STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

BOUNCING BACK

THE SECTORS WHICH RECOVER QUICKEST FROM A SELL-OFF... AND STAND TALLEST IN A DOWNTURN

PLUS

GLAXOSMITHKLINE TRANSFORMED BY NEW STRATEGY

WHY **ALTERNATIVE ASSETS** ARE IN DEMAND

FUNDS EXPOSED TO HIGH-RISK DIVIDENDS

Why stewardship really matters with investing

A new code draws the spotlight on how big investors engage with companies

The introduction of a new UK Stewardship Code by the Financial Reporting Council will look to raise the bar on how big investors hold the companies in which they invest to account.

A lot of the headlines around the news focused on the climate change angle but there is more to the code than environmental concerns, including how institutions make their decisions and what they are doing about issues such as governance and diversity.

Fundamentally this is about recognising that investors are part-owners of a business. Even big asset managers are sometimes guilty of buying shares and seeing their work as done.

RIGHTS AND RESPONSIBILITIES

Taking true ownership involves both rights and responsibilities. It is easier for big institutional investors to engage with the firms they invest in than it is for individual shareholders, however that doesn't mean you shouldn't try too.

Go to AGMs if you can and if you are invested in smaller companies you may even find management will respond if you get in touch directly on an issue which exercises you.

The code is voluntary and lots of investors in UK firms are from overseas and may feel under less pressure to abide by it, but hopefully the industry sees this as an opportunity to be grasped. Most responses have been very positive so far, which is a promising start.

Anything that makes the investing more relevant in the eyes of the wider public has to be a good thing, particularly if it opens people's eyes to the opportunities provided by putting their cash to work in the markets.

DON'T LOSE SIGHT OF UK STRENGTHS

In fairness, if it wanted to distract from its own shortcomings, the investment world could easily point to failures of stewardship among the political class in the UK.

As we write the country remains mired in a Brexit stalemate with the potential joys of a Christmas election. Companies and markets are still denied the clarity on the UK's future relationship with the EU that they crave.

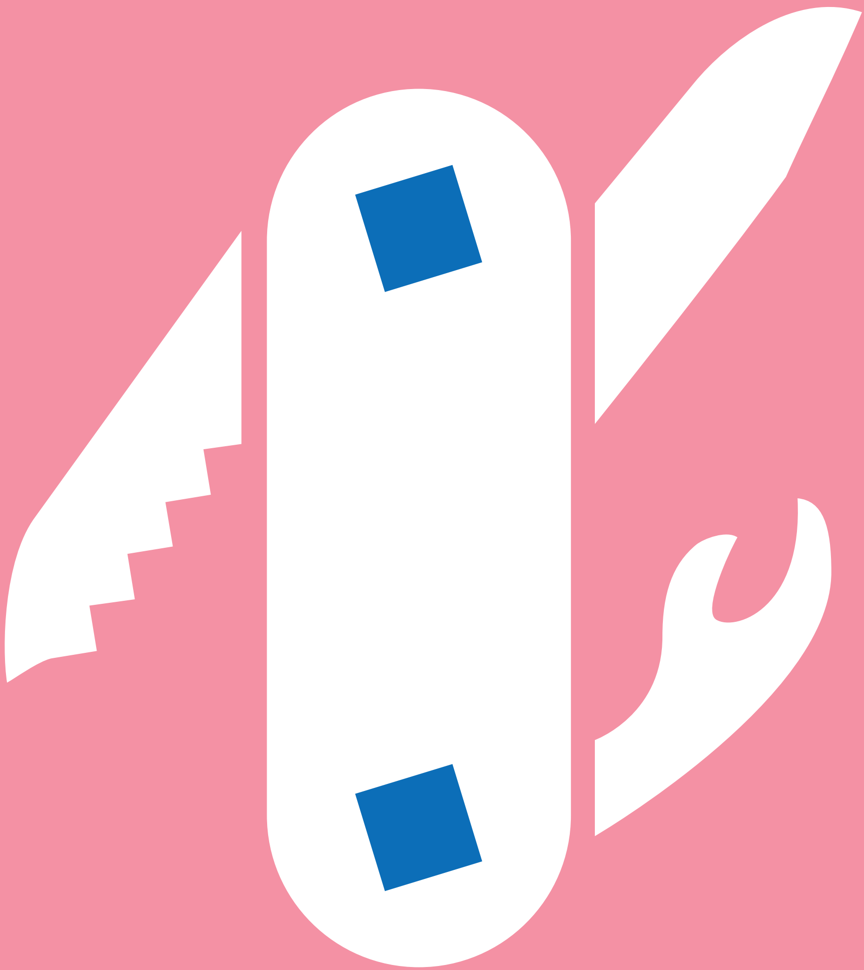
Amid the uncertainty it would be easy to lose sight of some of the attributes the UK enjoys. But there are plenty of them.

Alongside the release of Credit Suisse's *Global Wealth Report* the investment bank's UK chief Christian Berchem observed: 'Equity markets have risen and we continue to see UK-based entrepreneurs thriving, businesses spotting new opportunities, and international mobile wealth continuing to be attracted by a transparent legal system, outstanding schools and universities and an unrivalled cultural proposition.'

By **Tom Sieber** Deputy Editor

Contents

VIEWING SHARES AS A PDF?
CLICK ON PAGE NUMBERS TO JUMP TO THE START OF THE RELEVANT SECTION



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Investors brace for a Brexit election

Will a vote provide the clarity on the UK's relationship with the EU investors are craving?

Something has finally happened with Brexit. MPs have finally agreed to have a general election on 12 December in attempt to find a way forward.

The market appears to be taking the news in its stride for now, however there is little question that uncertainty has been ratcheted up.

The timing of the election and a volatile electorate, which seems less attached to the main parties, mean that many expect this to be the most unpredictable vote in generations.

While Boris Johnson's Conservative Party has a commanding lead in the polls, there is a chance this won't translate into the majority in the House of Commons he craves.

An election itself could be good news for **Royal Mail (RMG)** as it gets paid to deliver election leaflets albeit the company also faces the prospect of a pre-Christmas strike.

The timing isn't great for the retail sector – distracting people from their Christmas shopping just at the point you would expect festive trading to be in full swing.

There is likely to be demand for the services of polling firms like **YouGov (YOU:AIM)** although this activity actually represents a modest slice of the company's business.

Housebuilders will be pleased the election is coming during a quiet period when they wouldn't be selling many homes anyway.

WHAT WILL HAPPEN NEXT?

The specifics of the result are unpredictable but may go in one of two directions.

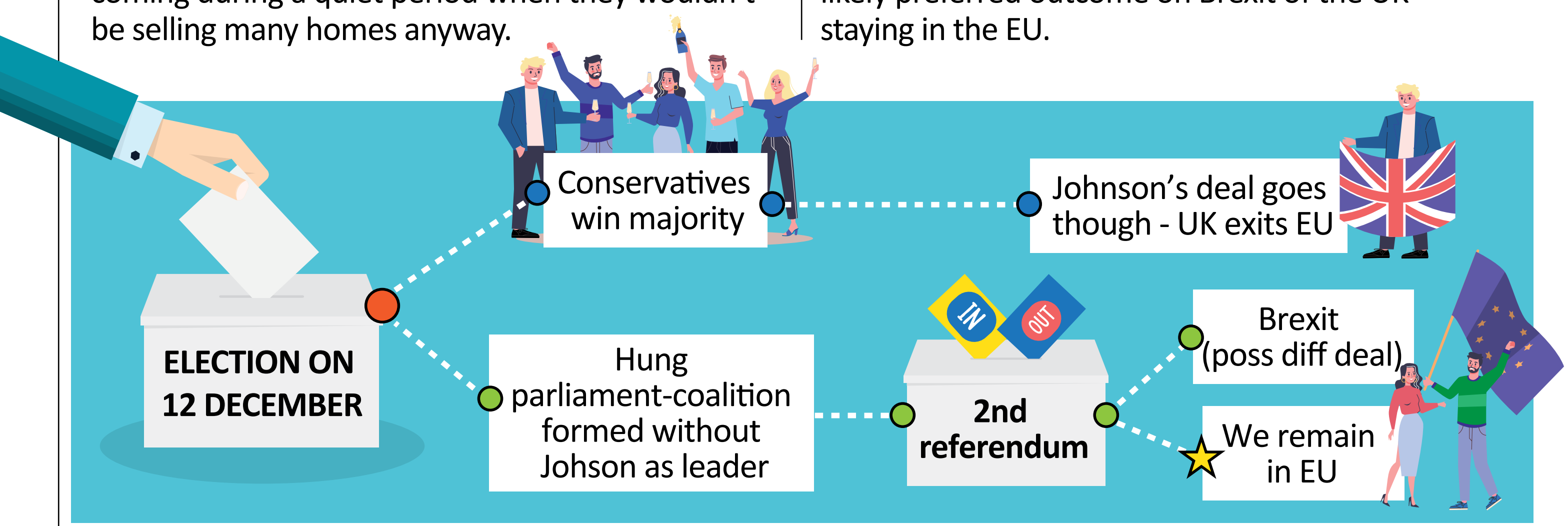
The first is that Johnson secures a majority and is able to steer his Brexit deal through parliament. In the short-term at least this would provide more clarity to business and would likely see a boost for sterling and other UK assets including real estate and banking and housebuilding shares.

Longer term there remains the uncertainty of negotiations over a future trading relationship and whether the current transition period provides enough time.

The other result which seems credible is another hung parliament. Johnson's Brexit stance makes it unlikely he could form a coalition but this might be easier for Labour leader Jeremy Corbyn if he pledged to hold a second referendum. This would rely on the EU further extending the Brexit deadline.

Such an outcome would imply more uncertainty for business, not least because a Labour-led administration raises the sceptre of nationalisation for utility providers, shake up the transport sector and negatively impact some infrastructure funds.

On the flipside it could result in the market's likely preferred outcome on Brexit of the UK staying in the EU.



Metals lose shine with demand below forecast

But nickel bucks the trend as the price soars

What a difference a year makes. This time in 2018, the UK was still set to leave the EU in 2019, the US and China were on speaking terms, and industry figures from the world of metals were all optimistic as they gathered in London for the big annual bash at London Metal Exchange's Metals Week.

But this year couldn't be any more different.

Doom and gloom pervades the event as those same industry figures now lament how three important industrial metals – copper, zinc and aluminium – have all missed their growth forecasts, flashing the same warning signals that occurred before the financial crisis.

The most important of them all, copper, is also the most concerning.

A year ago, it was estimated that demand for copper would grow by 2.6% in 2019. In the first half of this year however, copper demand actually fell by 0.7%, surprising market watchers.

Copper is closely watched as the metal is an economic bellwether, given it is used in practically everything.

Weak global manufacturing figures have led to weaker copper demand, with the worldwide manufacturing sector now in recession. The last time things looked that bad was at the end of the financial crisis.

Though the short-term picture is gloomy, many investors believe the long-term fundamentals for copper growth remain strong.

The same gloom has also encircled aluminium and zinc, with actual demand for the former 1.5% lower than forecast so far this year, and demand for the latter down 0.9% on what was expected, according to Bloomberg.

Aluminium in particular is struggling as the industry grapples with the triple whammy of lower supply but also lower demand and therefore lower prices.

Despite the gloom, there is one superstar in the room – nickel. What a difference a year makes for that metal too.

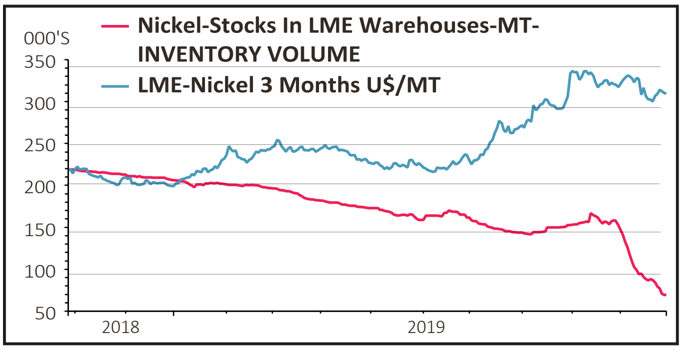
All the talk at last year's Metals Week was about copper, with nickel barely mentioned.

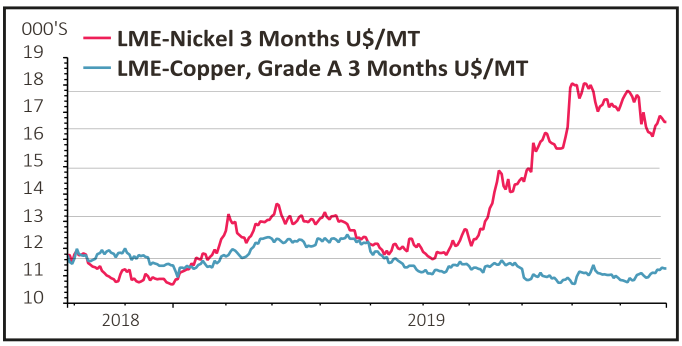
But this year its price has surged as an 8.6% rise in stainless demand from China (nickel is a key metal in stainless steel), coupled with a surprise accelerating of a ban on unrefined nickel exports from Indonesia has got metal buyers panicking.

Nickel demand will rise 5% this year according to the International Nickel Study Group, while thanks to the Indonesian ban actual stocks of nickel in London Metal Exchange warehouses fell off a cliff in October, with just 76,000 tonnes left compared to the 230,000 tonnes in the warehouses this time last year.

Though as with any metal that gets hyped, some in the market are warning against getting carried away over nickel.

Investment bank ING says: 'We think the nickel price is overdone and we also believe a pullback is justified, however, it's too early to judge whether the stainless steel sector will provide the significant downside some expect.'





LVMH bid for Tiffany shines a light on luxury sector allure

Mooted deal demonstrates the attractions of the high-end brands

Global luxury leader LVMH has stunned sector watchers by launching a $14.9bn all-cash takeover bid for US jewellery retailer Tiffany & Co, famed for its engagement rings and ties to Hollywood glamour.

Despite being pitched at a 22% premium to Friday's closing price, analysts expect Tiffany to rebuff what it probably regards as a low-ball offer. A higher bid will be required to consummate a planned acquisition that clearly demonstrates the enduring allure of luxury brands, even as global growth falters and US-China trade tensions rumble on.

Tiffany said it was 'carefully reviewing the proposal', yet added it was 'not in discussions' with LVMH, the owner of the *Louis Vuitton*, *Christian Dior* and *Moët Hennessy* brands.

The deal would help LVMH expand in jewellery, one of the fastest-growing segments of the luxury goods market. It could double the size and profitability of LVMH's jewellery and watches division, a business often referred to as 'hard luxury'.

Jonathan Buxton, partner and head of consumer at Cavendish Corporate Finance, says that if accepted, 'this acquisition would give LVMH its long-anticipated strategic move into hard luxury. LVMH made its first move into this sub-sector in 2011, with its purchase of Bulgari, yet Bulgari alone has not given LVMH a dominant position in the sector. This acquisition would significantly enhance LVMH's hard luxury, putting it well ahead of rival Richemont.'

The audacious acquisition would also assist LVMH in penetrating North America while consolidating its grip on Asian, with China a key region for Tiffany. 'Comparisons to the Bulgari purchase in 2011 are hard to ignore, with Alessandro Bogliolo, the Chief Executive of Tiffany also being the CEO of Bulgari at the time of the LVMH bid in 2011', added Buxton.

Luxury goods firms are prized as their aspirational image supports enduring brand appeal

The Tiffany bid arguably shines a light on the attractions of the London-listed luxury goods groups, a small band of companies benefiting from coveted brands, pricing power and robust cash generation.

They include **Burberry (BRBY)**, the trench coats-to-handbags business where new creative chief Riccardo Tisci is stamping his identity, and luxury watch-to-prestige jewellery retailer **Watches of Switzerland (WOSG)**, the UK's biggest seller of *Rolex* watches.

Another name on the list is the high-end fashion bags-to-footwear retailer **Mulberry (MUL:AIM)**. And don't forget, iconic footwear brand Jimmy Choo was taken over by US luxury retailer Michael Kors (now known as Capri) for a decent premium back in 2017.

Banks face new headwinds after PPI storm passes

Rising provisions for bad loans and poor investment banking returns crimp returns

As Brexit uncertainty is prolonged, the banks seem to be stumbling out of one storm into another.

Fears of a spike in charges for mis-sold payment protection insurance (PPI) were well-founded as three of the big high-street lenders increased their provisions at the third quarter point due to the last-minute rush of claims ahead of the 31 August deadline.

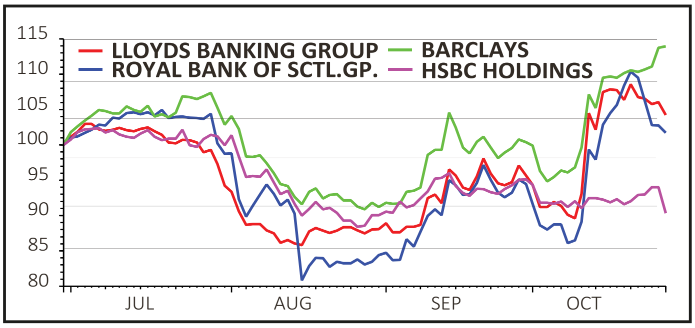
Royal Bank of Scotland (RBS) put aside another £900m of provisions, the top end of the range it forecast at the time of its half-year earnings, taking its total charge for PPI to £6.2bn.

Barclays (BARC) added £1.4bn, in the middle of its forecast range of £1.2bn to £1.6bn, to take its total charges to £11.4bn, while **HSBC (HSBA)** – which is less exposed to the UK given its global franchise – added $388m or £300m to bring its total charges to £4.6bn.

Lloyds (LLOY) had yet to report its third-quarter earnings as *Shares* went to press but its most recent forecast was for a third quarter charge of £1.2bn to £1.8bn to bring its total provisions to almost £23bn.

MARGINS DOWN, BAD LOANS UP

Meanwhile margins on their traditional lending business continued to contract due to fierce competition for mortgage customers. Net interest margins, or the gap between the rate banks charge on loans and they pay out on deposits,



continued to contract even after non-traditional lenders like **Sainsbury (SBRY)** and **Tesco (TSCO)** pulled out of the market.

Also all three saw an increase in provisions for expected credit losses as the number of companies and individuals in financial difficulty continues to mount despite the low interest-rate backdrop.

A TALE OF THREE INVESTMENT BANKS

Where the banks differed was in the performance of their investment banking businesses. Barclays once again showed it is the class of the field and can stand shoulder to shoulder with Wall Street's finest, delivering a 13% increase in revenues and defying claims from activist investor Edward Bramson that it is failing to deliver.

RBS's investment bank, NatWest Markets, saw its income fall for a second consecutive quarter due to what it called 'difficult market conditions', and the group as a whole ditched its 2020 return on equity target.

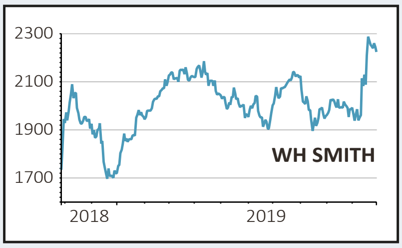
Similarly, HSBC had another weak quarter in its Global Banking and Markets division and cut its 2020 return on equity target. Ominously for those that work there, chief executive Noel Quinn said the board is planning to 'remodel' under-performing areas of the bank and 'move capital into higher growth and return opportunities'.

Buy WH Smith as it travels to new horizons

Why a big US acquisition has transformed the retailer's growth prospects

WH SMITH ↗ BUY
(SMWH) £22.40
Stop loss: £17.92

Market value: £2.6bn



Shares believes investors should buy cash generative books, magazines and stationery seller **WH Smith (SMWH)**.

We've long been fans of the business and following a bold takeover roughly doubling the size of its international travel business we think there is scope for further upside.

The £312m acquisition of Marshall Retail, announced on 17 October, is being funded through debt and a £155m share placing.

TRAVEL TRANSFORMATION CONTINUES

WH Smith has been winning contracts to open airport stores around the globe and acquired digital accessories airport retailer InMotion last year.

The acquisition of Marshall Retail, a high-growth US travel retailer with stores in airports, resorts and tourist locations, will accelerate the growth of the international travel business and combined with InMotion, enhance WH Smith's potential in a $3.2bn US airport travel retail market.

EARNINGS FORECASTS

Year	EPS
Aug-20	128.6p
Aug-21	142.6p
Aug-22	157.7p

Source: Peel Hunt

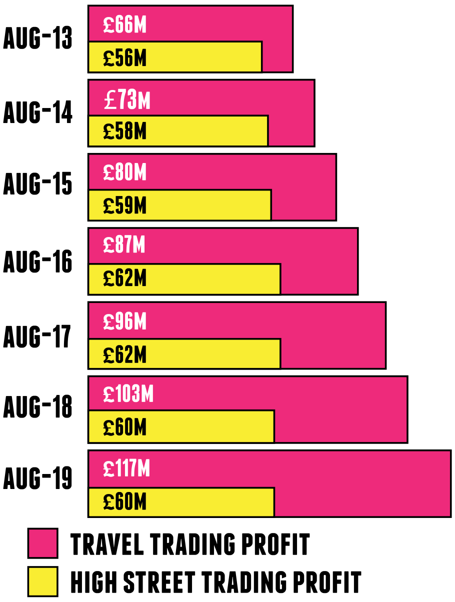
With 170 stores in North America at the last count, Marshall sells news, gifts and convenience products in high footfall locations to customers who are essentially 'captive', giving it a fair bit of pricing power.

ONGOING RESILIENCE

The Marshall deal was bundled up with robust full year results to 31 August 2019 showing a £10m (7%) hike in pre-tax profit to £155m on revenue up 11% to almost £1.4bn. Profit rose sharply in travel and was stable in the legacy high street business, where WH Smith continues to eke out cost savings.

Continuing to pay out generous dividends whilst using surplus cash to buy back shares, WH Smith also delivered another healthy dividend hike, up 8% to 58.2p per share. Investors were also encouraged by news of a 'good start to the new financial year'.

HOW TRAVEL TOOK OVER AT WHSMITH



Source: WHSmith

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

Strong growth at an attractive valuation on offer at CareTech

The market is underestimating the financial benefits from big acquisition

We think the benefits of **CareTech's (CTH:AIM)** acquisition of its rival Cambian are not fully appreciated by the market and investors should get in now as they become more apparent.

Caretech is a national provider of care services for children and adults with complex needs, operating in the circa £15bn a year UK social care sector.

In October 2018 it purchased Cambian for £278m in a cash and share deal, receiving regulatory clearance in February this year. The acquisition further consolidates a fragmented market and brings more children's care services to the combined group.

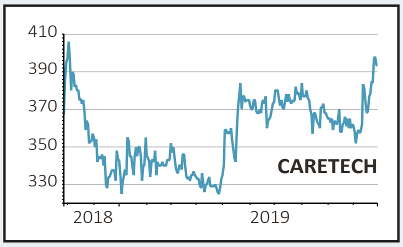
Management has identified £5m of pre-tax profit synergies by 2020, equivalent to a third of prior year profits, with £3m to be delivered by December 2019.

According to consensus estimates earnings per share will grow by 20% this year and a further 18% next year to 31 December, yet the price earnings ratio (PE) is a lowly 9.4 times while the dividend yield of 3% is covered three times.

It should be pointed out that the acquisition has increased net debt to £293m, which represents four times earnings before interest, tax, depreciation and amortisation (EBITDA), but strong cash conversion is expected to reduce leverage towards the target of three times.

CARETECH HOLDINGS
BUY
(CTH:AIM) 391.3p
Stop loss: 313p

Market cap: £434m



The debt is more than covered by the value of the company's property portfolio which was valued at £774m post the Cambian deal.

Over the last 25 years the company has grown from a single home to 550 facilities and 10,000 staff supporting 4,500 users.

CareTech came to the market 14 years ago in 2005 and in that time the UK market has grown from £2.1bn to its current size of £15bn, a blistering compound annual growth rate (CAGR) of 15%. The company has grown its revenues and earnings per share at an even faster rate with a CAGR of 20%, demonstrating its growth in market share.

Market growth is driven by a continuing trend to outsourcing from local councils and the underlying market growth of 5.5%.

The Cambian purchase has increased the proportion of children's services that to the group provides. Adult services now represent a third of revenues, down from two thirds, while children's services now represent around 60% of revenues, up from a third while foster care remains the smallest segment at 10%.

CareTech operates in a growing but fragmented market where the regulatory burdens are becoming more acute, putting pressure on smaller operators. Once the acquisition has 'bedded down' the company will have the scale and competitive advantage be continue to exploit future growth opportunities.

By **Martin Gamble**
Senior Reporter

A CONTRARIAN APPROACH CAN PAY DIVIDENDS

As contrarian investors, we prefer to plot our own course rather than follow the herd. Our quest is to find 'ugly ducklings' – companies that are shunned by others but offer a real prospect of improvement. And while the obvious upside to this approach is the potential for share price appreciation, it can also offer another valuable source of returns as unfashionable companies often have higher than average dividend yields.

Seeing the value in ugly ducklings

It goes without saying that the 'ugly ducklings' we choose are unloved, but we believe that they have the potential to improve their businesses. We look for companies that have the strength and flexibility to adapt and thrive over the longer term. A sustainable dividend from such companies is attractive to us as it offers a return while we wait for our thesis to unfold.

Of course, not every investment in our portfolio pays dividends and we wouldn't necessarily overlook a prospective investment for that reason. A company navigating the low point in its cycle might opt to forgo a dividend to reinvigorate its business. This prudent approach can hasten the company's recovery and potentially allow more sustainable dividend payments to recommence. Indeed, a dividend reinstatement can be an important signal that the company's rehabilitation is underway.

This scenario is currently playing out at Tesco, one of our biggest holdings. Tesco cut its dividend after a difficult period, during which profits fell and discounting rivals gained market share. Since then, the company has regained its footing, allowing management to reintroduce the dividend. While Tesco, in line with all the other UK based retailers, will need to cope with the potential fall out from the Brexit process, it remains, in our view, well placed to be able to execute its turnaround plan.

As long-term investors, we have time on our side as we wait for a nascent recovery to become established. Patience is key to contrarian investing. A certain fortitude is also required to withstand the anxiety of the market, while holding steadfastly to our convictions. But the potential pay-off can be more than worth the wait.

From sour grapes to an exceptional vintage

One of the most notable successes of this patient approach is Treasury Wine Estates, formerly the biggest holding in our portfolio. We invested in this company in August 2015, when it was very much out of favour. The catalyst for change was a new management team, whose strategy transformed the business from an 'ugly duckling' to an elegant swan, before we decided to sell our stake (or, to continue with the metaphor, it flew our nest) leaving a £39 million profit – almost three times our original investment. While not all of our investments will prove fruitful, this example demonstrates why patience can be such a virtue.

" a return while we wait for our thesis to unfold "

Enduring growth

Paying dividends to our own shareholders has been part of our heritage of 132 years. We've recently increased the frequency of our dividend payment to quarterly. One of our aims is to grow the dividend ahead of UK inflation and this is supported by a record of raising our dividend in each of the last 35 years. However, it should be remembered that dividends are not guaranteed and can fall as well as rise. ■

28 October 2019

RISK WARNING

Please remember that past performance may not be repeated and is not a guide for future performance. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations. You may not get back the amount you invest. The Scottish Investment Trust PLC has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns for shareholders. However, should markets fall these borrowings would magnify any losses on these investments. Investment trusts are listed on the London Stock Exchange and are not authorised or regulated by the Financial Conduct Authority. Please note that SIT Savings Ltd is not authorised to provide advice to individual investors and nothing in this article should be considered to be or relied upon as constituting investment advice. If you are unsure about the suitability of an investment, you should contact your financial advisor.
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GB GROUP
(GBG:AIM) 609p

Gain to date: 44.1%

Original entry point:

Buy at 422.5p, 20 December 2018

BACK IN JUNE we explained why it was not very surprisingly that **GB Group's (GBG:AIM)** share price had paused for breath, having rallied roughly 28% since being selected as one of our top picks for 2019.

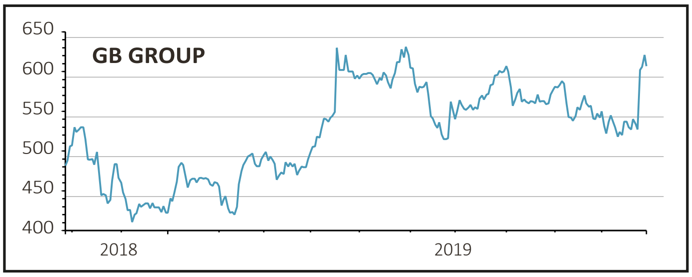
A 24 October half year trading update saw the identity data intelligence expert get its sprint back, jumping nearly 16% to 609p, just a fraction below the stock's 631p all-time high.

The update spelled out that the company expects revenue to jump 64% to £93.7m on a combination of solid 18% organic growth and contributions from the acquisitions of Australian firm Vix Verify and, particularly, the IDology deal in the US, its biggest acquisition so far.

Adjusted operating profit is expected to increase 138% to £20.9m on organic growth and acquisition synergies, whilst net debt reduced from £66.3m in March to £53.8m.

Importantly, organic growth is still holding strong despite what must have been significant distractions to management from February's £160m fundraising, the acquisitions and integration process.

This brilliantly illustrates GB's technology-led strategy and the advantage this gives it over more credit-focused competition, such as **Experian (EXPN)**.



SHARES SAYS:
GB remains a stand-out UK technology growth story.

TEMPLE BAR INVESTMENT TRUST
(TMPL) £13.48

Gain to date: 15.2%

Original entry point:

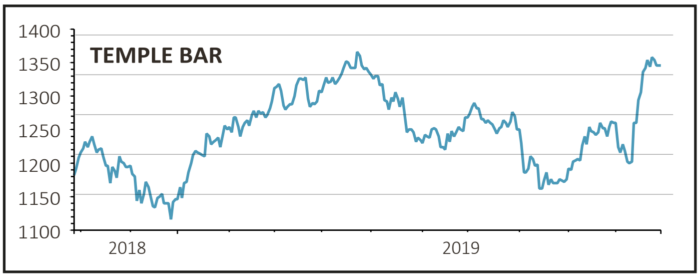
Buy at £11.70, 29 August 2019

SHARES IN INVESTMENT trust **Temple Bar (TMPL)** have surged higher since our late summer 'buy' call, leaving our recommendation a handsome 15.2% in the money.

In anticipation of a rotation from growth to value, other investors have cottoned on to the attractions of this portfolio of cheap, dividend-paying stocks and the discount has narrowed from 6.3% to 3.2% accordingly.

We're happy to remain buyers of Temple Bar, managed by renowned contrarian investor Alastair Mundy, in the belief the undemanding valuations in the underlying portfolio should limit downside during a market sell-off. One of The Association of Investment Companies' 'Dividend Heroes', those trusts that have increased annual dividends for 20 consecutive years or more, Temple Bar has recently seen strong NAV growth.

It has benefited from share price increases from support services group **Capita (CPI)**, drugs giant **GlaxoSmthKline (GSK)** and builders' merchant **Travis Perkins (TPK)**, banking groups **Lloyds (LLOY)** and **Barclays (BARC)**. Also lending support has been Britain's biggest retailer **Tesco (TSCO)** and recent gold price strength.



SHARES SAYS:
Don't be tempted to take profits. Now is the time to hold onto Temple Bar.

Negative yields have forced investors to explore 'alternative assets'

As with stocks, liquidity is a key factor for retail investors

It is little wonder that interest in 'alternative assets' has exploded.

We live in a world of negative interest rates, where $17tn of bonds including government bonds trade at nominal yields below zero – meaning that if investors held them to maturity, they would *lose* money not make money – and more than double that amount trades on yields which track below the rate of inflation.

Alternative assets typically include property, precious metals, hedge funds, structured products, private equity, venture capital, fine art, fine wine, classic cars or watches, rare stamps and pretty much any other type of asset which is expected to hold its value due to its scarcity factor.

Given the option of making a certain loss on the ultimate safe investment, government bonds, many investors are opting for less safe investments even though the prospective returns on offer may be low by historical standards. In other words they feel forced to buy risky assets rather than accept a negative return on safe assets.

This isn't just happening among retail investors, as the *Financial Times* flagged in August: 'The flow of pension fund money into any asset

that promises to beat zero-rate bonds has been so dramatic that equities, junk bonds, property, private equity and a host of other more abstruse (obscure) areas of investment have spiralled in value.'

PROPERTY AS A LONG-TERM PLAY

Historically residential property has proved a sound long-term investment and has typically generated a return above the rate of inflation if not quite as high as the return on equities. However, specialist knowledge is required as values can vary even down to the level of city streets.

Moreover the cycle is notoriously vicious and following more than a decade of steep price rises, particularly in prime and super-prime property, this is probably not the time to be getting in. Particularly when you consider many of us already have significant exposure to residential property if we own our home.

In fact the **Begbies Traynor (BEG)** Red Flag Alert published last week showed a significant increase in UK residential property investment companies in what it calls 'significant financial distress'.

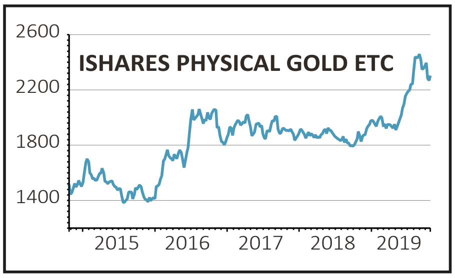
Commercial property is a more interesting proposition, and as well as the big quoted real estate firms such as **British Land (BLND)** and **Land Securities (LAND)** there are a wide range of investment trusts.

Office developer **Regional REIT (RGL),** for example is a running *Great Idea*.

GOLD AND OTHER 'HEDGES'

We have covered precious

metals, in particular gold, on many occasions and there are arguments in favour of them not least from the point of view of portfolio diversification. Investing via a fund or an ETF like **iShares Physical Gold (SGLN)** rather than holding the physical assets themselves is probably the cheapest and easiest route to ownership.



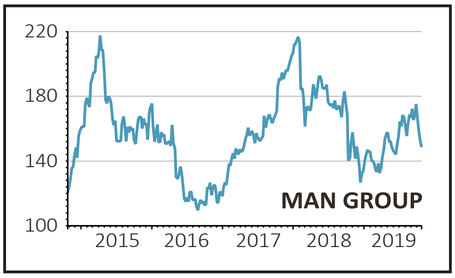
Hedge funds have been unkindly referred to as a compensation system rather than an asset class, given the high level of fees which they charge and their patchy record of beating the market.

In the beginning, hedge funds were indeed a useful hedge for investors as they weren't highly correlated with markets. The ability to 'short' stocks and indices meant that when markets went down they made money, but over time their performance has become more correlated.

When stocks are going up that isn't a problem, but when they go down the correlation often rises sharply so that just when investors need them to perform well they don't.

As most hedge or 'absolute return' funds require a sizeable minimum investment - typically £100,000 although some demand as much as £500,000 – the easiest way for retail investors to get a slice

of the action is to buy shares in **Man Group (EMG)**, which offers exposure to the AHL and Numeric strategies as well as the GLG business.

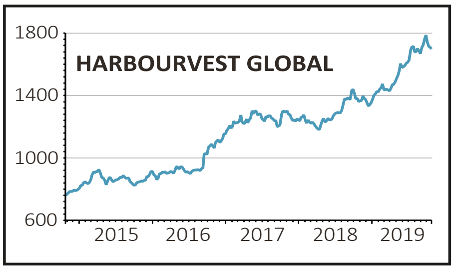


PRIVATE EQUITY AND VENTURE CAPITAL

As the name suggests, private equity is primarily investment in privately-owned rather than publicly-owned companies, although recently private equity firms have shown quite an appetite for listed UK businesses no doubt due to their relative cheapness.

Deals this year include Advent's £4bn acquisition of Cobham, TDR Capital's £1.9bn acquisition of BCA Marketplace and £1.3bn acquisition of EI Group, and Thoma Bravo's £3.1bn bid for **Sophos (SOPH)**.

There are a handful UK-listed private equity firms, of which one of the biggest and best-performing is the **Harbourvest Global (HVPE)** investment trust. The £1.4bn fund owns of hundreds of private businesses in the US and across the globe through its holdings in other Harbourvest funds.



Its estimated net asset value (NAV) as of 30 September was £20.94 against a current price of £17.08 meaning its shares trade at a discount of almost 20%.

Investing in private equity through a listed investment trust has the advantage that

> "In the beginning, hedge funds were indeed a useful hedge for investors as they weren't highly correlated with markets"

shares can be bought and sold at will whereas the underlying investments are highly illiquid, and it offers diversification from listed equities.

However due diligence is needed when choosing a trust as performance and therefore discounts can vary dramatically.

Venture capital investing is similar to private equity but even higher-risk as the target companies are typically small start-ups and often have no profits.

Trying to calculate NAVs for early-stage businesses is fiendishly difficult, and unlike private equity funds liquidity in quoted venture capital vehicles is virtually nil so private investors are advised to give them a wide berth.

LESS OBVIOUS BUT LESS LIQUID ASSETS

It's debatable whether fine art is a serious investment asset. The Fine Art Fund, which was launched in 2004, closed to new investors some time ago and there a few options for retail investors to participate. Also, art like beauty is in the eye of the beholder so values can be subjective.

Unless you have a copy of Leonardo da Vinci's Salvator Mundi (market value $450m) stashed in the loft, pictures are better off hung on the wall than being used for investment.

Classic cars and watches have always been go-to investments for wealthy collectors and prices have soared in the last decade as low interest rates have forced high and ultra-high net worth individuals to find a return on their money.

As well as vintage Ferraris and Aston Martins, prices of more mundane cars such as 1970s and 1980s BMW and Mercedes sports saloons have raced ahead in the last decade.

A recent GQ magazine feature suggested that would-be collectors start buying original examples of the Fiat 500, Jaguar XJS and Porsche Boxster as investments to tuck away for the next decade. As well as rarity, originality and provenance are key considerations for collectors

In terms of watches, age and rarity don't necessarily make a watch valuable. Generally speaking the maker and the intricacy of the movement are more important and many modern watches can sell for seemingly astronomical amounts.

However, the world's most expensive watch – which was sold at auction two years ago – is actor Paul Newman's 1960s Rolex Daytona. It was neither exclusive nor particularly complicated but due to its provenance it fetched a staggering $15.5m, or nearly £12m at today's exchange rate, before the buyer's premium.

Fine wine is another recognised investment field with single bottles from the top producers changing hands for tens of thousands of pounds. Like stocks, investors in wine need to be patient and ride out the cycles but with limited production and with older vintages running out there is constant demand for the best wines.

At the very top end of the market is Domaine de la Romanee-Conti, a Burgundy which costs almost ten times as much as some first-growth wines from the finest chateau in Bordeaux. Eye-wateringly expensive (Berry Bros currently has one bottle of the 2002 vintage on offer for over £21,000), it is almost exclusively for collectors.

Ironically though, the wine market isn't that liquid although the volume and value of transactions is growing each year. Also, if you sell your wine through a merchant they will typically charge a hefty commission (15% is the bare minimum with some agents charging more than 20%) which can put quite a dent in your profits.

By **Ian Conway**
Senior Reporter

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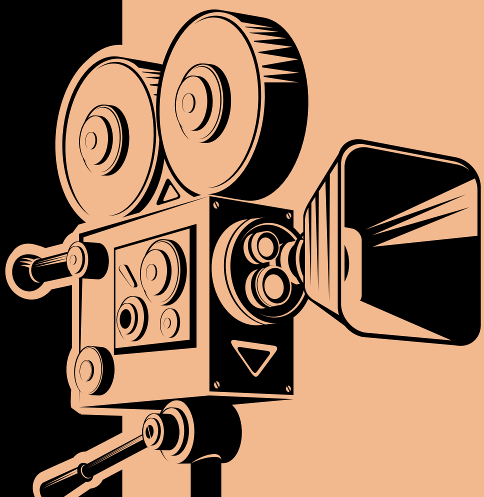

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BOUNCING BACK

The sectors which recover quickest from a sell-off... and stand tallest in a downturn

Would you like to know which areas of the UK stock market held up best during past sell-offs and which performed the best once the market bottomed. *Shares* has got you covered.

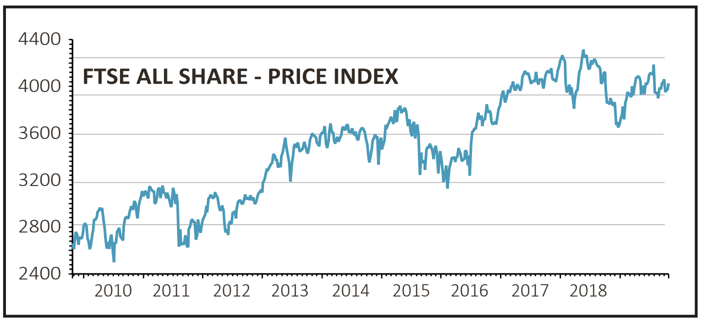
Rather than going back to the tech bubble of the early noughties and the global financial crisis, which are already well-trodden ground, we have focused our research on the last ten years of price movement and in particular three short but sharp market declines.

DIFFERENT CAUSES, SAME REACTION

The three episodes in question – which occurred in mid-2011, mid-2015 to early 2016, and the final quarter of last year – all came about for different reasons. None of them had their origins in the UK, yet all three caused the FTSE 350 to decline by more than 10%.

In 2011, worries over a European sovereign debt crisis – which had already engulfed Greece, Ireland and Portugal on the periphery of the euro-zone – suddenly spread to major continental economies. French, Spanish and Italian bonds were sold off aggressively on worries that their sovereign credit ratings could be downgraded.

The panic spread to equity markets and the UK was dragged down with the FTSE 350 index losing 17% in a matter of weeks between early July and mid-August of that year.



CAPTURING UPSIDE AND LIMITING THE DOWNSIDE					
Sector Index	**Average % Downside Return**	**Average % Upside Return**	**Downside Capture**	**Upside Capture**	**Upside/ Downside**
Beverages	-3.5	23.6	0.21	1.25	5.97
Software & Computer Services	-9.0	29.7	0.53	1.58	2.97
Personal Goods	-9.8	20.5	0.58	1.08	1.87
Pharmaceuticals & Biotechnology	-9.8	20.6	0.58	1.09	1.88
Health Care Equipment & Services	-12.1	20.1	0.71	1.07	1.50
FTSE All-Share Index	-16.9	18.9			

Source: Datastream, Sharepad, Shares magazine
Downside periods: 7 July 2011 to 19 August 2011; 27 May 2015 to 11 February 2016; 27 September 2018 to 27 December 2018
Upside periods: 19 August 2011 to 20 February 2012; 11 Februry 2016 to 11 August 2016; 27 December 2018 to 30 July 2019

The seeds of the 2015 to 2016 sell-off were sown in late 2014 when the US Federal Reserve withdrew its programme of quantitative easing (QE). Compounding this, China's gross domestic product (GDP) grew at a slower rate than expected leading it to devalue its currency, and after years of struggling with its economy the Greek government defaulted on its debt.

All told, between May 2015 and mid-February 2016 the FTSE 350 lost just over 20%, although it wasn't a straight line by any means. Just when investors thought the selling had exhausted itself and the market was set to rally, it took another leg down.

The sell-off in the fourth quarter of 2018 was sparked by an inversion in the US yield curve, as long-term Treasury bond yields fell below short-term yields. An inverted yield curve tends to point to a slump in the economy.

Adding to fears of a recession, president Donald Trump ramped up his trade war with China threatening another round of tariffs on Chinese goods. Finally, volatility rose even more than it normally does in October – a month which has a history of delivering big stock market losses.

Between the end of September and the end of December, the FTSE 350 lost 13.3%, recording one of its worst quarters since the financial crisis.

"Between the end of September and the end of December, the FTSE 350 lost 13.3%, recording one of its worst quarters since the financial crisis"

SHORT SHARP RECOVERY

In all three cases, stocks had recovered their losses six months on from the market lows. In the bounce-back from the 2011 slump, the FTSE 350 gained 17.5%, while in 2016 it rallied 23.3% from the low and in the first six months of this year it gained 15.8%. On average, over six months the index bounced by 18.9% against previous losses of 16.9%.

At no point was there a single, obvious catalyst for any of the sell-offs, nor was there an obvious

SMASHED UP IN A DOWNTURN AND STRUGGLING TO RECOVER					
Sector Index	**Average % Downside Return**	**Average % Upside Return**	**Downside Capture**	**Upside Capture**	**Upside/ Downside**
Automobiles & Parts	-31.5	6.8	1.86	0.36	0.19
Banks	-24.9	16.6	1.47	0.88	0.60
General Retailers	-18.5	11.5	1.09	0.61	0.56
Food & Drug Retailers	-14.3	2.0	0.85	0.11	0.13
Industrial Transportation	-28.0	23.1	1.66	1.22	0.74

Source: Datastream, Sharepad, Shares magazine
Downside periods: 7 July 2011 to 19 August 2011; 27 May 2015 to 11 February 2016; 27 September 2018 to 27 December 2018
Upside periods: 19 August 2011 to 20 February 2012; 11 Februry 2016 to 11 August 2016; 27 December 2018 to 30 July 2019

reason for stocks to stop falling and to start rising. All of which goes to prove the wisdom of the old adage that 'time in the market beats timing the market'.

More important than having exposure to the market, however, was having the *right* exposure. Some sectors fared better than others during the sell-offs and some fared better during the rallies.

Some repeated the same behaviour each time despite the causes of the sell-offs being different. Most interestingly, some fell less than the market on the way down *and* gained more than the market on the way up.

GETTING DOWN TO BUSINESS

In compiling our research we screened Sharepad for data on FTSE 350 sector returns for each of the three market declines and for the returns six months after the market had bottomed.

We then ranked the sectors by their average return over each of the three down periods and each of the three up periods to see if there were any obvious similarities or patterns in their behaviour. We also compared each sector's returns against the market.

As some sectors are by nature more volatile than others, even under normal market conditions, we measured the standard deviation of returns.

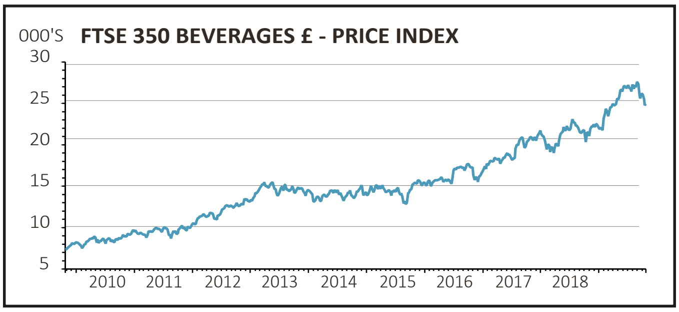
We also measured the extent to which each sector beat or lagged the market on the way down and the way up, to give us an idea of their 'upside capture' and 'downside capture'. Some sectors held up well during market sell-offs but lagged on the way back up, while some lagged on the way down but made up for it on the way up.

Finally, we divided the upside capture by the downside capture to see which sectors beat the market in both the down phase and the up phase, in theory allowing you to stay invested throughout without having to chop and change your portfolio, and which lagged the market during both phases and are therefore best avoided.

TREBLES ALL ROUND

The sector which held up the best on average during all three market sell-offs, and actually gained during the last two major declines, was Beverages. Its average loss of just 3.5% was almost 80% less than the average 16.9% loss for the market over all three periods.

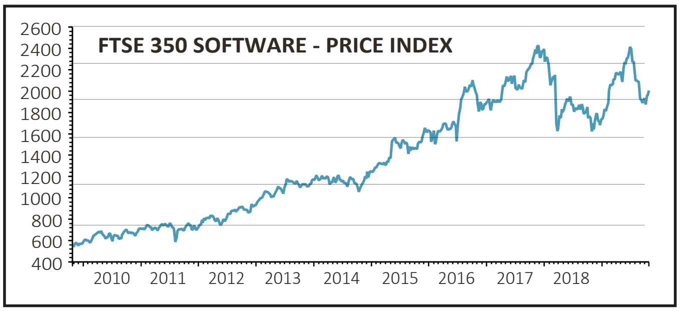
Surprisingly, for what is usually considered a 'defensive' sector, it was also one of the most consistent winners during subsequent rallies, rising by an average of 23.6% with very low variation over each of the following six month periods. That's an average out-performance of 25% versus the typical



market recovery of 18.9%.

Most impressive of all, the Beverage sector's ratio of upside capture to downside capture was almost six to one, beating the rest of the market into a cocked hat. Beverages are therefore a must-own if the market is heading into a downturn.

The next best-performing sector was Software, which on average lost 9% or just over half as much as the index during the sell-offs and beat it by more than 50% during the rallies with an average return of almost 30%. Like Beverages, the variation in returns was extremely low both on the way down and on the way up.



For Software to beat the market under any conditions, with a ratio of upside capture to downside capture of nearly three to one, and to do it with low volatility, is an impressive feat.

Third place is more or less a tie between Health Care, Media, Personal Goods and Pharmaceuticals. All lost significantly less than the market on the way down, with Personal Goods the best and Media the worst of the bunch, and all beat the market by between 5% and 10% on average on the way up again.

Owning a basket of stocks in these sectors

"For Software to beat the market under any conditions, with a ratio of upside capture to downside capture of nearly three to one, and to do it with low volatility, is an impressive feat"

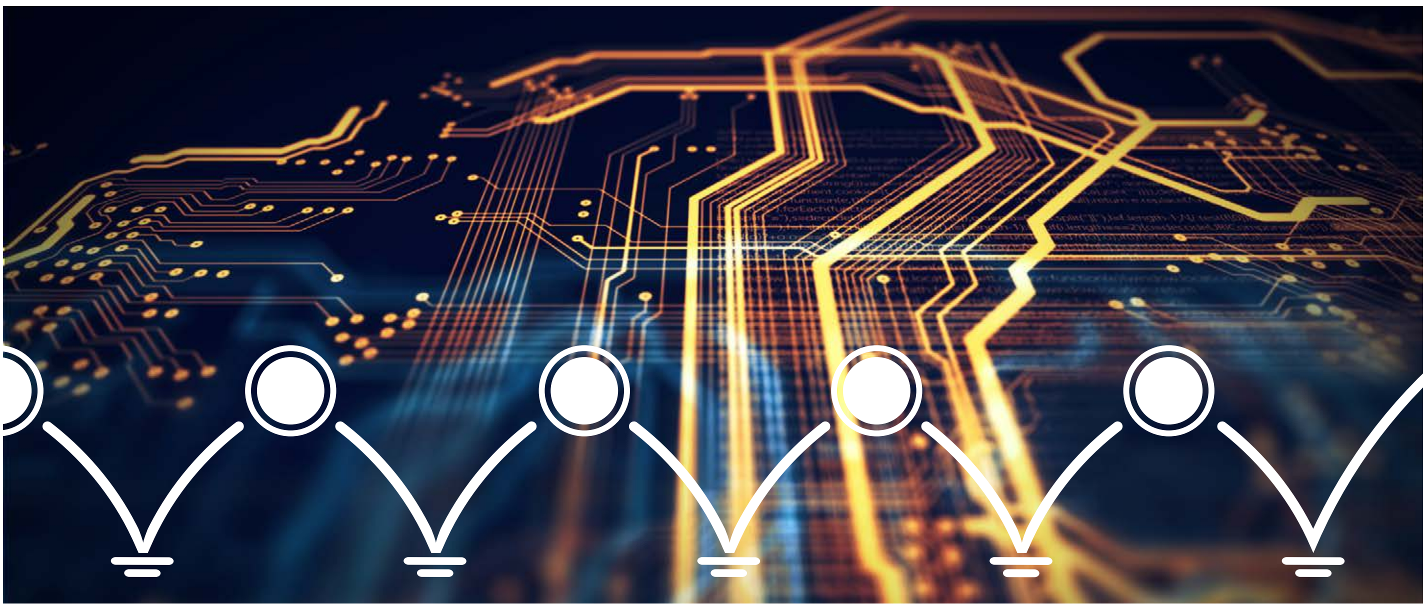
could not only have produced smaller losses than the market on the downside, but generated considerably bigger gains on the upside without needing to try and time the bottom.

STEER WELL CLEAR

The worst-performing sector during the three sell-offs was Industrial Metals, with average losses of 37.3% or more than double those of the index. Moreover losses varied from -14% to -63% meaning that at one point investors lost almost two thirds of their money.

The fact that they also rallied the most in the recovery phase, with an average return of 68.8% or more than three times that of the index, doesn't make them any more appealing in our view.

The three sectors which consistently destroyed value both on the way down and the way up were



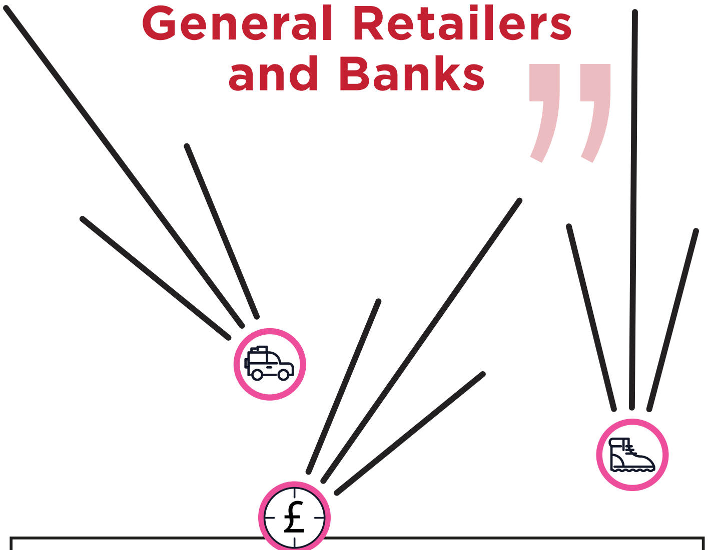
Automobiles & Parts, General Retailers and Banks.

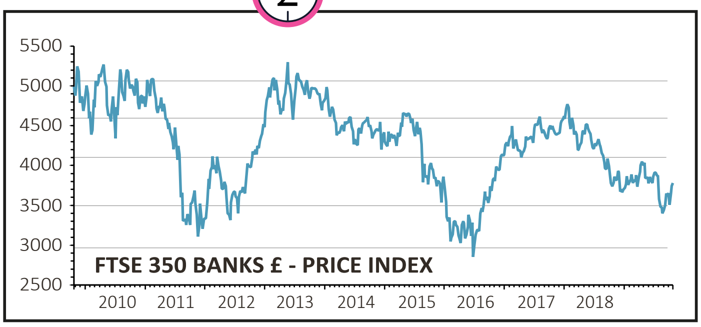
Granted the Auto sector is a shadow of its former self, thanks to the takeover and de-listing of GKN, so the data may not be that useful as a guide when markets sell off in the future. However the other two sectors are still large enough to have a negative impact on the index and generally speaking investors should give them a wide berth.

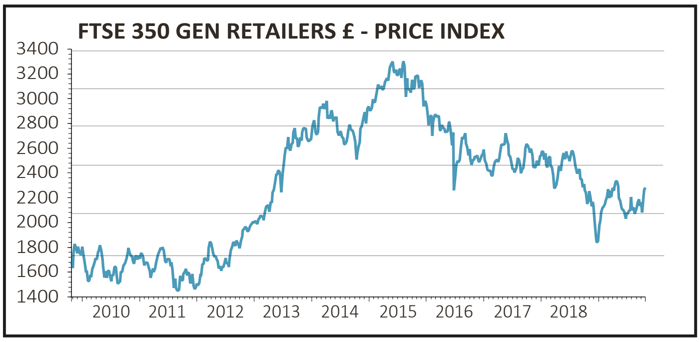
General Retailers lost an average of 18.5% during the sell-offs but it was their poor showing when the market rallied – lagging the index by 40% on average - which really did the damage.

Banks on the other hand lost considerably more than the market during the sell-offs – an average of nearly 25% with a maximum loss of nearly 40% - and then lagged during the recovery phase meaning not only were they no help when the going got tough but they didn't make up for it when the rest of the market was going up either.

> **"The three sectors which consistently destroyed value both on the way down and the way up were Automobiles & Parts, General Retailers and Banks"**







BAD STOCKS IN GOOD SECTORS

Finally, although it may sound like heresy – and professional investors would never admit to it – but when markets turn 'bad' stocks in a good sector typically perform better than 'good' stock in bad sector.

When the tech bubble burst at the beginning of the noughties, investors clung onto a diminishing number of 'good' tech stocks despite evidence that the sector was imploding. The right strategy would have been to own no tech stocks at all and to load up with cheap mining, utility and staples stocks, even if that meant buying what on the face of it were 'bad' stocks.

Similarly, in the last three market sell-offs investors would have done better if they had owned 'bad' Beverage and Software stocks than if they had picked 'good' Banks or General Retailers.

By **Ian Conway** Senior Reporter

'How are increases in pensions worked out?'

Our expert helps with a query on the state pension and allowances

How are state pension and lifetime allowance annual increases decided?
Colin

Tom Selby
AJ Bell
Senior Analyst says:

Both the state pension and the lifetime allowance – the total amount you can save tax-free in a pension – have been subject to significant change in recent years.

The state pension was reformed in 2016, with the previous means-tested system replaced by a flat-rate payment for any UK resident with a complete 35 years' National Insurance (NI) record.

A deduction is made for every year below this, with a minimum 10-year NI record required to qualify for the benefit.

Those who had already retired by 2016 will continue to receive payments under the old system, while people who build up rights under a combination of the old and new system will receive the higher of their two entitlements.

If you 'contracted-out' under the old system – which just means you paid lower NI in exchange for a lower state pension entitlement - a deduction will be made to your flat-rate payment.

Those are just the basics, so if you want to check your own state pension try this government tool.

Whether you built up entitlements under the old or the new state pension system you'll benefit from the 'triple-lock', which guarantees the payment rises by the highest of growth in average earnings, prices or 2.5%.

The government uses the average earnings figure for the three months to July and the Consumer Prices Index (CPI) inflation figure for September to determine which part of the triple-lock kicks in the following tax year.

For the 2020/21 tax year, pensioners will enjoy a bumper 3.9% increase in their state pensions, in line with the growth in average earnings.

As a result, the 'old' basic state pension will rise by £5.05 a week to £134.25, while the 'new' state pension will increase by £6.60 a week to £175.20.

Note that it is only these two elements that are protected by the triple-lock. If you built up any earnings-related pension (SERPS or state second pension) under the old system this will rise in line with CPI. This is also true of any amount you receive above the full flat-rate amount of £175.20, referred to in the jargon as a 'protected payment'.

THE LIFETIME ALLOWANCE

The lifetime allowance has been cut several times since 2010, being reduced from £1.8m to £1m in 2016. Each time the allowance was reduced people were allowed to apply for 'protection', meaning they could retain the previous higher allowance subject to certain conditions.

Since 2016 the lifetime allowance has increased in line with CPI inflation, protecting savers against rising prices.

So in 2020/21 the lifetime allowance is expected to rise by £18,000 to £1,073,000, meaning an extra £4,500 of tax-free cash (a quarter of £18,000) will also be available.

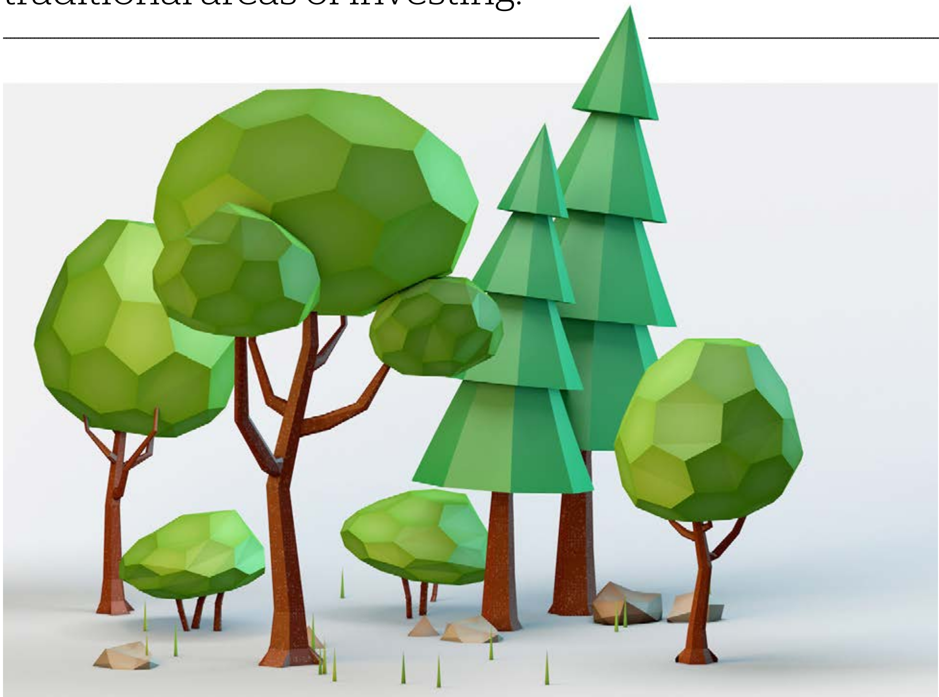
DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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.

Discover where fund firms are looking for growth

New product launches show asset managers are looking outside more traditional areas of investing.



It is always good to have an insight into market sentiment as, in the short-term, it can impact how different assests and sectors perform.

Sometimes it can be useful to take a cue from investment fund companies, who often launch new funds when they think a particular area of investing will do well.

For instance, with Brexit uncertainty, trade wars that have threatened to go global and economic growth stagnant in virtually all developed market economies, not many fund firms are rushing to launch traditional UK, European or US equity funds.

Data from the Investment Association for August (the latest available at time of publication) shows that funds in all three of the major asset classes – equities, bonds, and property – suffered net outflows, i.e. more money was taken out by investors than money being put in.

Equities and bond funds lost £1.6bn and £968m respectively, while property lost £91m.

Instead of blue chip stocks in developed countries, fund firms are looking to asset classes like private equity, investing in shares of companies which are not listed on a stock exchange.

'INCREASINGLY RELEVANT ASSET CLASS'

Schroders description of private equity as an 'increasingly relevant asset class' when it launched its Schroder GAIA II Specialist Private Equity fund earlier this month was pretty telling about where investors see opportunities.

Data from the Association of Investment Companies (AIC) shows that over the past decade, private equity investment companies have generated returns for investors averaging 300%, more than double the 125% gain from the FTSE All Share over the same period.

While it is often too complicated (and risky) for ordinary investors to invest in private companies on their own, there are some investment trusts and now a rising number of funds available to help people access this area of investing.

One such fund is the aforementioned Schroders one, which the firm's head of private equity, Rainer Ender, said will 'give a greater pool of investors' access to an asset class which has 'traditionally been out of reach of the vast majority of investors apart from big institutions'.

Although in this instance, it's important to note its key investor information document (KIID) states the fund is intended for sophisticated retail and institutional investors.

Meanwhile, a number of fund firms are still interested in emerging markets, looking to take advantage of specific themes in certain regions.

French fund giant Amundi for example has launched a New Silk Road fund, aiming for long-term capital growth from it what said will be the 'expected expansion in trade' and 'associated economic growth' from China's Belt and Road Initiative (BRI), a project which effectively intends to create a new silk road.

This particular fund is only available to professional investors for now.

In addition, ethical and climate change funds continue to be popular, especially the latter as it becomes more established in the minds of the public and therefore companies too, generating new opportunities to make money while also being seen to 'do the right thing'.

Aviva Investors has launched a Climate Transition European Equity fund, which will invest in companies that make money from goods and services addressing climate change mitigation and adaptation, and will also focus on firms aligning their business models with a warmer, low-carbon world.

Here are two others funds, available to retail investors in the UK, which give an idea of where the investment world is looking for growth.

Vanguard Active UK Equity (BK1XRK6)

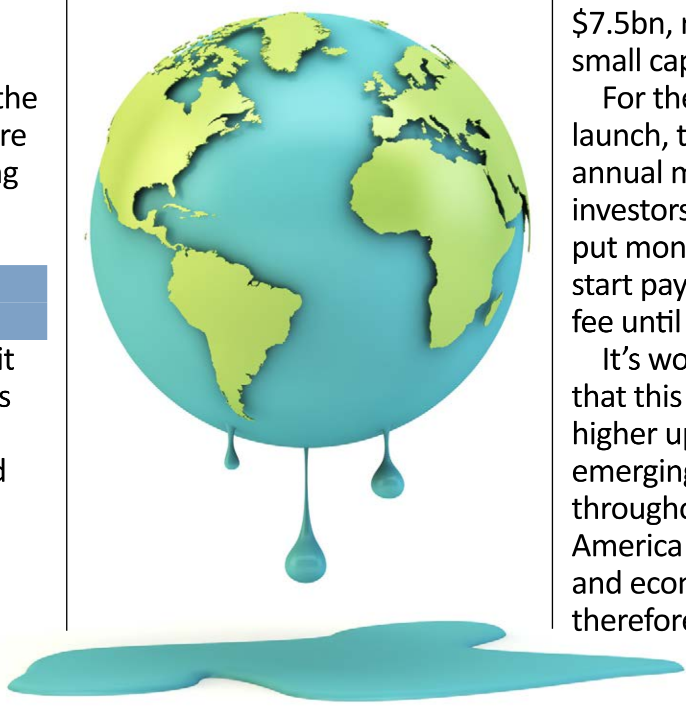
Going against the grain when it comes to recent fund launches is Vanguard, which is usually known for its exchange-traded funds (ETFs).

This active mutual fund is similar to other active UK-focused funds in that it aims to pick a selection of UK-listed companies that are set up for growth.

Sub-advised by active managers Baillie Gifford and Marathon Asset Management, it tries to identify UK firms with growth potential which will benefit from the flow of investments in and out of UK industries.

Unlike a lot of other active funds however, it has a lower than normal fee for an active fund with an ongoing charges figure of 0.45% a year.

> **"Ethical and climate change funds continue to be popular, especially the latter as it becomes more established in the minds of the public and therefore companies too, generating new opportunities to make money while also being seen to 'do the right thing"**



Somerset EM Discovery (BK5SP70)

Following the trend of fund managers looking to emerging markets for growth, this fund from Somerset Capital Management aims to find pockets of growth from companies unloved by the wider market.

Skewed towards EMEA (Europe, Middle East and Africa) and Latin America, the fund targets small and mid-caps with a market cap of between $1bn and $7.5bn, run by emerging markets small cap expert Mark Asquith.

For the first six months of its launch, the fund is waiving its annual management charge to investors, meaning people who put money in now won't have to start paying 0.75% per annum fee until 1 May 2020.

It's worth pointing out though that this fund is significantly higher up the risk spectrum, as emerging markets – particularly throughout EMEA and Latin America – face more political and economic challenges, and therefore more volatility.

Know your fund: The Scottish Investment Trust

Patience is required to profit from the fund's contrarian approach

The **Scottish Investment Trust (SCIN)** is an independently managed global trust seeking to provide shareholders with longer-term capital appreciation and above-inflation annual dividend growth.

Investing in undervalued, unfashionable companies that are ripe for improvement, at 824p 'The Scottish' trades on an 8% discount to net asset value (NAV) with scope to narrow in given a market rotation from growth to value.

One of the trust's key attractions is an enviable 35-year record of annual dividend growth – The Scottish is an Association of Investment Companies' (AIC) 'Dividend Hero'.

THE STYLE

The Scottish is managed by patient contrarian Alasdair McKinnon, who seeks to ignore the 'madness of crowds' and invest in deeply out of favour areas of the global stock market where recovery potential is being overlooked.

Based on behavioural finance theory, the team's process results in a 'best ideas' portfolio of global names with scope to re-rate thanks to operational and/or cyclical improvements. McKinnon also looks for downside protection in the form of cash-generative business models and strong balance sheets.

As the factsheet states, 'our portfolio is unlike any benchmark or index and we fully expect to have differentiated performance'. And additionally, 'our approach will not always be in fashion but we believe it delivers above-average returns over the longer term, by which we mean at least five years.'

GETTING ITS DUCKLINGS IN A ROW

McKinnon believes markets are driven by cycles of emotion rather than dispassionate calculation, which creates profitable investment opportunities.

He aims to exploit the natural tendency of investors to 'follow the herd' and chase stocks that have already done well, while other areas of the market remain largely ignored.

'As contrarian investors, we think a better balance between risk and reward can be found by focusing on unloved and unfashionable stocks,' McKinnon informs *Shares*.

'We don't set out to be boring but we find that by the time everyone agrees that the prospects for a company look rosy, it's instead time to start worrying about what can go wrong.'

He continues: 'In some ways, we think about things in terms of expectations management. To use a real life example, most of us have fairly low expectations if we stay at a budget hotel but fairly high expectations if we stay at a more upmarket place.

'It's only human. Even though the actual experience is almost certain to be better at the superior establishment, it won't necessarily create greater overall satisfaction as it has to meet (and exceed) a lofty standard.

'It's the same with stocks. When expectations are high, the scope for disappointment increases. We've seen this multiple times in recent years – hot themes rise then fall with the later entrants burned.'

McKinnon places his companies into three categories; 'ugly ducklings' are very out-of-favour firms where poor sentiment is coupled with operational challenges, yet which boast recovery potential. Examples include supermarket **Tesco (TSCO)**.

'We still hold Tesco as one of our "ugly ducklings" but that may be reviewed in light of encouraging progress with its turnaround plan,' explains McKinnon. '(CEO) Dave Lewis leaves the business with a pat on the back, having taken the business from laggard to leader.'

The 'change is afoot' category spans stocks where operational improvements are beginning to take hold, but which remain overlooked by the majority of investors, whereas the 'more to come' bucket is a small part of the fund including stocks that have moved up through the other categories, are more favoured by the market, yet where underappreciated growth potential still exists.

TOP TEN HOLDINGS (As at 30 September 2019)

Holding	Country	%
Newcrest Mining	Australia	5.5%
Tesco	UK	4.6%
Target	US	4.5%
GlaxoSmithKline	UK	4.3%
Barrick Gold	Canada	4.1%
Newmont Goldcorp	US	4.0%
Royal Dutch Shell	UK	3.1%
Pfizer	US	3.0%
PepsiCo	US	2.8%
Roche	Switzerland	2.5%

Source: The Scottish Investment Trust

WHAT ELSE IS IN THE PORTFOLIO

Other holdings include US clothing retailer Gap, GlaxoSmithKline (GSK) Japanese brewer Kirin, energy giants Exxon Mobil and Chevron, **Marks & Spencer (MKS)** and Dutch lender ING. McKinnon has also invested in select telecoms and gold miners.

He regards the outlook for the yellow metal as positive given lax monetary and fiscal policy, a deteriorating economic backdrop and an era of populist politics which leaves gold looking increasingly attractive as a store of value.

A recent strong performer has been **BT (BT.A)**, which has 'a turnaround strategy in place, with a focus on cutting costs and investing in network leadership. Philip Jansen, the new CEO, has added fresh impetus to this plan. We see BT as an interesting contrarian opportunity given the scope for operating recovery and an improving environment – we believe this potential is not yet reflected in the share price.'

PORING OVER PERFORMANCE

On a ten year view, The Scottish Investment Trust currently sits towards the bottom end of the AIC Global sector in share price total return terms, although medium and long term total returns have been respectable and year-to-date absolute returns strong.

Results for the six months to 30 April 2019 revealed a disappointing NAV total return of -0.1% in a less fruitful time for contrarians, with growth having outperformed value for such a prolonged period.

SHARES SAYS:

The Scottish Investment Trust's active contrarian strategy and inflation-beating dividends have strong appeal, although patience may be required before McKinnon's value calls come good. Buy and hold for the long term.

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

Find out about how GlaxoSmithkline is changing

Pharma giant hopes investing in cancer drugs and spinning-off consumer healthcare can re-invigorate its growth profile

When new chief executive Emma Walmsley took over the reins of **GlaxoSmithkline (GSK)** in April 2017 she conducted a strategic review of the business. The upshot is that over the last year the company has been undergoing a complete change of direction to become a more focused specialised pharmaceutical outfit.

GSK is the fourth largest quoted company in the UK, representing just over 4% of the FTSE 100.

The company generates £30.8bn of annual revenues and employs over 100,000 people across 150 countries. Each year it spends nearly £4bn on researching and developing new drugs and currently has 44 new medicines in its pipeline.

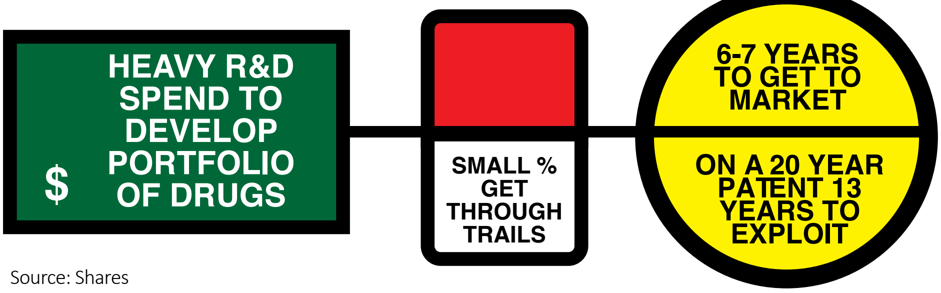
Last year it delivered around 2.3bn packs of medicine, 770m vaccine doses and 3.8bn Consumer healthcare products.

UNDER NEW MANAGEMENT

Historically the firm had perused a diversification strategy around the three pillars of Pharmaceuticals, Vaccines and Consumer Healthcare.

In June 2018 GSK bought-out Novartis' minority interest in its consumer healthcare business, so that it controlled 100%.

HOW DRUG DEVELOPMENT WORKS



Source: Shares

Then on 3 December 2018 GSK announced the sale of its Horlicks and other consumer nutrition brands by merging the unit with Hindustan Unilever for a total deal value of £3.1bn.

Just four hours later on the same day it announced the $5.1bn acquisition of US biotech firm Tersaro, Walmsley's first as CEO.

This was a huge initial step designed to bulk up its oncology (cancer) pipeline and commercial capability.

Later in the same month, on 19 December GSK announced the spin-off its Consumer Healthcare division by joining forces with Pfizer and combining the two company's respective healthcare franchises to create a business with circa £10bn of revenues. The plan is to demerge the new business from 2022.

The combined business will boast iconic brands such as Panadol, Sensodyne and Advil.

GSK'S FOUNDATIONS GO BACK OVER 300 YEARS

GSK is the result of the amalgamation of many different smaller businesses that would later come together through many mergers and acquisitions.

But it may be surprising to learn that the company's humble beginnings go as far back as 1715 with the opening of a small apothecary shop in Plough Court, London.

Over the years its scientists have made Nobel Prize winning discoveries in their fields of expertise. The company

developed the first treatment for leukaemia and gout, as well as HIV in the 1980's.

In 2014 it produced the first vaccine candidate for malaria and is now embarking on a pilot implementation of the candidate vaccine involving 750,000 children in Ghana, Kenya and Malawi.

HOW DOES GSK MAKE MONEY

GSK's financial metrics are typical for a pharmaceutical company, and reflect the unique characteristics of the underlying economics.

The biggest challenge is to discover new drugs and successfully bring them to market. The cost of employing thousands of highly qualified staff is also relatively high compared with other industries.

According to a study published in the Journal of Health Economics it costs around $2.6bn to find a new drug and achieve a commercial launch.

More than that, the probability of success is small. Of the entire drug compounds in clinical development, on average only 7% will eventually be approved for marketing.

Medical patents are usually granted for a fixed 20 years. But on average its takes between six to seven years to bring a new medicine to market, which reduces the available time to commercially exploit the invention to around 13 years.

Once a patent expires, revenue usually collapses due to the fact that there are a number of specialty generic pharma companies which have the scale and expertise to manufacture and distribute the product at

GSK BY DIVISION

PHARMACEUTICALS

Turnover	£m
Respiratory	6,928
HIV	4,722
Immuno-inflammation	472
Established Pharmaceuticals	5,147
Total	**17,269**

VACCINES

Turnover	£m
Meningitis	881
Shingles	784
Influenza	523
Established Vaccines	3,706
Total	**5,894**

CONSUMER HEALTHCARE

Turnover	£m
Wellness	3,940
Oral health	2,496
Nutrition	643
Skin health	579
Total	**7,658**

Source: GlaxoSmithKline

a fraction of the price of the protected product.

This means that in order to be sustainable, companies like GSK need to have a lot of new medicines in development to replace the current crop of 'star' drugs when they go off-patent.

All of these factors have an impact on the business financials and are specific to pharma businesses like GSK.

The gross margin, (revenue divided by direct costs), sometimes known as value-add, is relatively high compared with other sectors and at GSK it has averaged around 69%.

Effectively this means that GSK buys raw materials like proteins and solvents for £3 and turns them into around £10 of 'added value'. Saving lives is clearly a very valuable activity and this is reflected in high gross margins.

The low probability of bringing new drugs to market means that lots of drugs need to be developed in order to get just a few to the marketing stage. Therefore R&D is the life-blood of every pharma company and this is reflected in the £4bn of annual expenditure (13% of sales) that GSK incurs just to keep the drug pipeline healthy.

One could argue that GSK has been under-investing relative to its peers because according to consultancy EvaluatePharma, spending as a percentage of sales has averaged around 20% over the last decade for the pharma industry.

Once GSK gets a drug ready and approved to go to market, it needs to effectively market the drug into multiple territories around across the world and these costs are part of the selling and general administration charges, which represent around a third of revenues.

The company historically makes an average operating margin of around 29%.

THE DRUGS THAT WILL DETERMINE GSK'S FUTURE SUCCESS

The Pharmaceuticals division generates £17.3bn of revenues split between respiratory products contributing £6.9bn, HIV products contributing £4.7bn and established products including Immuno-inflammation with £5.7bn. The Vaccines division has £5.9bn of sales.

Currently the drug with the largest annual sales is Advair, (£3.1bn) which is used to treat chronic bronchitis but now faces generic competition in the US. Although the company has been reducing the price of the drug to minimise the impact, it expects to lose up to a £800m of Advair revenues this year.

There are three drugs which analysts believe hold the key to GSK's future.

The company's shingles vaccine, Shringrix has seen rocketing sales recently, so much so that GSK can't produce enough of it to meet demand. In 2018 the vaccine notched up sales of £784m, from just £22m in 2017 and ultimately the

consensus estimate is for the vaccine to achieve peak annual revenues of £1.5bn to £2bn.

As we mentioned earlier GSK is one of the pioneers in treating HIV and they have a strong franchise in this field. The company is pinning its hopes on a novel two-drug regime (Juluca) for the treatment of HIV, compared with the normal treatment which uses three medicines to suppress the virus. Sales are still under £100m but there are expectations that the drug could reach peak annual sales of £4bn to £5bn.

BETTING ON CANCER DRUGS

GSK has big ambitions to rebuild its oncology division through increased R&D, acquisition and licensing. The $5.2bn acquisition of Tersaro brought a strong pipeline of drugs including ovarian cancer drug Zejula, a rival to **AstraZeneca's (AZN)** Lynparza.

Analysts at Jefferies reckon that Zejula will achieve peak annual revenues of $550m.

It made another bold move when it signed a $4.2bn licensing deal with Merck KGaA for a cancer immunotherapy programme. The two companies are planning an ambitious development with eight trials planned before the end of the year.

GSK virtually exited the cancer market when it sold its products to Novartis in 2015, but with the two big oncology deals in 2019 and the separation of consumer healthcare division in 2020, the company has a renewed focus on cancer treatments.

GOOD MANAGEMENT EXECUTION IS KEY

Analysts believe that the strategic rationale for the demerger within the next three years makes a lot of sense. The thinking is that a standalone consumer company will be able to support higher debt levels, given that the established brand portfolio throws-off good cash flows.

This will allow the GSK to effectively de-leverage the remaining pharma and vaccine divisions as the debts will move into the demerged business. Not only will this facilitate further investment in growth, but with good execution, permit the company to maintain the dividend.

SHARES SAYS:

Not without risk but, subject to maintaining the dividend, bulking-up the cancer franchise, and successfully spinning-off consumer health on schedule, shareholders should be amply rewarded over time.

By **Martin Gamble**
Senior Reporter

Why a sectoral shift raises big questions

What the performance of different market groupings can tell us

By **Russ Mould**
AJ Bell Investment Director

The agricultural revolution introduced by 18th century British statesman Charles 'Turnip' Townshend may, at first glance, have no bearing at all on how investors could think about their portfolios and any tactical or strategic asset allocation decisions.

Townshend argued that crop rotation was a vital tool in the farmers' toolkit when it came to maximising yields from the fields. By the same token, investors need to be aware of the power of sector rotation within stock markets.

Even if the market will never always be right, its views must always be respected and shifts in performance momentum between the 39 industrial groupings will reflect wider thinking on the overall backdrop. Sometimes, one sector's fall from grace and another's return to favour can be no more than a knee-jerk reaction to a specific event. But when sectors that share similar characteristics start to do well (or badly) as a pack then attention should be paid, especially if their momentum (positive or negative) represents a major change from prior trends.

SUBTLE SHIFT

The tables show the best and worst performing sectors within the FTSE All-Share index, on a quarterly basis, in 2019 to date.

To this column's eye, there is a clear difference between the type of sectors that did well (and badly) in the first two quarters of the year and those which have risen to the top of the pecking order (or sunk to the bottom) since summer came to an end. In general cyclical sectors that are sensitive to the global economy took charge in Q1 and to a lesser degree in Q2. This includes Industrial Metals & Mining, Mining and Industrial Engineering. Such sectors have since fallen from favour, with Autos & Parts and Industrial Metals & Mining down among the dead men in both Q3 and Q4.

TOP 10 PERFORMING SECTORS

Q1 2019		Q2 2019	
Industrial Metals & Mining	28.8%	Leisure Goods	51.5%
Software & Computer Services	22.9%	Electronic & Electrical Equipment	16.9%
Tobacco	22.8%	Health Care Equipment & Services	10.9%
Food & Drug Retailers	22.0%	Industrial Engineering	10.7%
General Retailers	21.8%	Media	10.6%
Technology Hardware & Equipment	19.1%	Software & Computer Services	10.0%
Mining	17.0%	Financial Services	9.5%
Food Producers	14.6%	Industrial Metals & Mining	8.5%
Construction & Materials	13.8%	Personal Goods	8.5%
Industrial Engineering	12.3%	Support Services	8.5%
FTSE All-Share	8.3%	FTSE All-Share	2.0%

Q3 2019		Q4 2019 (to date*)	
Technology Hardware & Equipment	24.1%	Fixed Line Telecoms	12.4%
Mobile Telecommunications	23.9%	Life Insurance	7.6%
Health Care Equipment & Services	12.1%	General Retailers	6.1%
Pharmaceuticals & Biotechnology	11.5%	Real Estate Investment & Services	5.3%
Electricity	10.3%	Software & Computer Services	5.2%
Aerospace & Defense	10.2%	Electricity	4.9%
Financial Services	8.2%	Real Estate Investment Trusts	4.7%
Travel & Leisure	7.3%	Construction & Materials	3.6%
Tobacco	7.1%	Gas, Water & Multi-Utilities	3.0%
Construction & Materials	6.7%	General Industrials	3.0%
FTSE All-Share	0.1%	FTSE All-Share	-0.6%

Source: Refinitiv data. *To 28 October 2019

As a mirror image of the first trend, defensive sectors have started to work their way back to investors' affections. Healthcare and Pharmaceuticals both had a good Q3 and Electricity and Gas, Water and Multi-Utilities are ending 2019 with a flourish.

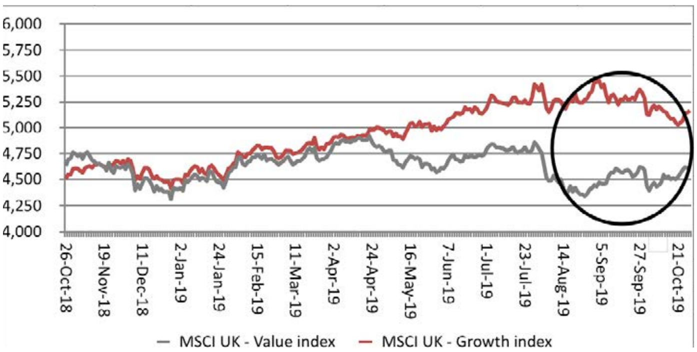
This may reflect concerns over the UK economy, given its apparent pre-Brexit state of paralysis, and the slow rate of progress in the US-China talks that are trying to resolve the trade dispute which seems to be weighing on global trade volumes. The utilities' renaissance may surprise some given the promise of nationalisation offered by the opposition Labour Party, so it remains to be seen whether investors are underestimating the chance of Jeremy Corbyn and John McDonnell entering 10 and 11 Downing Street respectively.

A number of serial underperformers from the first half are doing much better in the second. This again includes the utilities but also brings in Fixed Line Telecommunications, Life Insurers and sectors such as General Retailers, Real Estate Investment Trusts, Real Estate Investment & Services and Construction & Materials. Some of these groupings rely heavily on the UK economy for their bread and butter, so this could represent a move toward 'value' stocks. If that is too bold a call, it could at least mean investors are reappraising those domestically-focused sectors that have been out in the cold since the EU referendum vote of summer 2016. Even if we are still lacking clarity on Brexit, hopes for some kind of deal may be tempting some to take another look to downtrodden names and this can be seen in how 'value' stocks are rallying while 'growth' stocks are losing some momentum for the first time in a while.

GLOBAL ANGLE

Such a move from strategies based on 'growth',

'VALUE' STOCKS ARE TRYING TO FORGE A RALLY (AGAIN)



Source: Refinitiv data

BOTTOM 10 PERFORMING SECTORS

Q1 2019		Q2 2019	
Automobiles & Parts	-8.1%	Tobacco	-17.9%
Mobile Telecommunications	-6.3%	Oil Equipment, Services & Distribution	-11.4%
Fixed Line Telecommunications	-5.7%	Fixed Line Telecommunications	-10.0%
Health Care Equipment & Services	0.3%	General Retailers	-8.9%
Leisure Goods	0.7%	Electricity	-7.9%
Banks	1.8%	Mobile Telecommunications	-7.1%
Travel & Leisure	1.9%	Food & Drug Retailers	-5.4%
Nonlife Insurance	3.1%	Technology Hardware & Equipment	-4.4%
Industrial Transportation	3.6%	Gas, Water & Multiutilities	-4.2%
Oil Equipment, Services & Distribution	3.9%	Household Goods & Home Construction	-4.1%
FTSE All-Share	8.3%	FTSE All-Share	2.0%

Q3 2019		Q4 2019 (to date*)	
Industrial Metals & Mining	-31.9%	Industrial Metals & Mining	-16.5%
Automobiles & Parts	-29.1%	Autos & Parts	-9.0%
Software & Computer Services	-17.4%	Healthcare Equipment & Services	-8.9%
Oil Equipment, Services & Distribution	-13.4%	Tobacco	-8.3%
Forestry & Paper	-13.0%	Beverages	-7.2%
Mining	-12.3%	Personal Goods	-6.8%
Life Insurance	-10.3%	Leisure Goods	-6.3%
Industrial Engineering	-8.9%	Non-life Insurance	-5.6%
Fixed Line Telecommunications	-8.9%	Food Producers	-3.4%
Chemicals	-8.3%	Media	-2.8%
FTSE All-Share	0.1%	FTSE All-Share	-0.6%

Source: Refinitiv data. *To 28 October 2019

'momentum' or 'quality' toward 'value' would be a huge change and have huge implications for asset allocation and fund and stock selection *if* it persists. Value-disciples suffered false dawns in 2016 and late 2018 so they will not be getting carried away yet, although there are tentative signs that this is not just a UK phenomenon.

The sectors which make up the S&P Global 1200 show some similar trends, with cyclical/value plays like Banks doing better while 'expensive defensives' such as Consumer Staples are lagging. But Technology is still holding up well and Real Estate is making heavy weather of the fourth period of the year, so it is by no means a clean sweep for those who are awaiting a decisive shift from 'growth' to 'value.' Watch this space.

The demographics driving India

Corporate tax cuts are a potential catalyst to get the economy back on track in the short term

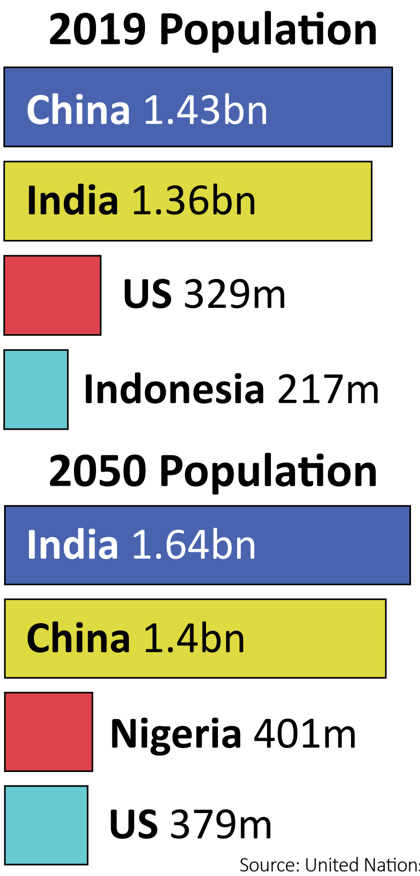
The introduction of new more generous tax laws has helped to revive interest in the Indian investment story. Although growth expectations have taken something of a knock in recent months the long-term picture in the country is underpinned by several drivers not least the country's favourable demographics.

A recent report from the United Nations projected that India would overtake China as the world's most populous country around 2027, with around 273m new Indians being added to the population between 2019 and 2050.

Having a growing and youthful population, around half of which is under 25, means plenty of new recruits for the jobs market and should also underpin long-term demand for housing, health care and consumer goods, particularly as incomes go up.

The growth of the middle class in India has been promised since the 1990s but has taken longer than forecast thanks to slower urbanisation than in other emerging economies like China and a more geographically and culturally diverse population.

However, the country now appears to be catching up with a middle class more than 100m strong. There has also been a shift away from agriculture



Source: United Nations

to the manufacturing and services sectors and internet penetration is increasing rapidly. Meanwhile India is a democracy and has a relatively strong education system.

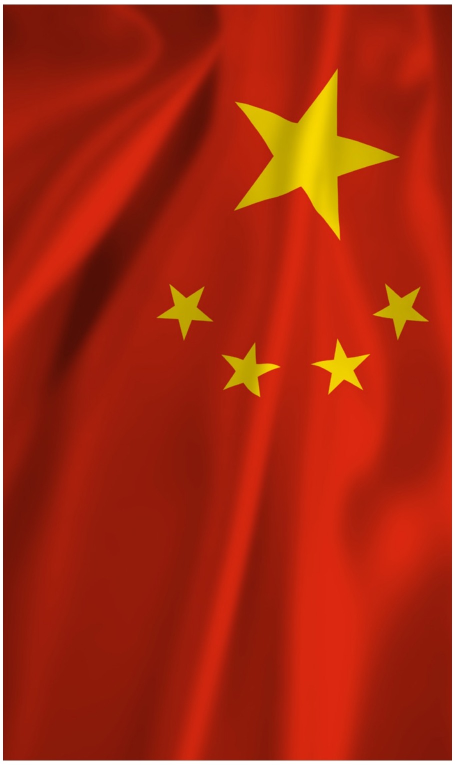
The backdrop is not unblemished however. The International Monetary Fund recently downgraded growth expectations for 2019 from 7% to 6.1%, citing weaker domestic demand and issues in the financial sector, but the organisation expects growth to return to the 7% mark in 2020.

Emerging Markets: Views from the Experts

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

1. India's Finance Minister Nirmala Sitharaman announced a meaningful reduction in India's corporate tax rates to help spur investment and boost growth in the country's slowing economy. These changes came as a positive surprise and send a strong signal that the government has recognised the stress that corporates face from weak sentiment and subdued economic activity. While there has been some concern that the measure will result in a decrease in revenues, we believe there are mitigating factors that could reduce the loss in revenues. Overall, we think India's corporate tax cuts should help spur investment over the longer term.

2. China recently announced the removal of the investment quotas under its Qualified Foreign Institutional Investor (QFII) and RMB Qualified Foreign Institutional Investor (RQFII) programs. Increasing market access for foreign investors has been an ongoing process, as China undertakes structural reforms to its capital markets and allows foreign firms greater control over their assets. The move also follows a recent decision to allow foreign financial firms an option to



take majority stakes in joint ventures. While the overall immediate impact of China's move to lift restrictions on foreign investment may not be drastic, we think the initiative signifies China's commitment and long-term strategic decision to further increase access to its financial markets.

3. Brazil: Optimism surrounding the government's economic agenda, including the key social security reform, has resulted in a more favourable climate. A major privatisation plan has also been announced, and we expect tax and other reforms that could improve the ease of doing business to follow. We maintain a positive outlook on the equity market and continue to have a favourable view on domestic-oriented themes, including financials and consumer-related sectors.

TEMPLETON EMERGING MARKETS INVESTMENT TRUST (TEMIT)

Porfolio Managers

Chetan Sehgal
Singapore

Andrew Ness
Edinburgh

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

What to expect from investing in different assets over the long-term

There is a well established hierarchy of risk and return from shares, bonds and cash

Before embarking on a journey it is important to have a realistic expectation of how long it will take, how bumpy or smooth it will be and the likelihood of reaching the final destination.

Likewise there are many types of asset to choose from in the capital markets which will be appropriate for different levels of risk appetite and time frames.

There's no point for example putting your hard earned money into an instant access cash account and expecting to earn high rates of return, especially over longer periods.

RISK AND RETURN

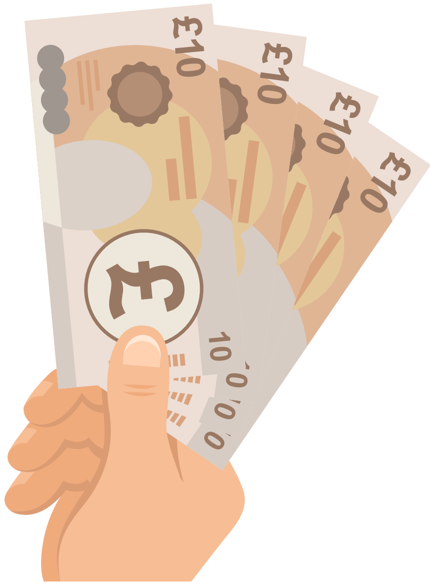
Assets which produce higher rates of return are normally associated with higher levels of risk, but the savvy investor will always be looking for situations which maximise returns for a given amount of risk.

Barclays has been publishing an annual study since 1956, providing data and analysis on long-term asset returns in the UK. *Shares* has used that data to shed some light on investing in relation to cash, bonds, equities and inflation.

TODAY'S VALUE OF £100 INVESTED AT THE END OF 1945 WITHOUT REINVESTING INCOME, £

	Nominal	Real
Equities	9,517	244
Gilts	68	1.75

Source: Barclays Research



CASH

Cash held in an instant access account is very safe as amounts up to £85,000 are insured by the UK government even if the bank goes under. As one might expect, idle cash shouldn't provide much of a return, but today's low rates haven't always been this measly.

For example since 1945 the value of £100 invested in cash and assuming that interest was re-invested (an important point) would be worth £6,349 today. That works out at a compound annual growth rate (CAGR) of 5.75% a year.

Another important point to mention here is the effect that inflation has on purchasing power, because the aforementioned 5.75% per year is reduced to 0.66% per year if measured in today's money, quite a stark difference.

That said, cash is a very important element of any long-term plan, both as an emergency fund for unseen problems as well as 'dry powder' to take advantage of unseen investment opportunities.

BONDS

A bond is like an 'IOU'- a company or a government borrows money from an investor by issuing bonds in exchange for cash. They pay a fixed or variable rate of interest over a specific time period, and at maturity the investor would expect to get their money back.

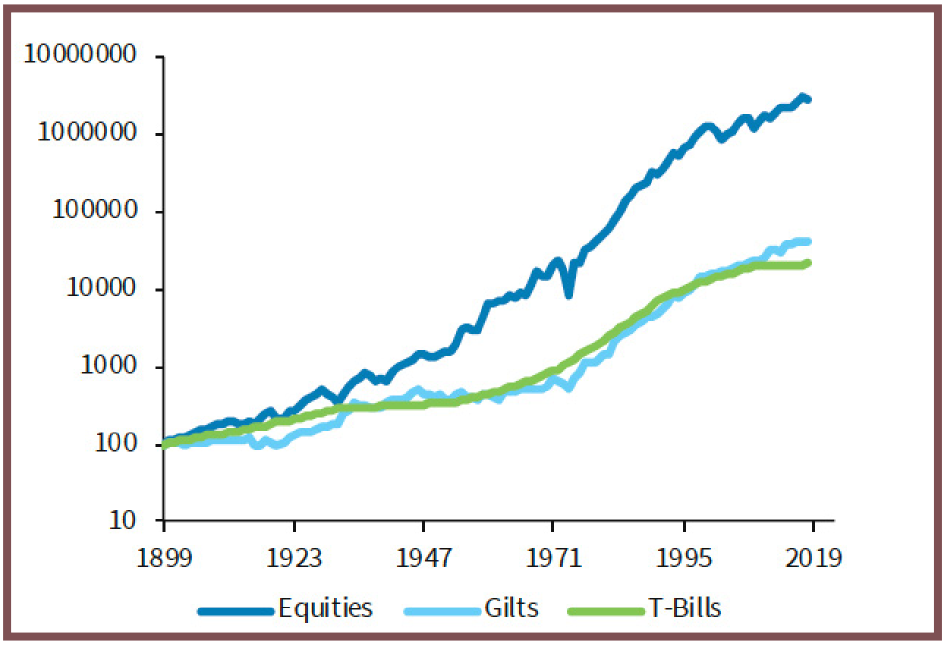
Government bonds are less risky than corporate bonds

TODAY'S VALUE OF £100 INVESTED AT THE END OF 1945, GROSS INCOME REINVESTED, £

	Nominal	Real
Equities	9,517	244
Gilts	8,991	231
Cash	6,349	163

Source: Barclays Research

BARCLAYS TOTAL RETURN INDICES – NOMINAL TERMS, GROSS INCOMEREINVESTED



Source: Barclays Research

because the bank of England is able to print money if necessary in order to pay back its loans, while a company has to make cash profits in order to pay back its loans. This introduces a credit risk.

That's why corporate bonds pay higher rates of interest than government bonds, to compensate for the possibility that the loan isn't fully repaid at maturity.

As you might expect, the less financially secure a company is perceived to be, the more interest it has to pay to investors to compensate them for the higher risk.

However some bonds are of a higher quality, such as senior bonds which are secured on real assets that a company owns.

If a company struggled to pay interest, it would 'default' on the loan and the owners of the bond would be legally entitled to seize the company's assets.

A £100 investment in government bonds in 1945 with interest re-invested would have turned into £8,991 today, a CAGR of 6.25%. That is 42% more than cash returns. If we adjust the return for inflation the CAGR falls to 1.1%, still about 1.6 times better than the return from cash.

As you can see, over longer periods inflation can have a brutal impact on cash and bond real returns. This is because the rates of interest paid are fixed through the life of the bond, while future inflation can rise unexpectedly.

EQUITIES

Historically stocks have provided the best long-term returns. £100 invested in 1946 would have turned into £217,045 today, equivalent to a CAGR of 10.94%. That is £208,054 more than government bonds and £210,696 more than cash.

"A £100 investment in government bonds in 1945 with interest re-invested would have turned into £8,991 today"

Adjusted for inflation the CAGR has been 5.6%, 5.5 times more than bond returns and 8.4 more than cash.

RISK

The 10.94% achieved since 1945 has not been a straight line for stocks, sometimes they have delivered negative returns, even over 10-year periods. That makes them an unsuitable investment for shorter holding periods.

It's important to build a diversified portfolio of stocks, as single companies can and do go out of business from time to time. Loss of capital is more of a risk with stocks and corporate bonds than with cash and government bonds.

Although today's investment environment is different to those in the past, dominated as it is by ultra-low interest rates, the ranking of expected returns and the risks attached to those returns remain a good guide for the future.

It is very important to remember that around 96% of the total return comes from re-investing the income received, whether from cash, bonds or stocks.

By **Martin Gamble**
Senior Reporter

Are you exposed to the Dividend Dangerzone?

Highlighting the funds with exposure to stocks with skinny dividend cover

Lots of UK companies are offering very meaty dividends, but some investors are nervous about future cuts to payouts.

In total, 26 companies in the FTSE 100 are forecast to pay a dividend at a yield of 6% or more in 2019, but dividend cover, so the amount that earnings covers the dividend payouts, is shrinking. Average dividend cover across the 26 stocks is just 1.56 so investors need to proceed with caution.

RUNNING FOR COVER

According to the **Henderson International Income Trust's (HINT)** Global Dividend Cover report, dividend cover is expected to fall to its lowest level in a decade this year, meaning investors will understandably be jittery about what lies under the bonnet of their favoured income funds.

In an ideal world you'd want income stocks to have a dividend cover ratio at two times or above, meaning annual earnings are twice the level of dividends. This provides a safety buffer in case there is an unexpected downturn in trading, or in the UK or global economy.

However, 10 of the UK's highest yielding stocks have cover of less than 1.5, meaning they are in the danger zone for potential cuts. Fund investors should be aware of what the income funds they own are investing in and assess their exposure to these stocks. The presence of these companies in a portfolio is not a reason to avoid the fund, but investors just need to understand what they're exposed to.

By looking at the 83 funds in the UK Equity Income sector with holdings data, we can see which are most exposed to the Dividend Dangerzone companies. Of this group 30 funds hold five or more of the top 10 list in their holdings, while five funds have seven or eight of them.

Oil giants **BP (BP.)** and **Royal**

HIGHEST YIELDING SHARES WITH DIVIDEND COVER OF LESS THAN 1.5 (DIVIDEND DANGERZONE)

		DIVIDEND YIELD (%)	DIVIDEND COVER (X)
1	Standard Life Aberdeen	8.10%	0.87 x
2	Taylor Wimpey	11.90%	1.12 x
3	Persimmon	11.50%	1.15 x
4	Phoenix Group	7.10%	1.21 x
5	Royal Dutch Shell	6.60%	1.23 x
6	BP	6.70%	1.26 x
7	Evraz	15.30%	1.34 x
8	Imperial Brands	11.10%	1.34 x
9	HSBC	6.90%	1.41 x
10	Centrica	7.20%	1.43 x

Source: Shares, Sharepad

Dutch Shell (RDSB) are the most widely held of the stocks in the Dangerzone, with 63 of the funds holding each of the stocks. Both are hefty dividend payers, yielding just shy of 7% each, while they are also predicted to be in the top three dividend payers in cash terms. Meanwhile, just two funds have holdings in Russian miner **Evraz (EVR)**.

ENTERING THE DANGERZONE

Collectively the funds have £7.14bn of investor money in the shares with dividend cover of less than 1.5, equating to 14% of the total assets in the funds. Just five funds have none of the top 10 list in their holdings, one of which is a fund of funds, and the others focus more on mid-cap stocks.

Dividend cover of less than 1.5 does not necessarily mean the dividend will be cut and many managers aim to have a mixture of dividend payers in the portfolio. These include some high payers to provide income today, some that are likely to grow their payouts each year with inflation, and other stocks that will see a higher pace of growth and so might not pay much now but will be the dividend payers of the future.

Most importantly, fund investors who own more than one income fund will also want to check on the overlap between the funds' holdings, to ensure they are not overly exposed to any one stock, as any dividend cuts could deliver a heavier blow to their income levels.

By **Laura Suter**
AJ Bell Personal Finance Analyst

THE FUNDS WITH THE HIGHEST EXPOSURE TO THE DIVIDEND DANGERZONE

Fund	Total fund exposure to Dividend Dangerzone	Number of Dividend Dangerzone companies in holdings	Fund Size(m)	Size of exposure to Dividend Dangerzone
UBS UK Equity Income	26.30%	5	£55.70	£14,654,670
JPM UK Equity Income	25.20%	8	£3.90	£981,240
Man GLG UK Income	25.10%	8	£1,245.60	£312,022,800
Ardevora UK Income	24.20%	5	£36.70	£2,258,150
Lazard Multicap UK Income	21.90%	5	£68.30	£14,930,380
ASI UK High Income Equity	21.60%	6	£468.40	£101,080,720
BNY Mellon Equity Income	21.00%	3	£175.00	£36,785,000
Kames UK Equity Income	20.70%	6	£51.00	£10,567,200
Liontrust Macro Equity Income	19.90%	6	£89.30	£17,797,490
M&G - M&G Dividend	19.90%	6	£1,132.90	£225,333,810

Source: Shares, Sharepad

KEY

- **Main Market**
- **AIM**
- **Investment Trust**
- **Fund**
- **ETFs**

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

5 November: Associated British Foods, Imperial Brands. **6 November:** Connect Group, Gattaca.

Half year results

1 November: Millennium & Copthorne. **4 November:** Kosmos Energy. **5 November:** First Derivatives, Warehouse Reit. **6 November:** Marks & Spencer. **7 November:** Auto Trader, Halfords, Inmarsat, JZ Capital Partners, Lancashire Holdings, Sainsburys, Tate & Lyle.

Trading statements

5 November: Direct Line, Gem Diamonds. **6 November:** Intu Properties. **7 November:** Derwent London, Flutter Entertainment, Hikma Pharmaceuticals, Howdens, IMI, Inchcape, Provident Financial, Persimmon, RSA.

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