and also has a good 12-month yield of 4.72%.

By **Yoosof Farah**
Reporter

How to prepare for more rate cuts and stimulus

What is a cockroach portfolio and could it be a useful option?



The return of volatility to financial markets, as safe haven assets soar and risk assets wobble, is a timely reminder that it is far too early for central banks to declare victory in their attempts to boost global growth, stoke inflation and stave off deflation.

Investors' dash to buy (Western) Government bonds, the yen, gold and the dollar and fight shy of equities reflects gathering concerns over growth and debt.

In the face of such worries, America's Trump administration is already clamouring for more interest rate cuts and talking of a new tax cuts for good measure (in what some could see as an admission that the December 2017 tax package provided a short-term sugar rush but no more than that).

The European Central Bank is still taking about lower interest rates and a return to quantitative easing and the Bank of England's plans to hike borrowing costs are seemingly on hold.

Such policy ponderings are giving share prices some support but ultimately, they show that neither governments nor central banks are sure of what the ultimate outcome of a decade's worth of unorthodox monetary policy (and in some cases fiscal stimulus) could be.

Any one of inflation, stagflation or deflation could yet be the outcome.

FOUR-POT PLAN

This leaves investors in a quandary. The yield curve could be right, and a defensive posture may be required, leaning on perceived haven assets such as bonds, gold or even cash.

The yield curve could be wrong. Growth may continue, central banks may panic and overdo additional stimulus, leading to inflation, especially if China and America settle their trade tiff (even if that seems unlikely for now). In this case, bonds and cash could be bad places to be and equities a better option, if history is any guide.

We could get the worst of both worlds, with limited growth and rising inflation, taking us back to the 1970s when gold was the best performing asset and cash, bonds and stocks all struggled, especially in real terms.

Each possible outcome requires a different tactical portfolio response. As such it may be worth researching how to a portfolio designed to weather a range of economic and financial market outcomes, to protect wealth as well as try to create it.

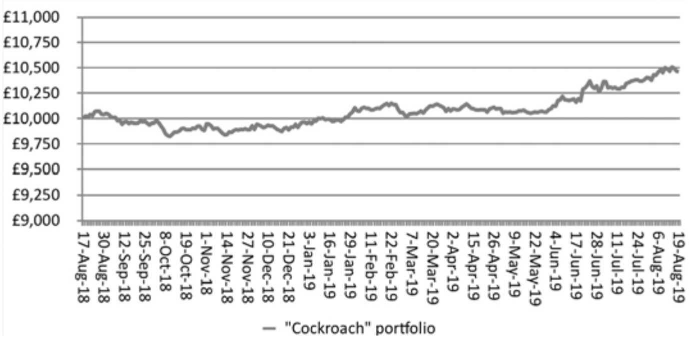
A few years ago, market strategist Dylan Grice devised a portfolio with the aim of doing just that, when he was at French investment bank Société Générale. This column has analysed his ideas before and it may now be appropriate to do so again.

Inspired by the apparently indestructible nature of the cockroach, Grice looked at how to build an investment portfolio that would be just as durable as the doughty insect. He argued a pot split into four even parts between cash, high-quality bonds, income-generating equities and gold would have done the trick.

This column has revisited this concept and tried to recreate the cockroach portfolio, starting with a £10,000 pot. To keep it simple, the equity income portion is represented by the **Invesco Perpetual High Income (3303148)** fund, which has a good pedigree and a long-enough history. The 10-year Gilt is used for bonds, the spot gold price has been used in sterling terms, while the fourth element is covered by the Royal London Cash Plus fund. The portfolio is then rebalanced each year on 1 January to return to the four-way even split.

The results over the past year are perfectly respectable: a 4.6% return (before any dealing costs, levies or taxes) with minimal volatility. If investing is all about going to bed and being able to sleep soundly then this may be one way to achieve a little peace of mind.

A VERSION OF DYLAN GRICE'S 'COCKROACH' PORTFOLIO HAS PERFORMED STEADILY AMID VOLATILE MARKETS OVER THE LAST 12 MONTHS

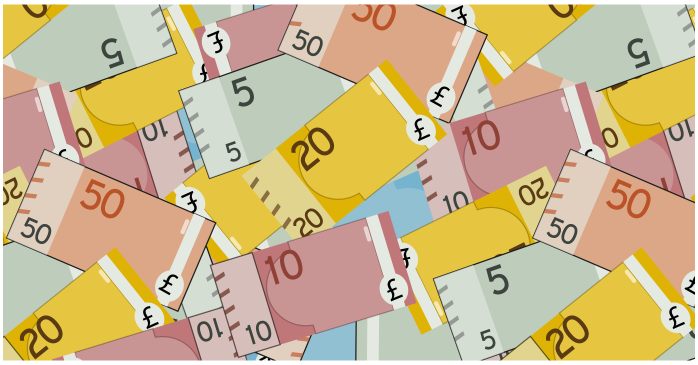


Source: Refinitiv data, with thanks to and inspired by Dylan Grice's November 2012 piece for Société Générale, The Last Popular Delusions

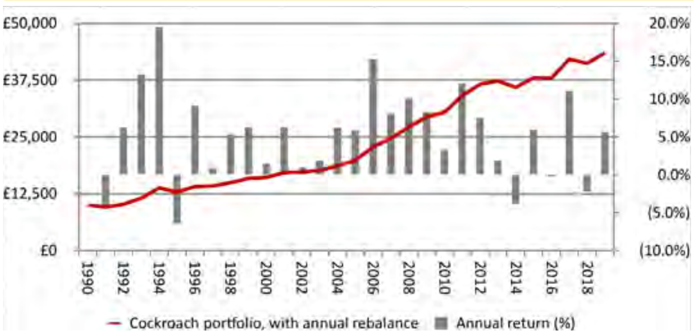
TEST OF TIME

However, a year is hardly an adequate test for any portfolio. The next test is therefore to go back to 1991, again splitting a hypothetical £10,000 pot equally across the four portfolio constituents. This time the cash element is represented by the Bank of England base rate and the portfolio is rebalanced each year on 1 January.

The result, again before dealing costs, fees or taxes, is a pot worth £43,504 for a 5.2% compound annual return, a figure which nicely beats inflation. Intriguingly the rebalancing seems to help. Without it, the portfolio comes to £41,168.



A VERSION OF DYLAN GRICE'S 'COCKROACH PORTFOLIO HAS PERFORMED STEADILY AMID VOLATILE MARKETS OVER THE LAST 27 YEARS



Source: Refinitiv data, inspired by Dylan Grice's 2012 November piece for Société Générale, The Last Popular Delusions. Assumes annual rebalancing every 1 January. Data for 2019 runs to 19 August.

Better still, perhaps, from the perspective of investors is the limited volatility of returns. The rebalanced portfolio shows just five down years although three have come since 2014, which offers a reminder that the past is no guarantee for the future. A low-growth, low-interest-rate, QE-riddled world is even testing the powers of the cockroach.

The 'cockroach' strategy will not suit everyone's goals, target returns, time horizons and risk appetites.

Yet the emotionless discipline of the rebalanced four-pot approach may give some investors pause for thought, especially as the historic returns have shown low volatility and we may be about to witness a fresh round of unorthodox central bank action, even after a decade of such policies are yet to prove they can have the desired effect.

By **Russ Mould**
AJ Bell Investment Director

Your 'lower risk' options assessed

Inflation can eat into the value of your cash

As part of my day job I'm often asked to help readers of national newspapers come up with ideas for how to invest their hard-earned cash.

One such question landed on my desk from *Times* reader Julie recently. In brief, Julie had spent the past 26 years working and living in Hong Kong and Singapore, but planned to retire in the UK in about two years' time.

She had over £1m sat in a deposit account which she wanted to invest, but had one red line: 'I'm not prepared to risk the stock market.'

This is not atypical – after all, an investment that delivers inflation-busting returns with no downside risk is the Holy Grail. Unfortunately, just like the fabled goblet of eternal life, there is no evidence it actually exists.

But what are the pros and cons of holding money in supposedly 'risk-free' investments? And what options are available for savers pre and post-retirement who want to generate a guaranteed income?

THE ILLUSION OF SAFETY

If, like Julie, you have decided investment risk is not for you, you need to be aware of the long-term impact this could have on your savings.

Holding large sums of money in cash investments or a deposit account paying little or no interest might seem like a 'safe' option, but in doing so you risk seeing your spending power eroded over time by inflation.

Take someone who inherits £10,000 and shoves it straight in their instant access bank account. Assuming that money earns 0% interest and inflation runs at the Bank of England's target of 2%, in a year's time it will be worth £9,800 in real terms.

After five years the fund's real value would have dropped by almost £1,000 to £9,039, while in 10 years it would be worth just £8,171. Fail to do anything with the money for 20 years and they'd have lost well over £3,000 in real terms.

Combating the deleterious impact of inflation is one of the main arguments in favour of taking at least some investment risk, particularly over the long-term where you are more able to ride out the ebbs and flows of the stock market.

However, if like Julie you remain determined not to take any investment risk, there are options available which can at least go some way to protecting your wealth from rising prices.

NATIONAL SAVINGS & INVESTMENT BONDS

NS&I bonds, which are backed by the Treasury and 100% guaranteed, could be worth considering for those who'd rather not invest in stocks and shares.

They have a range of products paying 0.8% to 1.95%, although each has slightly different terms and conditions you'll need to consider.

You can find out more **information here**.

BANK AND BUILDING SOCIETY BONDS

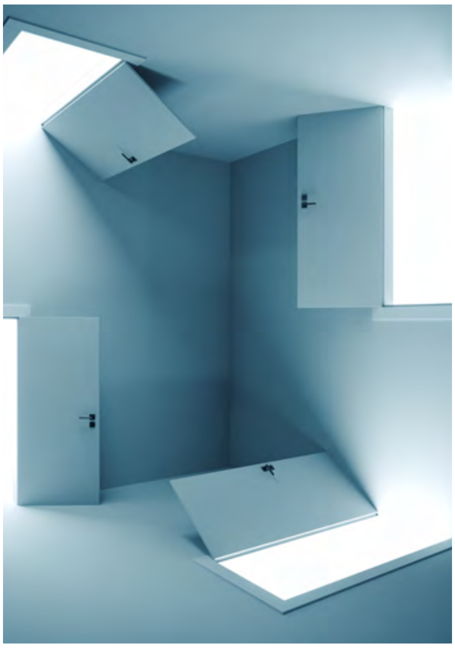
You can also get around 2% interest on two-year deposits from several banks and building societies. While that's not inflation-beating, it should at least minimise the damage caused by rising prices.

New offers become available all the time, so it's worth checking websites like MoneySavingExpert to make sure you're getting the best possible deal.

Each bank is backed by the Financial Services Compensation Scheme (FSCS), meaning your money is guaranteed up to £85,000.

To maximise your compensation, think about spreading your funds around various institutions rather than just putting it all with a single company.

Remember that some banks have multiple brands which



could affect your compensation entitlement. If you have money invested through two brands that sit under the same umbrella institution, you'll only be covered up to £85,000.

> **"TO MAXIMISE YOUR COMPENSATION, THINK ABOUT SPREADING YOUR FUNDS AROUND VARIOUS INSTITUTIONS RATHER THAN JUST PUTTING IT ALL WITH A SINGLE COMPANY"**

ANNUITIES

When it comes to generating a retirement income, for those who don't want to take any investment risk at all the most likely avenue is an annuity.

Before committing to an annuity – an insured product which provides a guaranteed income for life – you should figure out how much money you're going to need to cover your costs in retirement. Remember that once you've bought an annuity, there is no going back.

If you're buying an annuity from funds invested in a pension then 25% of your money will be available as tax-free cash if you choose to take it, with the rest taxed in the same way as income.

If you want to buy an annuity out of non-pension funds – for example because you have saved in a deposit account or an ISA - you would likely need a 'purchased life annuity'.

These are similar to traditional annuities in that they can provide a guaranteed income for life, although they are treated slightly differently for tax purposes, with a portion of your fund (the deemed return of capital) tax-free and the rest subject to tax. The amount that is tax-free will depend on your life expectancy.

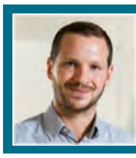
Purchased life annuities aren't simple products, so I'd strongly urge you to speak to a regulated financial adviser beforehand if you're going down this route. Indeed, some insurers may insist on this.

If you do decide to buy an annuity with all or part of your retirement savings, it's vital you research all the available providers and make sure you tell your insurer about any health conditions you have or lifestyle choices which could affect your life expectancy.

A regulated financial adviser or annuity broker can help you do this, although they will charge a fee (or sometimes commission in the case of brokers) for their services.

If you're a regular smoker, for example, the insurer should pay you a higher income because they think your life expectancy will be lower.

You should also consider getting inflation protection so your spending power is preserved over your retirement.



By **Tom Selby**
AJ Bell
Senior Analyst

Gold is at a six-year high and this miner has taken full advantage

Led by a former rugby international, shares in Resolute Mining have jumped by a third since it listed in June

As gold continues to hit the heights, it would seem one miner of the shiny metal timed their entry to the market perfectly.

Australian miner **Resolute Mining (RSG)** listed on the Main Market of London Stock Exchange in June, at a time when gold was hitting five-year highs of $1,385 per ounce. As we write the precious metal is around the $1,500 mark, a six-year high.

ESTABLISHED PRODUCER

An established gold producer with mines in Australia and Mali, and another in Ghana soon to reach full capacity, £926m market cap Resolute is already listed on the Australian Securities Exchange and didn't need to raise any new money as part of its London market debut.

Resolute chose London as it thinks it will get a fair rating and will be more likely to find investors who understand African-focused miners. That means its share price over here should be priced more fairly, or at least as the company see it.

The firm's chief executive, former Australia rugby international John Welborn, tells *Shares* the company wants to be known as a 'multi-mine, low-cost, African-focused gold producer'.

FOCUS ON SHAREHOLDER VALUE

He says, 'Ultimately we're a gold company that exists purely to create value for our shareholders.

'We've been doing this for over 30 years as an explorer, developer and operator of gold mines. We're successful, and importantly, we're dividend paying.'

As far as the numbers go, Resolute has certainly done plenty to make itself known to investors. Gold production for the 12 months through to 30 June this year stood at 305,436 ounces of gold produced at an all-in sustaining cost (AISC) of $924 an ounce.

That exceeded the firm's guidance of 300,000 ounces, with $924 per ounce AISC below the $960 it had forecasted, particularly pleasing for the

> AUSTRALIAN MINER RESOLUTE MINING (RSG) LISTED ON THE MAIN MARKET OF LONDON STOCK EXCHANGE IN JUNE, AT A TIME WHEN GOLD WAS HITTING FIVE-YEAR HIGHS OF $1,385 PER OUNCE

company and investors alike given the current gold price. For reference, any AISC below $1,000 is considered decent by the market.

Taking advantage of the current gold price, Resolute has forward sold 30,000 ounces of gold at an average price of $1,519 per ounce this month, on top of the 50,000 it forward sold in June at a price of $1,337 per ounce.

The figures help explain why Resolute's shares have jumped by more than a third since it listed in London. The company shares ended their first day of trading on 20 June at around 66p, and are now hovering around the 110p mark.

AMBITIOUS PLANS

While the numbers are strong, the firm is ambitious and wants to grow further. Welborn says Resolute hopes to have one to three additional mines in the next three to five years with a focus on assets with a life of over 10 years.

The firm has already started making good on those plans, recently acquiring Toro Gold for $274m, a Senegal-based miner which already has a gold mine which produced 157,000 ounces of gold last year at a barely believable AISC of $655 per ounce.

At $274m, Resolute might've found a slight bargain given $300m was the figure bandied about before Resolute entered into talks with Toro.

However, Toro's Mako mine in Senegal only has an initial mine life of seven years, and while Welborn claims there is 'lots of potential' to extend the mine's life, he concedes 'you never get everything you're looking for all of the time'.

UPGRADED OUTPUT GUIDANCE

But the deal has led Resolute to revise up its full year production guidance from 330,000 to 400,000 ounces of gold at an AISC of $960 per ounce, taking it closer to its aim to produce 500,000 ounces a year, and eventually 750,000 ounces a year.

Another thing which will help Resolute's production is the Syama mine in Mali, which first fully automated mine. Welborn says it should be at full capacity by end of this year, ultimately producing 300,000 ounces of gold a year at an AISC of what Resolute hopes will be less than $750 per ounce.

Such automation will allow Resolute to significantly reduce costs, as well as improve safety and the efficiency of digging gold out of the ground. It begs the question in this day and age why more mines aren't automated.

'The problem is', Welborn explains, 'when you've done something one way and had success that way, people think why would you change? But we think, why wouldn't you change?'

By **Yoosof Farah**
Reporter

POLITICAL RISK TAKES SHINE OFF GOLD MINERS

ONE IMPORTANT THING to consider with miners is jurisdictional and political risk. Particularly for gold miners, many of whom operate in West Africa, which has huge reserves of gold but can be volatile from both a political and security viewpoint.

This was all too clear when Canadian miner **Avesoro Resources (ASO:AIM)** had to suspend one of its two mines, the Youga mine in Burkina Faso, after it was stormed by armed strongmen looking to steal gold ore.

Its shares plunged from 65p to 50p following the news, and are hovering around 55p with the mine still suspended amid reports the miners are reluctant to go back to work.

INDEX

KEY

- **Main Market**
- **AIM**
- **Investment Trust**
- **Fund**
- **Exchange-Traded Fund**

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

29 August: Hays.

Half year results

23 August: Henry Boot, Computacenter, Glenveagh. **27 August:** Afi Development, Bunzl, Bank of Cyprus, Jadestone Energy, PureTech Health. **28 August:** Arix Bioscience, James Fisher & Sons, Headlam. **29 August:** Amigo Loans, Chesnara, Hunting, Total Produce.

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