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VOL 21 / ISSUE 48 / 05 DECEMBER 2019 / £4.49

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LLOYDS SHAREHOLDERS FINALLY REWARDED FOR THEIR PATIENCE

DOWNGRADED EXPECTATIONS FOR POST-ELECTION UK MARKET REBOUND

THREE INVESTMENT **IDEAS FOR LIFETIME ISAS**

Lloyds investors finally rewarded for their patience

The wider banking sector is also attracting quite a few fans which warrants a sector reappraisal

Banking group **Lloyds (LLOY)** has in 2019 enjoyed its best year on the stock market since 2013 in share price terms. It has also been the best performing London-listed bank.

That's quite an achievement for a stock that has seen some wild swings in its share price. Eight years out of the past 14 have shown negative annual share price returns.

Many investors have held Lloyds for a long time in the hope that it would return to the dividend glory days seen before the global financial crisis. Their patience would have been tested by the credit crunch, PPI scandal and the rise of challenger banks.

It seems perplexing that so many people would be willing to put up with an industry beset by mis-selling fines, tighter regulation and clunky IT systems just to collect a dividend. However, patience is now being rewarded.

Investec fund manager Alastair Mundy has been a fan of the banking sector for some time because many of its constituents' shares have been cheap.

'All I want them to be is dull and boring,' he tells *Shares*. 'I think there is a great chance of that (happening) because they were the opposite 10 years ago. They were lightly regulated, they were very aggressively managed and they had very weak balance sheets. That to a certain extent has been sorted out.

'They are not in the market for doing so many stupid things. What they're doing is lower risk lending to ensure their balance sheets are strong. If they can generate stable profits and pay those profits out as high dividends, I think that will win them some fans among investors.'

Analysts at Morgan Stanley are also excited about parts of the banking sector, particularly UK names. They believes higher fiscal spending next year could be a key catalyst to improve earnings and drive a re-rating of UK domestic banks.

Likewise, Jefferies' analysts believe either a Tory or Labour majority election outcome could lead to more than a 100 basis point increase in UK interest rates. Banks can earn more money as rates rise and so all eyes should be on the sector's earnings forecasts once the general election result has been announced.

Investors should always have an open mind and now is a particularly good time to reassess the banks. There are still plenty of negative points such as Brexit uncertainty clouding the UK's growth prospects but it seems like the dial could be swinging more in their favour.

LLOYDS' UPS AND DOWNS

Year	Share price change (%)
2006	17.0
2007	-17.4
2008	-73.3
2009	-18.9
2010	29.6
2011	-60.6
2012	85.0
2013	64.6
2014	-3.9
2015	-3.6
2016	-14.5
2017	8.9
2018	-23.8
2019	16.9

Source: Shares, SharePad. 2019 data to 2 Dec

By **Daniel Coatsworth** Editor

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NEWS

Investors 'may only see small UK market bounce' on a Tory majority win

Forecasters have dampened expectations for a large re-rating in UK shares if the Conservatives are the clear winners at the general election

The FTSE 250 index may only jump by 5% in a month if there is a Conservative majority after the forthcoming general election, according to predictions by Waverton Investment Management's chief investment officer William Dinning. This may be viewed as a relatively small increase by many investors expecting a very large bounce in UK equities on a Tory election win.

'We have not suggested that a Conservative majority will lead to a roaring bull market because in our view there remain a lot of challenges to overcome that will keep an "uncertainty discount" on UK assets, but a much reduced one from that which has afflicted the country for much of the last three and half years,' explains Dinning.

Investment bank Jefferies argues that a Conservative victory is already partially priced in to the value of UK shares. 'Since June 2019, the FTSE price-to-earnings ratio has already moved 9% higher in lock-step with Boris Johnson's progress in the polls. We also think Brexit will hurt more than constructive policy measures can help,' it adds.

Based on a review of poll data, betting markets and market calculations for potential end-

> A Labour majority could trigger a 10% slump in the FTSE 100
>
> Waverton Investment Management

scenarios, Waverton believes there is a 60% probability of a Conservative majority outcome.

It has a 1% chance of Labour majority following the election, yet investors shouldn't rule out any scenario until the results are in as the world of politics can experience wild swings in terms of sentiment and support in the run-up to the big vote.

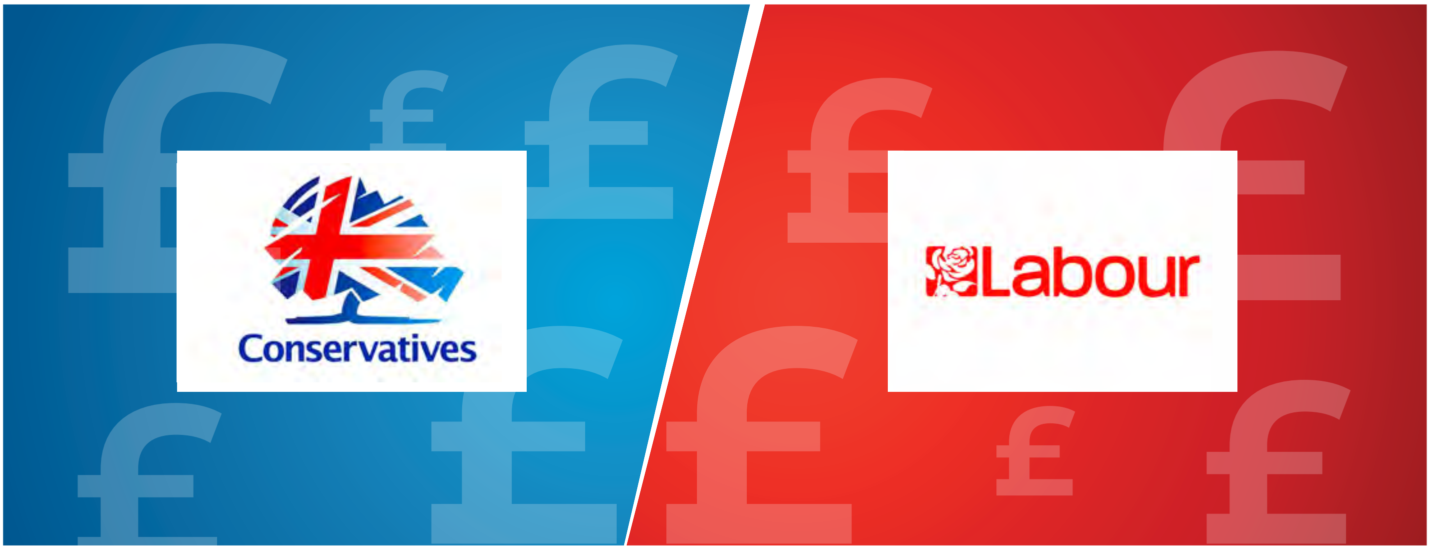
A Labour majority could trigger a 10% slump in the FTSE 100, a 15% decline in the FTSE 250 and a 20% fall in the value of sterling, according to Waverton's forecasts.

Jefferies also believes a Labour victory would be bad for equities, but actually good for UK GDP. 'Our assumption is that if Labour is elected, it is because the people want to vote in another referendum. In this case, there is a good chance that Britain remains in Europe and the UK Government provides significant fiscal stimulus,' it adds.

It reckons there is only a 30% probability of a Tory majority, although in this case it believes Brexit looks near-certain with a 20% chance of 'no deal'. The investment bank also believes there is a 30% probability of a Labour-led coalition.

Good and bad: how the Tories and Labour could impact your wealth

Major changes to tax on dividends and capital gains are on the table



The general election date is nearing, and all the parties have pledged changes that will impact your personal finances. But how will each party's policies affect your pocket?

TAXES

The Tory manifesto makes clear that they would raise the threshold at which you pay National Insurance from the current £8,632 to £9,500 in 2020-21. This means anyone earning more than £8,632 would benefit from the move to shift the National Insurance threshold, to the tune of around £100 a year.

By shifting National Insurance rates rather than income tax thresholds Boris Johnson extends the giveaway to the lowest earners, in particular those on less than the current £12,500 personal allowance.

In contrast, Labour would increase the number of people paying the 45% income tax rate, cutting the threshold from the current £150,000 down to £80,000, and introducing a new 50% rate for those earning more than £125,000. The move would cost taxpayers £5.4bn.

The highest earners get clobbered by this move, as more of their money will be taxed at a higher rate. For example, someone earning £100,000 would pay £1,000 a year more in tax, although someone who earned £81,000 would only pay £50 a year more. Anyone earning less than £80,000 won't be affected by the move – meaning it only impacts around the top 5% of earners.

TAX ON INVESTMENTS

The Labour party would slash the capital gains tax allowance from the current £12,000, and will cut the dividend allowance from the current £2,000 to zero, and will tax any gains as income.

It means anyone with significant investments that aren't in an ISA or pension would face a hike in tax rates. For the highest earners with income of £125,000 or more the shift is the biggest thanks to the introduction of Labour's new 'super rich' 50% tax rate. It means that on gains their tax rate would rise from the current 20% capital gains tax rate up to 50%.

Even lower earners who take some of their income from dividends would be hit by a double whammy of the annual £2,000 tax-free dividend allowance being ditched and the raising of the tax rate from 7.5% to 20%.

Someone who is a basic-rate taxpayer with £2,000 of dividend income would pay £400 a year more in tax under Labour, while someone with £5,000 of dividend income would pay £775 more tax a year.

Most people have the bulk of their wealth in an ISA or pension, and the annual ISA allowance is now £20,000, meaning people can squirrel more of their money away from the taxman. We'd likely see more people shifting their money into their ISA or pension if Labour came to power, to help mitigate their tax hit.

INHERITANCE TAX

The Labour manifesto says that the party would reverse the recent inheritance tax cut, by scrapping the residence nil rate band, which applies when you leave your property to certain descendants. This means individuals would lose a tax break worth £175,000 each next year.

This move means a couple misses out on £350,000 a year in inheritance tax allowance, and with IHT at 40% this would cost a potential £140,000. Scrapping the allowance would lead to a 68% increase in the number of estates paying IHT by 2023-24, according to a recent report from the Office for Tax Simplification.

FAMILIES

Parents of children under two would benefit from Labour extending free childcare to two-year-olds. The manifesto doesn't give full details but currently parents of three and four-year-olds get 30 hours of free childcare a week for 38 weeks of the year. If this was extended to two-year-olds, at average UK prices this would save parents £5,650 per child per year. Lower earners could get additional subsidised hours, but no details were given on who would benefit.

Labour plans to boost maternity pay, extending it from nine to 12 months – giving new mothers a near £2,000 boost if they take the full year off work. They would also increase paternity pay to four weeks and increase the pay for the first week by £226. In another move for families, Labour would also reverse the controversial two-child cap on child benefit.

Labour would also scrap the Marriage Allowance, which gives couples where one is a basic-rate taxpayer and the other is a non-earner or low earner the ability to transfer some of their tax-free income. Almost 1.8m people claimed the marriage allowance last year and it would cost each of those couples up to £250 each a year if the tax break is scrapped. However, the potential hit is far higher for couples who are eligible for the tax break but have failed to claim it, if they can no longer backdate their claims. At the moment couples can claim up to five years' worth of the allowance, which is worth a maximum of £1,149 per couple.

Not to be left out the Tories pledged to increase the funding for childcare by offering up £1bn more – specifically focused on after-school and holiday childcare, but no further details were given on how this would work.

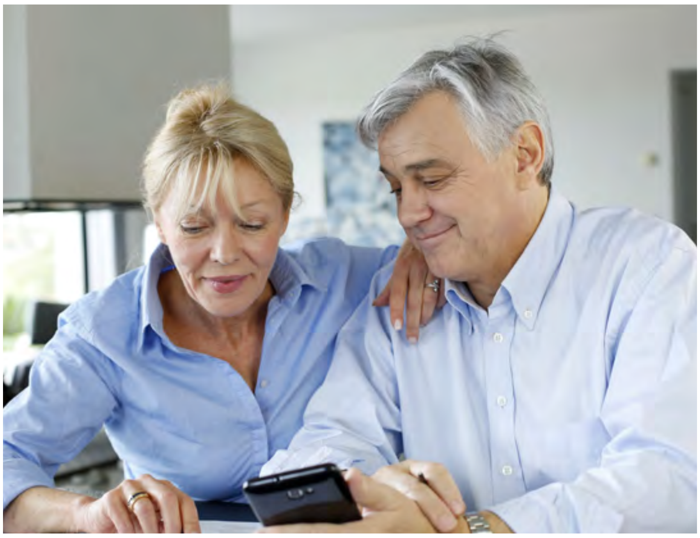
PENSIONS

Both Labour and the Conservatives have pledged to keep the triple lock on pensions. Earnings and inflation have dipped below 2.5% three times since the triple-lock was introduced at the start of the decade, ensuring the state pension has increased by at least 2.5% for millions of pensioners.

Meanwhile Labour has pledge to freeze state pension increases at 66, but there was no mention of it in the Tory manifesto. The Labour policy is good news for those retiring in the next two decades, who would receive their state pension earlier than under the current proposals.

However, Labour's pledge was arguably the single biggest giveaway in their manifesto and yet it didn't appear at all in the policy costings. Voters therefore need to remember that the cost of freezing the state pension age – estimated at £24bn a year by the 2050s by the IFS – will eventually land somewhere.

Both Labour and the Conservatives have promised to review pension tax incentives, with a focus on the problems facing the NHS as thousands of doctors refuse shifts due to the impact of the annual allowance taper. Neither pledged what they expect the outcome of the review would be, while scrapping the taper might be politically uncomfortable, it remains the simplest solution to the current crisis.



Also in the manifesto pledge, the Conservatives said they would review the net pay anomaly. Just like the annual allowance taper, the net pay pension scandal isn't new but the Conservatives have failed to take any meaningful action to deal with it while in power.

The problem exists because 'net pay' schemes deduct pension contributions from earnings before tax, meaning those who don't pay any tax at all – i.e. the lowest earners – don't receive the tax relief they are entitled to.

WASPI WOMEN

Perhaps the biggest shock of this campaign so far was Labour's promise to pay full restitution to over 3m 1950s-born women affected by increases in the state pension age. The average compensation payment is expected to be around £15,000, while reports suggest some could be in line for a payout of over £30,000. Given the size of the sum involved, this financial burden will eventually fall on taxpayers – most likely through higher taxes.

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

Black Friday boost for retailers including Boohoo

Early data provide signs of encouragement for struggling UK retail sector

Despite expectations Black Friday could prove a damp squib early indications bode well for the UK's hard-pressed retail sector.

According to the latest BRC-KPMG Retail Sales Monitor, like-for-like retail sales increased by 0.4% this November when adjusted to take into account Black Friday and Cyber Monday.

BRC chief executive Helen Dickinson says: 'Once the figures are adjusted to take account of the timing of Black Friday, growth appears stronger in November than in previous months. Shoppers appeared ready to take advantage of the great bargains available, both online and on the high street.'

She says 'the spectre of a no-deal Brexit' has been pushed back to after Christmas and that consumers were more prepared to open their wallets to extra festive spending.

Springboard data showed UK footfall increased by 3.3% on Black Friday across high streets, shopping centres and retail parks, confounding predictions from commentators of a 4.5% year-on-year fall.

Stockbroker Shore Capital points out the cold but dry sunny weather was supportive for retailers with physical shops, as was the fact Black Friday coincided with payday this year.

Its own store visits highlighted strong trading at **JD Sports Fashion (JD.)**, Debenhams (surprisingly), **Associated British Foods (ABF)**-owned Primark, **TheWorks.co.uk (WRKS)**, Poundland and Zara, although at **Next (NXT)**, **Marks & Spencer (MKS)** and John Lewis 'there were lots of shoppers browsing but fewer shopping bags being carried around'.

Pure-play online fashion seller **Boohoo (BOO:AIM)** issued a trading update flagging 'a record performance across the Black Friday weekend', adding 'both warehouses have had a strong operational performance'.

Activist investor accuses managers of 'greenwash'

In the absence of official guidelines, TCI is pushing for greater disclosure by funds

ACTIVIST INVESTOR Chris Hohn, founder and manager of The Children's Investment fund (TCI), has launched a broadside at the asset management industry for not forcing companies to act on climate change.

He also accused BlackRock, the world's largest money manager, of 'greenwash' for not requiring companies to disclose their emissions, calling its track record on voting for environment-related solutions 'appalling'.

In a letter to investors, reported by the *Financial Times*, Hohn outlined how TCI would require every company in its portfolios to reveal their annual carbon dioxide emissions via an audit by a third party, not-for-profit environmental consultancy, and to publish reduction targets.

TCI has already written to European aircraft maker Airbus, US broadband operator Charter Communications and ratings agency Moody's, calling on them to publish their emissions or risk the fund voting against their directors.

'Investing in a company that doesn't disclose its pollution is like investing in a company that doesn't disclose its balance sheet,' said Hohn. 'If governments won't force disclosure, then investors can force it.'

He also called for asset owners, such as sovereign wealth funds and government pension schemes, to sack fund managers who didn't insist on climate transparency from their investee companies.

Japan's public pension fund bans short-selling on ESG grounds

The asset owner is to stop lending stock to maintain direct engagement with companies in the portfolio

Japan's public pension fund GPIF, the largest in the world with $733bn of assets, will no longer allow shares to be loaned out from its global equity portfolio according to the *Financial Times*.

Hedge funds and other investors who engage in 'short selling', betting that shares will fall, need to 'borrow' shares before initiating their sell trades.

GPIF is thought to be seeking to establish its credentials as an environmental, social and governance (ESG) focused investor. The concern that led to the ban was that lending out stocks prevented the fund from conducting proper stewardship over its underlying investments.

That's because there is a lack of transparency on the borrower and how they used the borrowed shares. When a stock is lent out, the voting rights are transferred to the borrower, which means the asset owner loses its direct engagement with the company.

The decision doesn't come without a cost

because according to the fund's 2018 annual report it garnered $300m in fees from stock lending.

Although there is a chance that other asset managers will feel obliged to follow GPIF's lead and ban short-selling on ESG grounds there are some potential fixes. For example, a fund could include a provision whereby the stock has to be returned for voting purposes.

FTSE 350 MOVERS OVER THE PAST WEEK

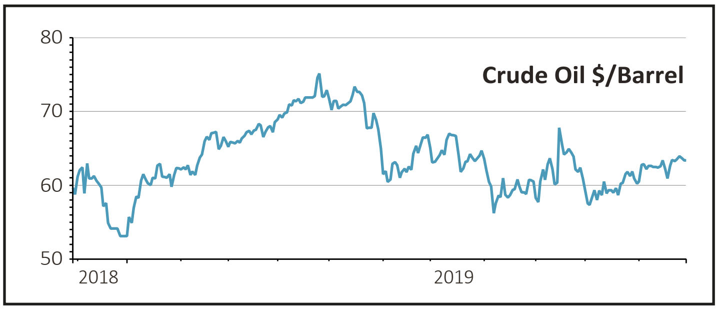
BEST PERFORMERS		
STOCK	**SHARE PRICE RISE**	**REASON**
Virgin Money	19.0%	Full year results come in better than feared
Centamin	13.6%	Endeavour Mining makes merger proposal
Finablr	11.0%	Secures new partnership with Alipay

WORST PERFORMERS		
STOCK	**SHARE PRICE FALL**	**REASON**
Future	-20.0%	Senior management and other executives sell shares
Wood Group	-13.0%	Negative market sentiment
Go-Ahead Group	-11.8%	Weaker than expected regional bus trading, broker downgrade

Source: Shares, SharePad. Data to 3 Dec 2019

What are the prospects for oil prices and big oil firms?

The commodity price matters to such a large number of investors



On 5 and 6 December oil producers' cartel OPEC and affiliate nation Russia (often given the shorthand OPEC+) will meet to decide whether or not to prolong current production cuts beyond the slated expiration point in March 2020.

The level of supply versus demand has a major influence over determining the oil price, and the value of this commodity matters even if you do not invest in the oil sector directly.

In terms of the market impact, consensus analyst forecasts suggest **BP (BP.)** and **Royal Dutch Shell (RDSB)** will account for 17% of the FTSE 100's profit and 20% of its dividends next year.

The price of oil also has a real impact on the economy. When oil prices go up, the increased cost of energy and fuel can act as a drag on growth.

Anyone with diversified UK equity exposure, through a tracker or exchange-traded fund, will likely also have exposure to the hydrocarbons sector.

WHAT COULD HAPPEN NEXT?

Most observers expect OPEC to extend the cuts, with perhaps more attention placed on whether this is until the meeting in June or the next December summit.

A further question hanging over the conference in Vienna is whether deeper cuts will be contemplated. An extension or deeper cuts could be supportive for the oil price.

OPEC's imminent decision could help set the tone for oil markets in 2020, although it is just one of several factors which may influence crude prices in the coming 12 months.

One of these factors is just how disciplined OPEC members and Russia will be when sticking to any agreed quotas. By opting not to produce as much oil as they theoretically could, they are foregoing potential revenue. Interestingly, Russia's output in 2019 has averaged 11.25m barrels of oil per day according to figures from Reuters. That is around 70,000 barrels of oil per day above its agreed quota.

WHAT ABOUT THE SAUDI ARAMCO IPO?

Dominant OPEC member Saudi Arabia has every incentive to hold the line to support prices as it looks to tee up a favourable stock market flotation for state oil firm Saudi Aramco, the world's most profitable company.

After international investors were apparently put

OUTLOOK FOR THE BIG OIL COMPANIES

So how might oil prices impact on constituents of the oil and gas industry? There are three oil and gas companies listed in the UK with market valuations in excess of £2bn, being oil majors BP and Shell and oil services firm **Wood Group (WG.)**.

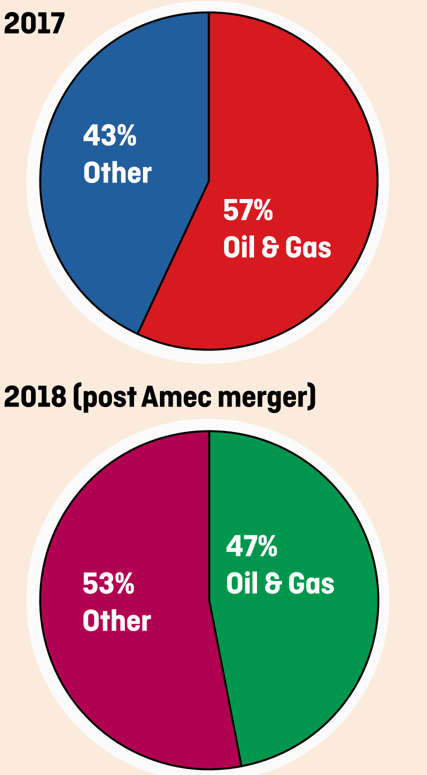
Earnings and cash flow at BP and Shell are closely tied to oil prices. Dividend cuts seem unlikely unless something very drastic happens. BP last cut its dividend in the wake of the Gulf of Mexico and Shell hasn't cut its dividend since the Second World War.

The direction oil prices take may dictate if management at either company feels confident enough to increase returns to shareholders.

The imminent departure of chief executive Bob Dudley means BP will be under new leadership. Although there is likely to be some continuity given the current head of its upstream operations, Bernard Looney, is the man taking over. Looney may want to take time to get his feet under the table before doing anything too radical.

Forcing his hand could be increasing pressure from institutional investors amid climate change concerns. Both BP and Shell face questions over their long-term strategy and some big investors could conceivably sell out of the space entirely in the coming years.

WOOD GROUP'S REDUCED RELIANCE ON OIL



Source: Wood Group

Shell is arguably doing more to address these issues. It is seeking to pivot towards gas as a cleaner alternative to oil. It has outlined a plan to take responsibility not just for the emissions caused by its own operations but also those generated when customers use its fuel. In contrast, BP has largely concentrated on becoming a more efficient and well-run but still traditional oil company.

Prospective investors must weigh these challenges with the short-term appeal provided by prospective yields of 6.5% at BP and 6.6% at Shell.

Wood Group's merger with Amec Foster Wheeler, which completed in October 2017, gave the company exposure to a wider range of markets, reducing its reliance on oil.

The shares have been heavily targeted by short sellers amid concern over the state of the balance sheet, legacy contracts and the struggle to sell non-core assets.

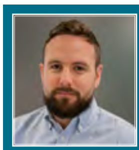
A recent investor day suggested the company might seek to boost its footprint in the US shale sector. Rival **Petrofac (PFC)** also appears to be looking in this direction given its recent acquisition of US shale specialist W&W Energy Services. This could increase the sensitivity of both firms to fluctuations in the oil price.

off by the $2trn valuation target, a scaled-down listing is set to take place on Saudi's domestic stock exchange.

Other influences on the oil price could include the impact of US sanctions on Iranian production.

These are all supply issues, so what about demand? At a micro level the introduction of new fuel standards for shipping could have some impact. The new IMO 2020 specifications are seen as driving demand for lighter sweeter types of crude which include the Brent and West Texas Intermediate benchmarks.

At a macro level, the rate of global growth will be crucial in determining demand and on a structural basis there is growing pressure to switch out of oil and into alternatives such as renewables which are perceived to be friendlier to the environment.



By **Tom Sieber** Deputy Editor

Why Daily Mirror publisher Reach is an outstanding value opportunity

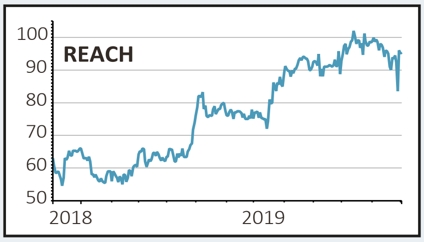
Revenue has stabilised as digital reaches a size where its continued growth offsets the decline in print

Newspaper publisher **Reach (RCH)** is rapidly paying down debt and is approaching the point at which growth in digital is making up for the decline in print revenue.

We think investors should take advantage of a compelling valuation opportunity, with the stock trading on a forward price-to-earnings ratio of just 2.5-times.

REACH BUY
(RCH) 98.1p
Stop loss: 70p

Market Cap: £285m



THE BACKGROUND

You would have to have been living on another planet not to be aware of the relentless move towards digital news at the expense of traditional 'print' media, and Reach (previously Trinity Mirror) shares has been punished accordingly, dropping from around £7 per share in 2000 to 98.1p today.

But the recent trading update for the five months to 29 November showed acceleration in like-for-like digital revenue growth of 14%, from 9.3% for the same period a year earlier, while print's decline slowed to 7.3%, from 8.2%.

Meanwhile, net debt has fallen from around £90m five years ago to an expected net cash position by the year-end, although the company does have a £348.2m pension deficit.

It recently withdrew from discussions to buy assets from Johnston Press which went into administration last month. This demonstrated financial discipline from the new chief executive Jim Mullen.

Reach has reached the point where growth from digital is offsetting the fall in print, allowing the business to stabilise revenues and generate enough cash to pay down debts and increase the dividend. At the half year stage operating cash flow increased 9.4% to £65.2m.

This has underpinned 4.5% growth in the dividend since it was reintroduced for the 2014 financial year and investors get a 7% yield to boot.

UNDERAPPRECIATED DIGITAL STRENGTHS

What is probably not appreciated is the 'digital footprint' of the business and how the print and digital strategies tie in to the overall picture. The company has 40m unique visitors per month.

This makes it the UK's sixth largest online property, reaching over half the population in big cities on a weekly basis.

While it was a one-off event, the 2019 Champions League final in Madrid offered a good illustration of how the various elements in the business can work together. The *Liverpool Echo* printed souvenir editions, resulting in four times more sales than the previous week, while the Monday edition of the *Echo* saw a 93% uplift.

The digital segment had record levels of page views with 17m over 72 hours across the *Mirror*, *Express*, *Star*, *Echo* and *London* websites. The company's podcasts received more than 1m streams over a four-week period straddling the final.

The company also enjoyed market-leading advertising share over the event.

By **Martin Gamble**
Senior Reporter

The small cap fund backing profitable, growing companies

Montanaro UK Smaller Companies has a great track record and also offers generous dividends

Smaller companies in the UK have been an unloved asset class since the 2016 Brexit vote, yet sentiment has recently started to improve. One savvy way to profit from this situation is to buy **Montanaro UK Smaller Companies Investment Trust (MTU)**.

Despite a recent advance in the share price, the trust remains good value trading on a 7.9% discount to the value of its underlying assets. It also pays dividends every quarter and is yielding an attractive 4.8%.

We particularly like its emphasis on quality companies that are 'in control of their own destiny', while noting that any post-election strengthening of the pound would be positive for the portfolio's domestically-focused firms.

Managed by Charles Montanaro, the investment trust seeks to generate capital growth by investing in quoted UK small caps and outperform its benchmark, the Numis Smaller Companies index (excluding investment companies).

It only invests in profitable companies and the diversified portfolio contains 48 holdings.

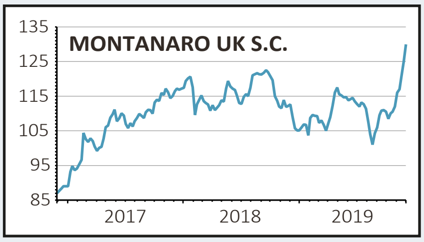
The fund manager focuses on spotting high-quality, niche companies operating in growth markets, a process drawing the City veteran to firms led by strong management teams and enjoying a winning combination of high barriers to entry, pricing power and a sustainable competitive advantage.

MONTANARO UK SMALLER COMPANIES ↗ BUY

(MTU) 131p

Stop loss: 104.8p

Total assets: £258m



He avoids companies with stretched balance sheets, poor free cash flow or with structurally challenged business models with stiff competition.

The investment trust benefits from an in-house team of 10 analysts who are sector specialists. The team like to meet investee companies regularly to get a better insight into the products and services on offer, and observe the culture.

Analysis of the portfolio shows the fund's forecast 2020 earnings growth, dividend growth and return on equity (ROE) are all significantly higher than the index, which the investment trust has dramatically outperformed since its 1995 launch.

As at 31 October, top 10 holdings included self-storage leader **Big Yellow (BYG)**, marketing products outfit **4Imprint (FOUR)**, building products play **Marshalls (MSLH)** and food packing group **Hilton Food (HFG)**.

Other holdings include **Polypipe (PLP)**, the sustainable water and climate management solutions supplier, identity data intelligence leader **GB Group (GBG:AIM)** and online investment platform **AJ Bell (AJB)**.

Investee companies **Charles Taylor (CTR)** and **Entertainment One (ETO)** recently received premium-priced takeover bids, demonstrating Montanaro's prowess in selecting strategically attractive assets.

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

DISCLAIMER: AJ Bell is the owner and publisher of *Shares*. Both the author and editor Daniel Coatsworth owns shares in AJ Bell.

OCADO
(OCDO) £12.19

Gain to date: 2.7%
Original entry point:
Buy at £11.87, 25 July 2019

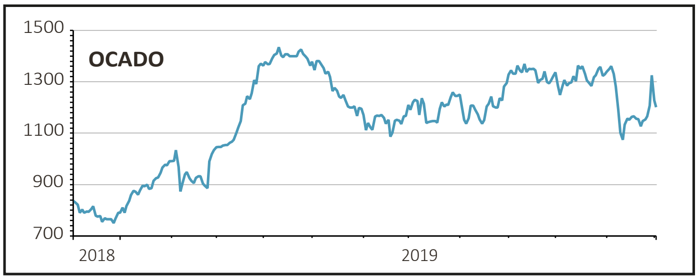
OUR 'BUY' CALL on grocery delivery solutions firm **Ocado (OCDO)** has been tested in recent weeks with the shares demonstrating above-average volatility.

Last month the stock sank 20% in short order due to fears of increasing competition from US firms Amazon and Walmart. Last week it rallied sharply on the news of a multi-year agreement with Aeon, Asia's largest supermarket group, to open up Japan's £25bn-plus online grocery market.

The first warehouse should be operational in 2023. Aeon expects to have an annual sales capacity in Japan for online orders of Y200bn or £1.8bn – about the size of Ocado's existing UK grocery delivery business – by 2025, growing to Y1trn or £9bn in 2035 as younger consumers drive online spending.

Finance director Duncan Tatton-Brown claimed last week that Ocado had 'no immediate need' for additional funds, yet this week it announced a £500m convertible bond offering, sending the shares spiralling lower.

Although the terms of the deal are highly favourable, negative sentiment towards the stock – 10% of shares are on loan to short-sellers and more analysts have 'sell' recommendations than 'buys' – is a fact of life and price volatility is likely to continue.



SHARES SAYS:
Investors of a nervous disposition may want to exit but we would top up on weakness as the business grows with more global partners.

ARTEMIS ALPHA TRUST
(ATS) 327p

Gain to date: 14.5%
Original entry point:
Buy at 285.5p, 25 July 2019

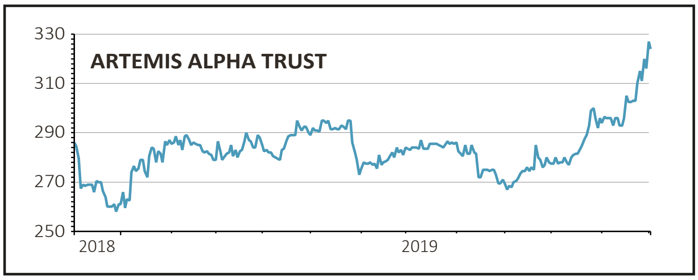
REVAMPED INVESTMENT TRUST **Artemis Alpha Trust (ATS)** is alive to a growing number of prospective investment opportunities according to its latest factsheet.

This suggests the company has scope to continue the repositioning of the portfolio to higher quality companies which enjoy competitive advantages in industries with supportive dynamics and are led by excellent management teams.

In the November update, managers John Dodd and Kartik Kumar note 'our pipeline of potential holdings is busier than it has been for some time'.

The discount to net asset value (NAV) has narrowed since we said to buy in July but still remains material at 12.2% and the company is buying back its own shares in an attempt to go some way towards narrowing the gap further.

The portfolio has benefited from reduced fears of a no-deal Brexit with **Sports Direct (SPD)**, **Barclays (BARC)** and **Just Eat (JE.)**, the latter subject to a bidding war between Dutch firm Takeaway.com and tech group Prosus, all strong contributors to recent performance.



SHARES SAYS:
The shares remain at a double-digit discount to NAV and we believe this can narrow further.

PETS AT HOME
(PETS) 242.6p

Gain to date: 13.9%

Original entry point:

Buy at 213p, 5 September 2019

AN EXCELLENT SET of first half results (26 Nov) has fired up shares in pet retailer **Pets at Home (PETS)** and suggests its recovery story is gaining momentum.

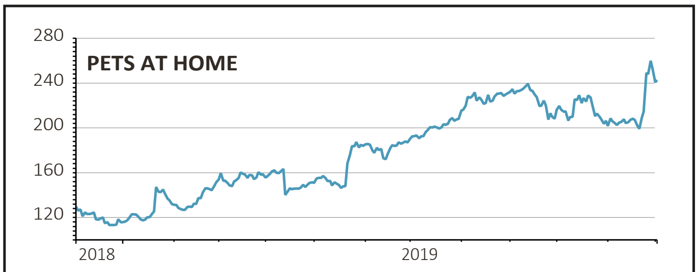
We have been vindicated for keeping faith with our positive view as per an update on the stock in our 19 November issue. The weakness in the shares ahead of the half year numbers proved to be an excellent buying opportunity.

Underlying pre-tax profit in the six months to 30 September was up nearly 19% to £45m and guidance is for full year profit growth at the top end of market expectations.

The company has been facing pressure from rising online and discounter competition, but chief executive Peter Pritchard has made clear progress in turning things around since taking the helm in April 2018.

This has been built on getting the basics right, serving the right products to the right customers through the right channels more efficiently.

The next step is to sign an increasing number of customers up to its full range of products and services. Investment bank Liberum is already sufficiently impressed to describe the turnaround as 'one of the most impressive we have seen within the UK retail sector'.



SHARES SAYS:
Keep buying.

CENTAMIN
(CEY) 127.35p

Loss to date: 1.7%

Original entry point:

Buy at 129.6p, 1 August 2019

Centamin (CEY) has urged its shareholders to 'take no action' after the FTSE 250 miner received an all-share merger proposal from Canadian gold group Endeavour Mining.

The proposal from Endeavour, which consists of 0.0846 of its shares for each Centamin share, values Centamin's shares at roughly 126p each.

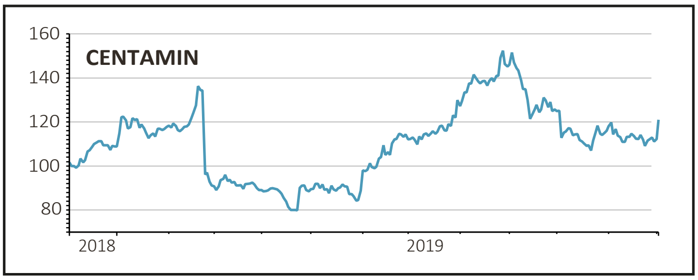
Endeavour argues a merger would create a diversified, 'high quality' portfolio of mines with potential for 'improved operating efficiencies' as well as a better possibility for share price and dividend growth.

Centamin has rejected the deal and believes it does not value the company highly enough.

The proposal has effectively fired the starting gun on takeover interest for the stock. Endeavour will not be the only company looking at Centamin and so we believe other takeover interest will soon appear.

Takeover activity among gold miners is widely expected to increase in the sector, particularly with the gold price stabilising at the $1,400 to $1,500 per ounce mark as global economic worries refuse to go away, making gold mining a lucrative sector at present. Takeovers would help miners increase scale.

Two big Canadian miners, Continental Gold and Detour Gold, have received offers in the past few weeks in deals worth nearly $5bn.



SHARES SAYS:
Sit tight. Endeavour's offer is just the start and could spark a bidding war.

SWEET RETURNS

3 ways to invest in Coca Cola

By James Crux

Here's a quick mental exercise. Think of the globe's best known, most iconic brands and one name will stand out, namely Coca-Cola or 'Coke', the world's most recognised soft drink.

Everyone knows it, but can you make money from it as an investor? We'll take a look at the multiple ways you can get exposure and we reveal our top picks in this article.

SECRET RECIPE

Coca-Cola was born at a soda fountain in Atlanta, US, in 1886 and has since evolved into a global brand that has endured for more than 130 years. Studies have shown Coca-Cola is among the world's most-admired and best-known trademarks; it has even been documented that Coca-Cola is the second-most widely understood term in the world after 'okay'.

Intriguingly, the formula for making Coca-Cola remains the best kept secret in the world of food and drink, and the brand itself has provided a winning formula for patient portfolio builders down the years, including the world's most revered investor, Warren Buffett.

Coca-Cola was ranked the third most valuable global brand in Interbrand's annual Best Global Brands study for four consecutive years. And according to Forbes' World's Most Valuable Brands ranking for 2019, Coca-Cola was the sixth most valuable brand on the list.

Only US tech titans Apple, Google, Microsoft, Amazon and Facebook were deemed more valuable, while Coca-Cola was comfortably in front of the next beverages brand on the list, arch-rival Pepsi trailing in its wake in 29th place.

NOT AN EASY RIDE

Confirmation of Coke's enduring clout was also provided by the recent Brand Finance Food & Drink 2019 report, which showed Coca-Cola retains its position as the world's most valuable soft drinks brand after recording a 19% year-on-year surge in brand value to $36.2bn.

Still the world's most consumed soda, Coca-Cola further widened its lead with second-placed Pepsi suffering an 8% drop in brand value to $18.5bn.

Yet there's no room for complacency, as David Haigh, Brand Finance's CEO, pointed out: 'The soft drinks sector is facing scrutiny like never before in the Western world. From high sugar content causing a stir, to the backlash over single-use plastic, brands are having to think fast to meet changing needs and circumstances. Although Coca-Cola always has its sheer volume of sales to rely on, the brand needs to evolve with society if it wants to maintain its dominance in the sector.'

INVESTING IN THE COCA-COLA EMPIRE

There are six ways to get investment exposure to the fizzy drink. First is New York-listed The Coca-Cola Company, shortened in this article to Coca-Cola, which manufactures and sells concentrates and syrups to its 300 bottling partners, while still owning the brands and holding sway over the brand marketing initiatives. Its shares are widely available on UK investment platforms.

On the UK stock market are two bottling partners, **Coca-Cola HBC (CCH)** and **Coca-Cola European Partners (CCEP)**. These companies use the concentrates and syrups to make, package and distribute the finished soft drinks to customers, who then sell Coke to consumers.

There are two more botting businesses listed in the US called Coca-Cola Consolidated and Coca-Cola FEMSA. The latter is a Mexican business focused on Central and South America.

A sixth option is Coca-Cola Bottlers Japan which trades on the Tokyo Stock Exchange although its shares are not widely available on UK investment platforms. The same applies to Australian-listed Coca-Cola Amatil which is a bottler for the Asia-Pacific region.

BELOVED BY BUFFETT

PERHAPS THE COKE brand's most prominent admirer is Warren Buffett, the world's most famous investor, whose Berkshire Hathaway vehicle is The Coca-Cola Company's biggest shareholder with a 9.34% stake.

Buffett bought more than $1bn of Coca-Cola shares back in 1988, not long after the Black Monday market crash, and Coke has proved to be one of the Sage of Omaha's all-time great investments.

He determined Coca-Cola's iconic name and global reach had created a moat around its core soft drink, while his Coke investment marked a change in his approach from 'buying bad companies at great prices' to 'buying great companies at good prices'.

Buffett had in fact spent decades observing Coke and what made it such a great business. As he described in his 1989 shareholder letter, the brand first made an impression on him in 1936 when he bought Cokes at the rate of six for 25 cents in order to sell for a small profit. 'In this excursion into high-margin retailing, I duly observed the extraordinary consumer attractiveness and commercial possibilities of the product,' Buffett enthused.

He still characterises Coca-Cola as a 'very good business', but admits that the consumer backlash against sugary sodas is a bear point.

During a 2018 *CNBC* interview, Buffett said of Coca-Cola: 'It doesn't look as good as it did five or 10 years ago.' While Coca-Cola has expanded into non-soda products including coffee and tea, they don't generate such high margins as fizzy tipples do. However Buffett does say it has the best distribution system in the world, which should serve the company well as it expands into energy drinks and launches new products like Coca-Cola Plus Coffee to entice the next generation of consumers.

“Coca-Cola continually maintains relevance through updates to the flagship product and its variants”

DO I JUST GO FOR THE PARENT COMPANY?

A £10,000 investment in Cola-Cola 20 years ago would now be worth £27,558 with all dividends reinvested. In comparison the same £10,000 over the same time period in the FTSE 100 index would be worth £22,666, showing how Coca-Cola has been a market-beating investment.

Dividends have been an important part of the total returns for investors and earlier this year Coca-Cola announced its 57th year in a row of annual dividend growth.

Despite this success for investors, Coca-Cola still has to work hard to prosper in the modern world and its shares are not cheap when looking at certain valuation metrics.

Fizzy drink consumption is reducing in developed markets due to the increase in health-conscious consumers and government-imposed taxes on sugar-laden products, although Coca-Cola is upping prices periodically to compensate for low volume growth.

As a major plastics polluter, Coca-Cola also risks drawing the ire of socially conscious, social media savvy millennials.

Health and wellness trends do present a long-term risk to Coca-Cola as consumers and governments seek to tackle obesity. Yet the company continually maintains relevance through updates to the flagship product and its variants.

For example, recent sales momentum is attributed to the success of low and no-sugar products, notably Coca-Cola Zero Sugar. This year also saw the launch of Coca-Cola Energy, another Coke variant with more energy-boosting characteristics and new taste.

And the company’s innovation strategy is not focused on the Coke brand alone. Coca-Cola is seeing significant market share growth of the Smartwater brand in India, the Authentic Tea House brand in China and Southeast Asia, Fuze Tea in Western Europe, and Chi which is a dairy and juice brand in West Africa.

ONE OF THE MANY BOTTLING COMPANIES

COCA-COLA CONSOLIDATED is the largest independent Coke bottler in the US, which kick-started 2019 by changing its name from Coca-Cola Bottling Co. Consolidated to its current snappier moniker.

The near-$2bn company makes, sells and distributes Coca-Cola products across 14 US states to 66m consumers, but it is so much more than a pure Coke play.

It also distributes drinks for various other beverage brands including Dr Pepper, Sundrop and Monster Energy and unique beverages such as the independently produced BodyArmor sports drink.

Although The Coca-Cola Company dominates the financial news headlines and calls the shots in terms of the core brand, the Coca-Cola mothership relies on standalone distributors like Coca-Cola Consolidated to get its drinks onto retail store shelves and into drinks dispensers around the globe.

THREE STOCKS TO BUY

The Coca-Cola Company – $53.95

SHARES SAYS:

THE COCA-COLA Company is one of the world's most familiar businesses, but the investment case is much more than its eponymous brand, being a total beverage behemoth offering over 500 brands in more than 200 countries and territories.

Also a premium juice, organic tea and coconut water concern, Coca-Cola offers more than 800 beverages in the US alone including low and no calorie tipples. Brands include four of the world's top five non-alcoholic sparkling drinks, namely Coca-Cola, Diet Coke, Sprite and Fanta, as well as some lesser-known names such as Dasani, Powerade and Minute Maid. It also owns two UK household names: coffee brand Costa and mixers brand Schweppes.

Sales have increased from $19.28bn in 1999 to a forecast $37.06bn for 2019.

With the consumption of carbonated drinks slowing in developed markets, Coca-Cola is restructuring its way to improved profitability under new CEO James Quincey.

Investment bank Morgan Stanley argues that Coca-Cola has stronger pricing power than peers which is also sustainable.

The beverages giant is constantly transforming its portfolio, either by reducing sugar in its drinks or by launching innovative new products. Under Quincey's stewardship, there is also a major emphasis on reducing the company's environmental impact by replenishing water and promoting recycling.

Third quarter results marked a ninth straight sales beat versus forecasts amid robust pricing and volume growth, although the company faces an adverse currency rates headwind.

Bulls point out that strong cash flows allow Coca-Cola to plough cash back into the business while funding higher dividends, share buybacks and acquisitions, although investors have to pay up to access its reliable earnings stream.

The shares trade on 23.9 times forecast earnings for 2020 and a 22.1-times multiple for fiscal 2021 according to Refinitiv.

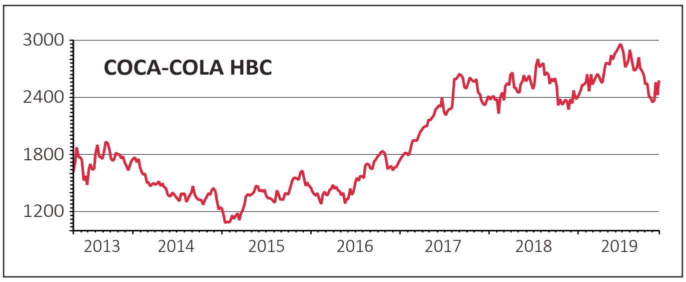
Morgan Stanley believes the business can move to become a more nimble company and have a greater position in higher growth non-carbonated soft drinks. We share its enthusiasm and have a 'buy' rating on the stock.

"There is an emphasis on the company's environmental impact by replenishing water and promoting recycling"

Coca-Cola HBC – £26.02

LIBERUM SAYS: BUY

The Coca-Cola Company stake: 23.3%



WITH A PREMIUM listing on the London Stock Exchange and a secondary listing in Athens, FTSE 100 constituent **Coca-Cola Hellenic Bottling Company** is one of the world's largest Coca-Cola bottlers and offers a play on lower per capita branded beverages consumption in emerging markets.

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

A consumer products colossus with an annual sales volume of over 2bn unit cases, Coca-Cola HBC's geographic footprint spans 28 countries in Central and Eastern Europe and Africa including high-potential markets such as Russia, Poland, Ukraine, the Czech Republic and Nigeria. Other markets include Ireland, Greece and Italy, meaning the company serves a population north of 600m.

Coca-Cola HBC's non-alcoholic and ready-to-drink tipples span the sparkling, juice, water, sport, energy, plant-based beverages and ready-to-drink tea and coffee categories.

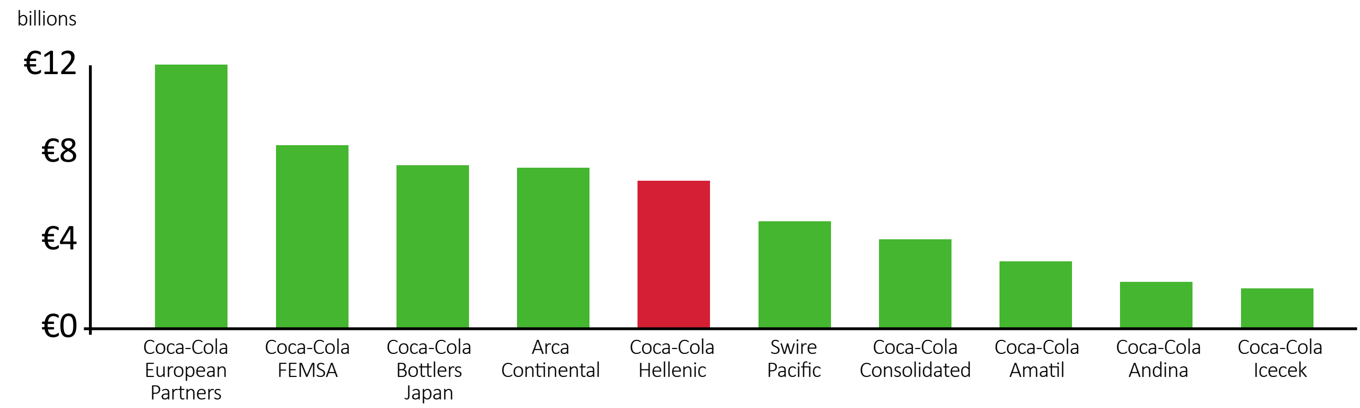
Churning out oodles of cash, the soft drinks leviathan is a progressive dividend payer with an eye for acquisitions; recent examples include Italian natural mineral water-to-adult sparkling beverages company Lurisia and Serbian confectionery brand Bambi.

Liberum Capital has a 'buy' rating for Coca-Cola HBC, insisting the business can deliver high-single digit earnings before interest and tax growth over the next five years.

Coca-Cola HBC trades on prospective price-to-earnings ratios of 19.5 for 2020 and 17.7 for 2021. Liberum expects Coca-Cola HBC to deliver rising free cash flow, pursue acquisitions and use special dividends when appropriate to maintain an efficient balance sheet.

Coca-Cola bottling plant in Russia

CCH is the world's fifth largest Coca-Cola bottler by revenue



Source: Company data, Liberum

Coca-Cola European Partners – €46.10

SHARES SAYS: BUY

The Coca-Cola Company stake: 18.6%

CREATED THROUGH 2016'S three-way merger of Coca-Cola Enterprises, Coca-Cola Iberian Partners and Coca-Cola Efrischungsgetranke, Uxbridge-headquartered **Coca-Cola European Partners** is the world's largest Coca-Cola bottler by revenue.

It boasts leading market positions in 13 Western European nations including France, Germany, the UK and Spain, with a potential market of more than 300m consumers.

Coca-Cola trademark beverages represent more than 60% of total sales by category, but Coca-Cola European Partners' total beverage strategy involves growing a portfolio of complementary sparkling flavoured soft drinks, energy drinks, ready-to-drink coffees and teas, waters, juice and plant-based beverages.

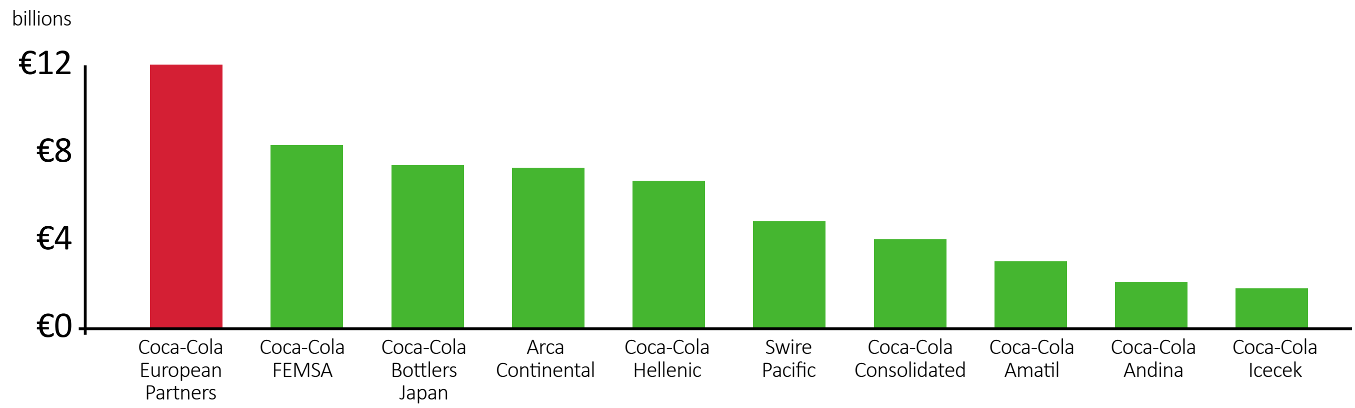
Coca-Cola European Partners' competitive advantages include one of the largest fast-moving consumer goods sales forces in Europe. European giant Germany is Coca-Cola European Partners' biggest single market at 20% of revenue and performance has been turned around since the 2016 merger.

Rising awareness of the harmful impact that single-use plastics have on the environment has catapulted plastic packaging to the top of the public agenda. Encouragingly, Coca-Cola European Partners was one of the first companies globally to make commitments to packaging and sustainability.

According to Liberum, Coca-Cola European Partners is 'within striking distance of its goal of 100% recyclable packaging' and offers scope for €1bn of annual share buybacks if bolt-on acquisitions don't materialise. The business also has scope to be run more efficiently.

Prospective price-to-earnings multiples of 16.6 for 2020 and 15.5 for 2021 mean Coca-Cola European Partners is slightly cheaper than The Cola-Cola Company and Coca-Cola HBC.

CCEP is the world's largest Coca-Cola bottler by revenue



Source: Company data, Liberum

A five-point plan for emerging markets

Making sense of why emerging markets have lagged developed ones for so long

By **Russ Mould**
AJ Bell Investment Director

The definition of an emerging market has often (jokingly) been a market from which you cannot emerge fast enough when it all goes wrong.

Argentina and Chile are 2019's examples that seem to support this rule as the former lurched into its latest debt crisis and the latter into a fresh political one, but overall there was no need to rush for the exits.

All of the major regions as a whole – Eastern Europe, Asia, Latin America and the Middle East – have generated positive total returns in sterling for the year. Eastern Europe ranks second out of the eight major geographic options available to investors, buoyed by a strong performance from Russia in particular.

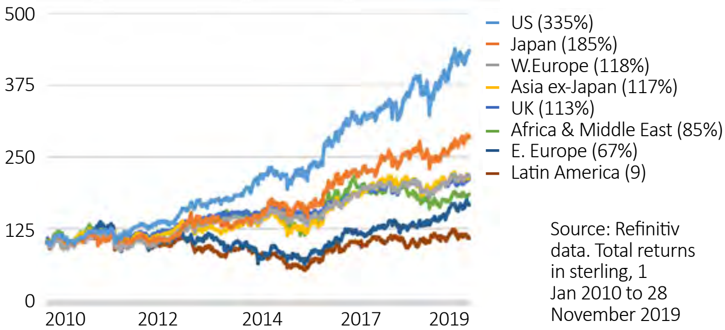
TOP FIVE AND BOTTOM FIVE EMERGING MARKETS IN 2019

Greece	39.4%	Pakistan	-7.9%
Russia	33.2%	Malaysia	-8.4%
Taiwan	18.8%	Qatar	-9.7%
China	11.7%	Chile	-27.7%
Colombia	11.3%	Argentina	-29.7%

Source: Refinitiv data. Total returns in sterling, 1 Jan to 28 Nov 2019

However, emerging markets have still generally lagged developed ones this year. This continues a trend that has been evident for most of the decade. Emerging markets have simply failed to compensate investors for the political and economic risk they have taken. Portfolio builders would instead have been better served by playing it safe and keeping their money in developed arenas such as Western Europe, Japan and the US.

EMERGING MARKETS HAVE GENERALLY LAGGED DEVELOPED ONES FOR THE WHOLE OF THIS DECADE



Source: Refinitiv data. Total returns in sterling, 1 Jan 2010 to 28 November 2019

FIVE RULES

A deeper look at the performance of emerging markets shows five clear themes.

TOTAL RETURN IN £ 2010-19

Thailand	200.3%	Russia	24.7%
Philippines	190.2%	Argentina	17.3%
Pakistan	180.3%	Mexico	11.7%
India	91.5%	China	7.1%
Taiwan	86.2%	Chile	4.5%
UAE	81.8%	Colombia	-2.0%
Qatar	65.2%	Czech Republic	-3.8%
Saudi Arabia	60.2%	Egypt	-4.7%
Hungary	59.3%	Brazil	-19.0%
Peru	52.4%	Turkey	-34.0%
Poland	31.5%	Greece	-60.7%
Malaysia	27.8%		

Source: Refinitiv data

1. ECONOMIC GROWTH DOES NOT GUARANTEE STRONG EQUITY MARKET PERFORMANCE

A good example is China which lurks seventh from bottom in the list of EM nations with a total return in sterling of just 7%, despite a decade of large GDP increases.

2. QUALITY OF ECONOMIC GROWTH IS IMPORTANT

Greece boomed in the 1990s and early 2000s but its progress was based on borrowing that proved unsustainable.

Turkey has blown similarly hot and cold thanks to its reliance on borrowing and a current account deficit. Both finally hit the buffers.

India, by contrast, has relatively low sovereign debt, as do Thailand and the Philippines, which both learned about debt, and especially the dangers of borrowing in overseas currencies, during the 1997-98 Asian crisis. They have taken those lessons to heart, lessons which the West now seems keen to ignore.

3. CURRENCIES AND THE DOLLAR MATTER

This takes us back to economic fundamentals. Brazil's BOVESPA index stands nears its all-time highs at 110,000 but the real has gone from BRL 3.0 to nearly BRL 5.45. Devaluations in Turkey and Egypt have also hurt returns.

The last 20 years show that a strong dollar is generally bad for emerging markets and this takes investors back to the issue of debt.

Many emerging markets borrow dollars so when the buck rises that makes paying the interest more expensive in local currency terms. Argentina has effectively defaulted again, while Turkey frightened many overseas lenders in 2018.

A weak dollar would buy a lot of EMs breathing space, although that probably needs the US economy to weaken and lose its lustre, perhaps weighed down by its own monstrous budget deficit.

Government-backed firms might be considered less of a risk in Russia

4. POLITICS MATTERS

Investors are more likely to look favourably upon markets that are going from left to right (as per Greece this year and Brazil since 2018) than the other way (Argentina being a glaring example).

In markets where authoritarian figures are in charge – such as Russia – investors, if they think valuations justify the risks, are better off siding with government-backed firms than their rivals.

5. COMMODITIES MATTER

This is often dismissed by EM specialists as lazy shorthand and frankly it may well be, especially as some EMs are net exporters and others net importers. But overall, the historic relationship between the Bloomberg Commodity index and the MSCI EM index seems clear.

COMMODITY PRICES LOOK TO HAVE A STRONG INFLUENCE ON EM EQUITIES

Source: Refinitiv data

The final chart may be the most telling. This decade can be characterised by low growth, low interest rates and soggy commodity prices. The US has been the best place to be, as it is packed with technology companies with strong secular growth and home to the deepest, most liquid markets and the world's reserve currency. Maybe EMs need a return to cyclical growth and inflation to really shine again.

Watch out for funds with inappropriate benchmarks

Some funds are arguably over-exaggerating their level of outperformance

Many fund managers insist that investors should judge their performance on a relative basis, rather than absolute. The argument is that fund managers are being paid to outperform an index rather than explicitly deliver positive returns every single year.

To abide by this rule one has to be sure that the relative benchmark is appropriate. For example, if the fund invests solely in UK equities then its benchmark for relative performance should be a UK index. If it invests globally, its benchmark should be a global index.

We don't believe investors pay enough attention to the appropriateness of the benchmark and we are concerned they could potentially be misled by the performance figures.

PRESSURE ON FUND MANAGERS

The industry is under pressure to improve how it operates and this includes benchmarking. In February the Financial Conduct Authority (FCA), a regulator, published a policy statement laying out how it expects fund managers to disclose their objectives.

It also set out rules for managers to explain which benchmarks they use and why. Wherever fund performance data is given, it should be shown

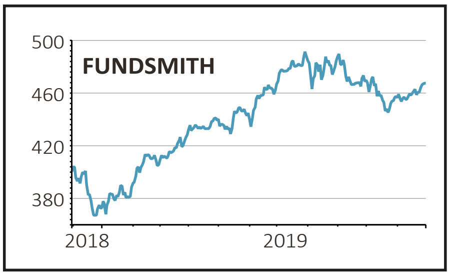
against each benchmark which has been used as a target.

If the fund doesn't use a benchmark, the manager needs to explain how investors are expected to measure the performance of the fund.

The rules came into force in August and apply to all open-ended collective investment schemes, yet there are still a number of closed-ended funds which either don't seem to have an appropriate benchmark or which could make it much clearer to investors how to measure performance.

HOW DO POPULAR FUNDS BENCHMARK PERFORMANCE?

Fundsmith Equity (B41YBW7) provides a choice of three benchmarks for investors to measure performance.



First is the MSCI World Index in sterling which, as the fund factsheet says, is 'a generic portfolio of global equities across all sectors and, as such, is a fair comparison given the company is also global and sector agnostic'.

The second is a composite index of UK five-year and 10-year bonds, while the third is the three-month LIBOR (London Inter-Bank Offered Rate) interest rate. Frankly the last two are superfluous since the fund only invests in global equities.

Lindsell Train Global Equity Fund (B644PG0), which invests in a small number of high-quality global stocks, also uses the MSCI World Index in sterling as its benchmark which makes comparing both funds straightforward.

INAPPROPRIATE BENCHMARKS CAN FLATTER PERFORMANCE

When running the slide rule over a fund as a potential investment it's crucial to know which index is being used as the benchmark or performance target. If a fund is using the wrong benchmark it can present a misleading picture of how well the fund has done.

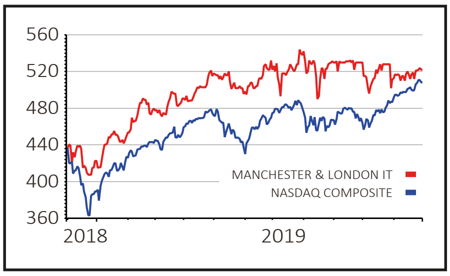
A good example of a fund using an inappropriate benchmark is investment trust **Manchester & London (MNL)**. It uses the MSCI UK Investable Market index as its benchmark despite having a portfolio that is dominated by US-listed shares.

US	93.2%
China	17.2%
France	2.0%
Germany	-0.2%
Ireland	-1.9%
UK	-3.9%
Eurozone	-6.3%

Source: Manchester & London. There are negative figures because the fund can bet on prices falling as well as rising. Data as of Oct 2019.

Its financial results for the year to 31 July show 9.8% total return versus 1% from its benchmark index. On paper that suggests significant outperformance, however it would be wrong to compare its results to that of the UK stock market given how it barely invests in it.

In particular, its latest financial results even state that the board considers the most important key performance indicator to be the comparison with its benchmark index.



Manchester & London's outperformance is much less if you compare it to a more appropriate US index

If you were to compare Manchester & London's results to one of the main US stock market indices, the level of outperformance would be significantly smaller. For example, over that same 12 month period to the end of July, the Nasdaq 100 achieved an 8.5% total return and the Nasdaq Composite achieved 6.6%. Both of these results are much greater than the MSCI UK Investable Market's 1% used as its benchmark.

When asked to justify the use of the UK benchmark for performance measurement, the managers pointed to the fact that most of trust's investors were domiciled in the UK and that by extension want to beat a domestic benchmark. This makes no more sense than using a French benchmark if most of the investors happened to be based in France.

COMPLICATED SITUATIONS

Another example to consider is **Lindsell Train Investment Trust (LTI)**. More than half (52.2%) of its portfolio is invested in the unquoted Lindsell Train Limited asset management business. Having such a high weighting to a single stock and one that isn't listed on the stock market complicated matters from a benchmarking perspective.

Admittedly the investment trust does try to accommodate for the situation. Rather than comparing itself to something like the FTSE All-Share index, its benchmark is an index of the annual average running yield on the longest-dated UK government fixed rate bond plus 0.5% with a minimum yield of 4%. But even then there is a debate as to whether that's the best way to compare performance.

INDEX PROBLEMS

In some overseas markets using the local index as a benchmark can itself produce a misleading picture due to the composition of the index.

A prime example is the Russian market where the top three stocks in the benchmark RTS index – energy firms Gazprom and Lukoil and bank Sberbank – account for over 45% of the value of the market.

Unless a fund investing in Russia has at least the same weightings in these three stocks it is taking a great deal of risk by being 'off-index' and its performance shouldn't be compared with the benchmark.

It is a similar story in India where the top 10 stocks in the Sensex 30 account for 70% of the value of the index and where a balanced approach to portfolio construction comes up against a market heavily weighted towards financial and software stocks.

By **Ian Conway**
Senior Reporter

ETFs to track small caps in the US, UK and Japan

Tracker products can help investors gain diversified exposure to small cap stocks at home and abroad

There is a reason why some investors think the best things come in small packages. Smaller companies, just by virtue of their size, have more significant growth potential and could increase their revenue at a rapid rate if things are going well.

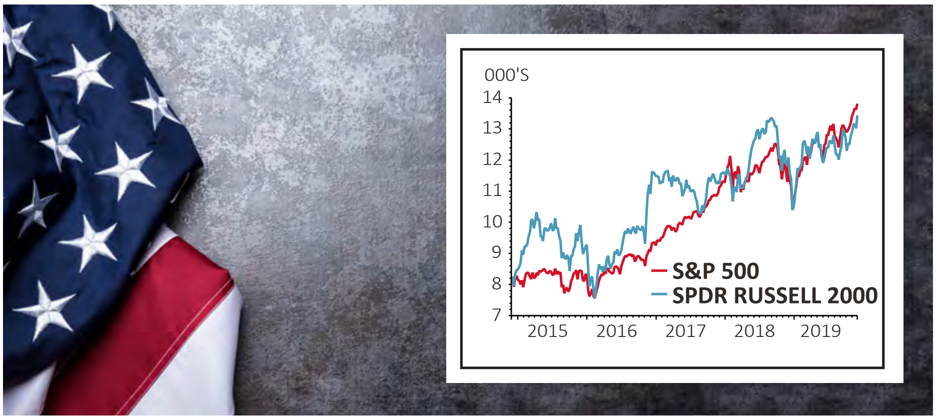
With higher reward comes higher risk however, and without the right knowledge trying to invest in small caps can expose you to significant losses.

Even the savviest of stock pickers can come unstuck. For every success story, there are examples of business which have disappointed and in some cases left shareholders with nothing.

One way to capture some (though by no means all) of the returns of small cap stocks, but without risking a major hit on a flashy firm going bust, is to seek diversified exposure. Small cap exchange-traded funds (ETFs), most of which seek to track a basket of smaller firms, are a relatively low cost way of pursuing this strategy.

Three of the most developed markets across the world for small caps are the US, UK and Japan.

Here's a bit more on why each market is good for small caps, and an ETF to play the space.



US MARKETS

Research from renowned corporate finance professor Aswath Damodaran found that from 1926 to 2014, listed companies in the lowest decile in terms of valuation made annual returns which were 4.33% more than the market.

Analysis by investment bank Jefferies found that over the past six decades, small caps have risen by an average of 28% in the 12 months after US central bank the Federal Reserve decides to cut interest rates. Large and mid-caps on the other hand have risen by 15%.

Small cap ETF outperformance in the US may hinge on which index you track.

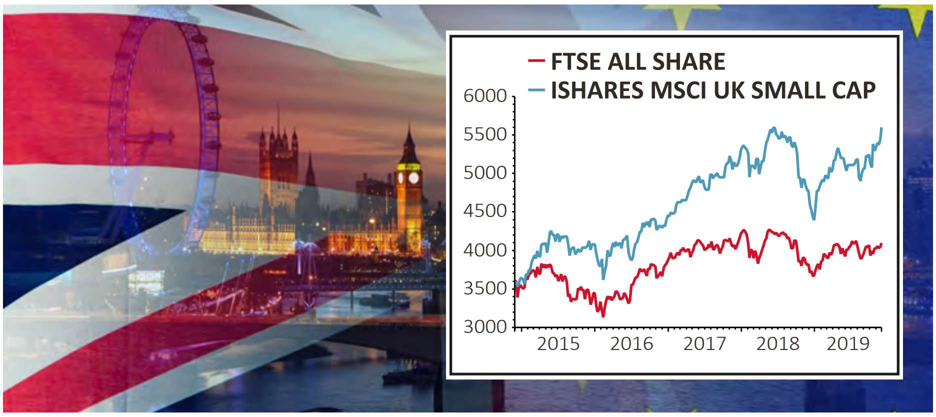
> Small cap ETF outperformance in the US may hinge on which index you track.

The S&P SmallCap 600 index in the past year has returned 6.6%, while the Russell 2000 index has returned 11.1%.

Legal & General and State Street both offer ETFs that track the latter index. The L&G one has a total expense ratio (TER) of 0.45% a year, whereas the State Street one is considerably cheaper with a TER of 0.3%. The latter is called **SPDR Russell 2000 US Small Cap ETF (R2SC)**.

UK MARKETS

Usually the small cap space in the British markets works to the advantage of an active



fund manager. The relative lack of analyst coverage means a savvy stockpicker has a better chance of taking advantage of undervalued stocks.

But that also means the options for ETFs or index tracker funds are limited, which is a shame when considering the performance of large cap indices compared to small cap ones.

For example, in the 15 years to 31 October 2019, the large and mid-cap MSCI UK index has delivered a cumulative gross return of 190.5%. The MSCI UK Small Cap index by comparison has returned 355.8%.

iShares MSCI UK Small Cap ETF (CUKS) has a total cost of 0.58% a year. Its performance has been strong with a five-year annualised return of 9.2%, partly driven by success stories including **FeverTree (FEVR:AIM)** and **Blue Prism (PRSM:AIM)**.

It's worth nothing the MSCI UK Small Cap Index tracked by the ETF tracks is a bit of a funny one though, offering protection to investors with some bigger stocks but perhaps not living up to the true spirit of tracking small caps.

For example, the index includes six companies in the FTSE 100, with **Rightmove (RMV)**, insurers **Hiscox (HSX)** and **Phoenix (PHNX)** and packaging firm **DS Smith** featuring in the top 10 holdings. Therefore it isn't strictly a pure-play small cap product.

JAPANESE MARKETS

Japanese small caps typically receive little analyst coverage in the West, with several listed on the Tokyo Stock Exchange Second Section.

This part of the market can resemble the Wild West in that the only thing you'll see at times is tumbleweed, with most small caps in this space getting zero analyst coverage.

Research from WisdomTree found that investors could be missing out, as Japanese small caps tend to have greater free cash flow and dividend growth than large caps.

That's perhaps one of the reasons why the MSCI Japan Small Cap Index has delivered an annualised five-year return of 10.1%, a stronger return that most small cap markets.

However, strategists from French bank Societe Generale have warned that going forward, Japanese small caps could be hit by an economic slowdown.

That's because the stocks in Japanese small cap indices tend to be skewed towards consumer-facing companies, and are therefore vulnerable to a slowdown in consumer spending, which could be the on the way with a tax hike set to come into force in Japan next year.

But the Japanese small cap index has proved itself less volatile that other comparable indices, as well as some of the bigger ones.

Those who like the Japan small cap story may want to look at **iShares MSCI Japan Small Cap (ISJP).** It has a TER of 0.58% and its five-year annualised return of 14.5% is impressive.

By **Yoosof Farah**
Reporter

Three investment ideas for Lifetime ISAs

The wrapper is a great alternative to Help To Buy ISAs, now closed to new applicants

Don't worry if you missed the 30 November deadline to open a Help to Buy ISA to help fund your quest to get on the property ladder. The Lifetime ISA is a very good alternative and comes with the potential to earn a much greater Government bonus, and it has a less onerous restriction on the maximum property value outside London.

Read on to discover more about these benefits (and one downside) and some suggestions for where you might want to put your savings depending on when you are planning to buy your first home.

HELP TO BUY ISA VS LIFETIME ISA

While the Help to Buy ISA is no longer open to new applications, anyone who opened an account before the end of last month can keep paying into the wrapper until 1 December 2030, or switch into a Lifetime ISA.

For those not already paying into a Help to Buy ISA, your only option to now qualify for free money from the Government to buy a first home is the Lifetime ISA.

Both the Help to Buy ISA and Lifetime ISA get the same 25% Government bonus, but with the Help to Buy ISA this is limited to the first £12,000 saved, meaning a maximum bonus of £3,000. With the Lifetime ISA you can get up to £1,000 a year in Government bonus, up until the age of 50. If you opened a Lifetime ISA at age 18, the maximum Government bonus will be £32,000.

Anyone who saves into a Help To Buy ISA can withdraw their money when they want, without penalty. In doing so, you'll simply not qualify for the Government bonus as that is paid only when you buy your first home.

The Lifetime ISA pays the Government bonus every month and you will be charged a 25% penalty of the entire amount withdrawn if you want to take the money out before buying your first home or reaching age 60. Terminally ill people are allowed to withdraw money without penalty at any age.

The Help to Buy scheme can be used on properties up to the value of £450,000 in London but only £250,000 outside. This has caused issues for those wishing to buy outside the capital and explains why the North West accounts for the biggest share of purchases, where property prices are often much lower. The Lifetime ISA limit is £450,000 and applies nationally.

5 IMPORTANT POINTS TO CONSIDER WITH A LIFETIME ISA

1. A Lifetime ISA can only be opened by anyone aged 18 to 39
2. You need to deposit money in the same tax year you opened the Lifetime ISA
3. You have to open and fund the account at least 12 months before you buy a property
4. You can't pay into a cash version of a Lifetime ISA and a stocks and shares Lifetime ISA in the same tax year
5. If you transfer money from another ISA into a Lifetime ISA it counts towards your £4,000 limit

SHOULD YOU INVEST IN CASH OR THE MARKETS?

We will now use the example of a hypothetical couple called Jon and Alice to illustrate the thought process for investing in a Lifetime ISA.

If you are in a similar position to Jon and Alice who are saving for a new home and targeting a purchase within the next three years, you are better off saving in cash.

That's because the minimum time horizon to consider investing in riskier assets like stocks and funds is at least five years.

People don't naturally think about it this way, but risk appetite can depend on your time horizon, and the longer it is, the more 'risk' you can afford to take. In other words the longer your money is invested the better the odds are that you will successfully ride out the inevitable bumps in the stock market.

Generally speaking economic expansions produce higher profits and stock prices roughly track profits over the long-term.

In contrast, over shorter horizons, stocks can be very volatile which exposes you to the risk that when you need to withdraw your savings the stock market could be experiencing a dip, and you might end up with a lower amount of capital back.

The Help to Buy ISA market is far bigger than the Lifetime ISA market with 27 providers and the best interest rates available at the time of writing is 3% from Penrith Building Society. In comparison, the best rate on Cash Lifetime ISAs is 1.4% from Moneybox.

Stocks & Shares Lifetime ISA providers include AJ Bell Youinvest, Nutmeg and Moneybox.

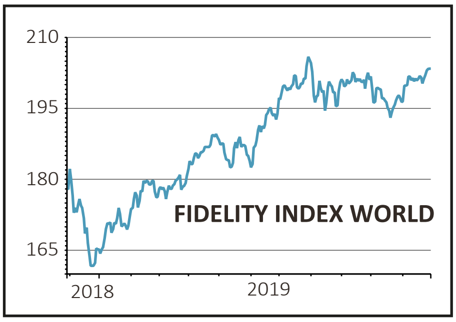
THREE FUND IDEAS

When saving for longer term projects such as future school fees, it is appropriate to invest in riskier assets like stocks. Given that the horizon is not ultra-long-term, it would still make sense to keep the investments on the 'safer' side of the risk spectrum.

Unlike the Help to Buy scheme, Lifetime ISAs permit investments in stocks and shares as well as cash.

If Jon and Alice reassess their timeframe for buying a house to five years' time, it would still be unwise for them to attempt to pick individual shares until they have built up their knowledge and confidence with investing. It is also important to build a diversified portfolio of shares and this requires a decent chunk of capital.

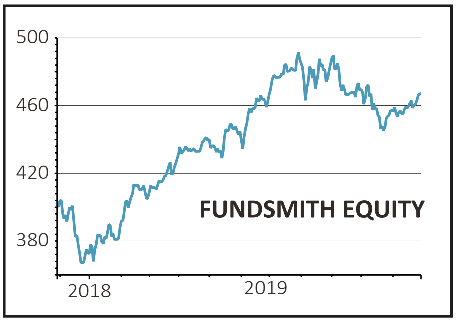
Given that Jon and Alice are relatively new to investing and have modest amounts to invest, it would be more appropriate to spread the risk by investing in a low cost tracker such as the **Fidelity Index World Fund (BJS8SJ3)** which is designed to closely match the performance of the MSCI World index.



The fund has over £1bn in assets and gives access to around 85% of the global developed equity market, spread over 1,600 companies. Effectively you are getting exposure to the global economy for a low cost.

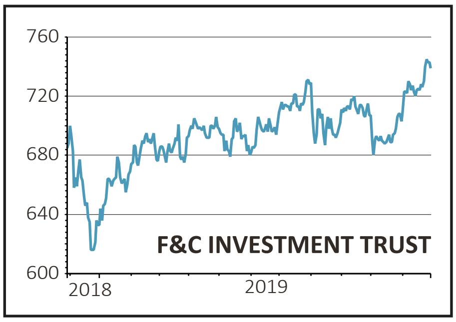
If Jon and Alice instead wanted to push the boat out a little they might consider investing in an actively managed diversified fund. The costs would be higher but the potential returns might be greater. One should also bear in mind that the returns could be lower.

A global fund worth considering is **Fundsmith Equity (B41YBW7)** which has £19.5bn of assets and invests globally in what the manager considers to be 'best in class' large cap companies.



Run by Terry Smith, the fund has a very clear and rigorous investment process which has delivered better returns than the MSCI World index.

Another option worthy of consideration which provides a broadly diversified portfolio is **F&C Investment Trust (FCIT)**, which launched in 1868 and last year raised its dividend for the 48th consecutive year.



Its aim is to generate long-term growth and income by investing primarily in an international portfolio of listed equities. The trust is highly diversified and cautiously managed, with exposure to over 450 individual companies from around the world.

By **Martin Gamble**
Senior Reporter

The case for including investment funds in the Christmas stocking

Investing for your children instead of spending on toys could be the more lasting present

As it's now December lots of people will be starting their Christmas shopping in earnest, but before you buy more toys for your children is there a more lasting present you could get them?

While your child isn't going to write to Santa asking for a contribution to their Junior ISA, their future self will thank you more than giving them the latest must-have toy.

Parents often lament the sea of plastic toys littering the house after Christmas, so they could leave the present buying to grandparents or family and instead put some money away for their child's future.

For the price of the latest LOL Doll Glamper fashion camper or Lego set every Christmas (which costs around £100) parents could instead hand their kids almost £3,000 on their 18th birthday. This assumes a £100 contribution every year and 5% a year growth on the pot after fees.

If you go one step further (and are feeling very generous this Christmas) and invested the full Junior ISA allowance each year until they turn 18 you'd be giving them an 18th birthday present worth more than £131,000.

This assumes you put in the full Junior ISA allowance every year (currently £4,368), and that the allowance itself increases by 2% inflation each year, with your pot growing by 5% a year after fees.

MOST POPULAR JUNIOR ISA INVESTMENTS BY AGE BRACKET (AJ BELL YOUINVEST CUSTOMERS)

0-6 year olds	7-12 year olds	13-18 year olds
Vanguard Lifestrategy funds	Vanguard Lifestrategy funds	Vanguard Lifestrategy funds
AJ Bell funds	AJ Bell funds	Fundsmith Equity
Fundsmith Equity	Fundsmith Equity	AJ Bell Funds
Scottish Mortgage IT	Scottish Mortgage IT	Scottish Mortgage IT
iShares MSCI World ETF	F&C IT	F&C IT
Vanguard FTSE All World ETF	Lindsell Train Global Equity	Lindsell Train Global Equity
Lindsell Train Global Equity	iShares Core FTSE 100 ETF	Witan IT
Vanguard FTSE 250 ETF	Witan IT	iShares MSCI World ETF
Vanguard FTSE 100 ETF	Vanguard FTSE All World ETF	BMO Global Smaller Companies IT
iShares Core FTSE 100 ETF	iShares MSCI World ETF	iShares MSCI World ETF

BUT WHAT SHOULD YOU INVEST IN?

Lots of parents keep their Junior ISA accounts in cash, but the wrapper is really the ideal home for long-term investment with the money locked away for up to 18 years.

But what can you get in cash? The top Junior ISA cash rate at the moment is 3.6% from

HOW TO STOP YOUR CHILD HATING THE PRESENT

You child isn't going to be able to parade their Junior ISA account around the playground and show it off to their friends, so understandably might be a bit disgruntled at the gift.

To avoid tears before the turkey, you might agree with grandparents and other family that they still give presents, meaning your kids will have something to unwrap, while you gift money.

You can also use it as a reason for your children to get excited about saving and having money put away. As a starter you could buy them a piggy bank and explain how saving money works. But to get them interested in investing, and give them something to unwrap, you could buy something linked to the investments in the fund you've bought.

For example, Nick Train's Lindsell Train Global Equity portfolio invests in Manchester United, which might appeal to a football-mad child. You could get them a football to go with the Junior ISA. Another example, Witan holds **International Consolidated Airlines (IAG)**, the parent of British Airways, so you could get a small toy plane to bring to life what their money is invested in.

Another parent I know put a small amount of her children's Junior ISA money directly into shares, but of companies her kids know and use.

She bought some Disney shares for her *Frozen*-obsessed daughter, while her son got Amazon shares, as he was used to the packages appearing at the door when she ordered things. She then explained the link between buying a Disney film on DVD, via Amazon, and how the company makes money for shareholders.

Coventry Building Society, or 3.25% from NS&I if you want an account you can access online.

Putting the full annual limit into the top cash account every year would give your child £114,000 on their 18th birthday – more than £17,000 less than investing it. Parents putting money in cash accounts also need to make sure the interest rate isn't subsequently slashed, or that they switch accounts if it is.

But where are other parents investing the Junior ISA money? Looking at the portfolios of AJ Bell Youinvest accounts parents are investing in a mixture of active funds and passives in Junior ISAs.

A number have plumped for lower cost so-called all-in-one funds, such as Vanguard LifeStrategy or AJ Bell's passive funds, which spread the money across different markets and mean parents can take a more hands-off approach.

Investment trusts are also very popular, with **Scottish Mortgage (SMT)**, **F&C Investment Trust (FCIT)** and **Witan (WTAN)** among the most popular trusts.

Among funds **Fundsmith Equity (B41YBW7)** and **Lindsell Train Global Equity (B3NS4D2)** are the most popular.

WHAT YOUR MONEY COULD GROW TO?

Amount paid in	Size of pot on 18th birthday
£100 each Christmas	£3,008
£100 each Christmas and £100 each birthday	£6,016
£50 a month	£18,050
Full Junior ISA allowance every year*	£131,397

Source: AJ Bell. All figures assume the pot grows by 5% a year after fees, and that contributions start at birth.
*Assumes the full Junior ISA allowance is contributed every year, and that the allowance itself increases by 2% inflation each year

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

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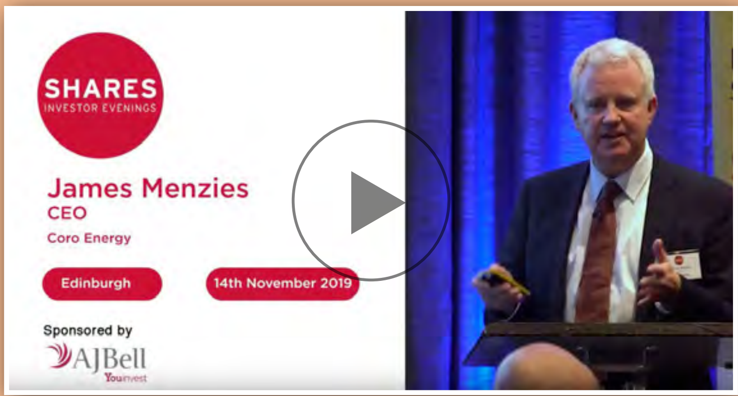
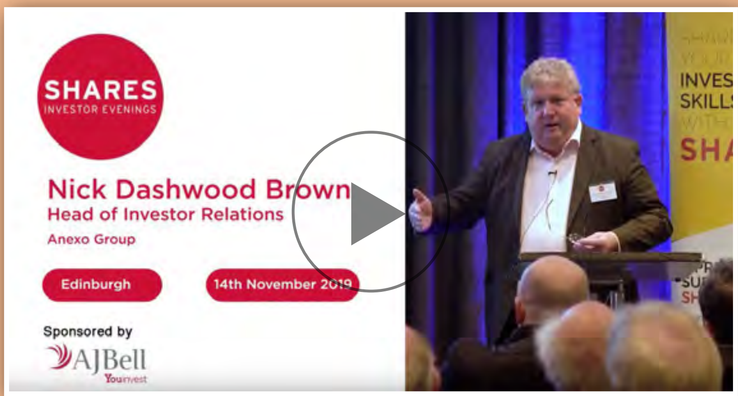


James Menzies, CEO
Coro Energy (CORO)

Coro Energy is a London-listed E&P Co building a portfolio in SE Asia. Winner of 2019 Energy Council, Asia Pacific New Entrant of The Year. Currently drilling in Duyung PSC, West Natuna basin, offshore Indonesia.

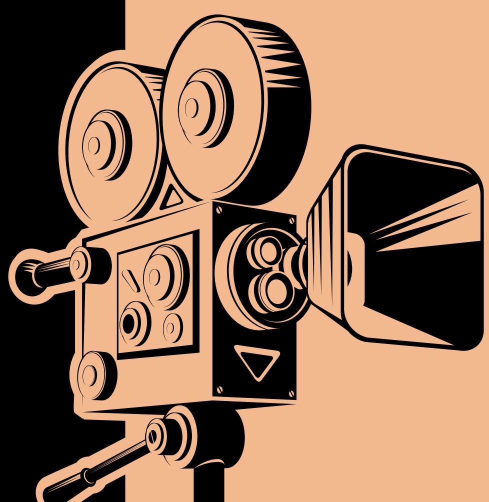


Nick Dashwood Brown, Head of Investor Relations
Anexo Group (ANX)

Anexo Group is a specialist integrated credit hire and legal services group focused on providing replacement vehicles. Its services include credit hire vehicle, upfront settlement of repair and recovery charges.

Eric Zurrin, CEO
Shanta Gold (SHG)

Shanta Gold is a gold producing company. The group's principal activities are the gold investment in mining, exploration, and production in Tanzania. Its main project operations are New luika gold mine, Singida and Songea.



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'What would happen to pension tax relief under Labour?'

AJ Bell's Tom Selby examines the potential impact to retirement savings

What would happen to pension tax relief under Labour? I know they've proposed increasing income tax for the wealthiest but wouldn't this just encourage more people to pile money into pensions?
Jeffrey

Tom Selby
AJ Bell
Senior Analyst says:

It's impossible to know for sure what either of the major political parties will do on pension tax relief. Neither the Conservative nor Labour manifesto documents discuss reform of retirement saving incentives specifically.

Labour's income tax proposals are targeted at the highest earners in the UK. The manifesto pledges to bring anyone with income over £80,000 into the 45% tax bracket (this currently only applies to someone earning above £150,000) and create a new 50% income tax rate for those earning above £125,000.

Before we get into the pension tax implications of these proposals, it's worth noting that this analysis does not apply to Scotland, which operates its income tax policy independent of the rest of the UK.

Pension tax relief gives you back the income tax you've paid on your earnings. Currently if you earn £60,000 you'll pay 40% tax on £10,000 (the bit above £50,000) and 20% on the rest (after your personal allowance). If you paid £20,000 (gross) into your pension you would therefore get 40% tax relief on £10,000, and 20% tax relief on the other £10,000.

You can only receive tax relief on contributions up to 100% of your UK earnings any given tax year. There is also the annual allowance to consider, which is set at £40,000 for most people although is lower for people who have accessed taxable income from their pension (£4,000) or have income of more than £150,000 a year (between £40,000 and £10,000).

If you contribute more than your annual allowance you will still receive tax relief in the usual way, but you will get an 'annual allowance charge' which recoups the extra tax relief you've had over the allowance.

For SIPP investors, tax relief is granted via the 'relief at source' system, whereby your provider adds 20% tax relief to your fund automatically and you claim back any additional relief through your tax return.

Assuming tax relief remained unchanged under Labour, its income tax plans would boost retirement saving incentives for those on the highest incomes.

For example, someone earning £100,000 would be able to save £5,000 in a pension at a net cost of £2,750 under a Labour Government – £1,000 added automatically through 20% tax relief, and a further £1,250 (25% relief) claimed back through their tax return. That's almost 10% less than the £3,000 it would cost to save the same amount at the moment.

Similarly, someone earning £160,000 could save £5,000 in a pension at a net cost of £2,500 under Labour, versus £2,750 under the current system.

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.

KEY

- **Main market**
- **AIM**
- **Investment trust**
- **Fund**
- **Exchange-traded fund**
- **Overseas share**

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

9 December: Hardide, Schroder European REIT. **10 December:** Driver, Nexus Infrastructure, Oxford Biodynamics, RWS. **11 December:** Autins, Stagecoach. **12 December:** Caretech, TUI.

Half year results

6 December: Reneuron. **9 December:** Circle Property, Panoply Holdings. **10 December:** Begbies Traynor, Mind Gym, Photo-Me. **11 December:** DWF. **12 December:** Dixons Carphone, Fuller Smith & Turner, Polar Capital Technology Trust, Purplebricks, Versarien, Vianet.

Trading statements

10 December: Ashtead. **11 December:** Ted Baker. **12 December:** Ocado, PZ Cussons, Serco.

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Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH.
Company Registration No: 3733852.