STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

2020 OUTLOOK

10 BIG QUESTIONS FOR THE YEAR AHEAD

DISCOVER THE BEST PERFORMING SHARES OF 2019

Not in vogue

We avoid trendy stocks to find unfashionable potential elsewhere.

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Follow these golden rules when searching for income

Understand the risks, how the income is generated and don't simply pick based on yield and dividend frequency

Investors continue to face obstacles in the search for income. In the past week alone, oil producer **Tullow Oil (TLW)** has suspended its dividend and troubled investment trust **Hadrian's Wall (HWSL)** says its future dividend payments will depend on its ability to realise value from its portfolio.

Vodafone (VOD), **Centrica (CNA)**, **Royal Mail (RMG)** and **Marks & Spencer (MKS)** have cut their dividends this year and **BT (BT.A)** may well be the next to follow suit.

Among savings accounts, fixed term bond rates have fallen throughout 2019 and are now at their lowest levels since 2017, according to research group Moneyfacts which also says one-year fixed-term ISA rates have been in decline this year.

Low rates on cash accounts and dividend setbacks among large cap stocks have driven investors to look elsewhere for better returns. Unfortunately there is a danger they venture into high-risk areas of the market – particularly high-yield funds – without fully understanding how higher sources of income are generated.

HIGH YIELD CHOICES

There are currently 64 open-ended funds and 128 investment trusts and venture capital trusts yielding 5% or more.

Many of these products generate a return greater than the market – for way of comparison, the FTSE All-Share yields 4.4% – by investing in higher-risk areas including aircraft leasing, emerging market debt, small business lending and retail property.

Anyone reliant on their investments to generate income to help pay the bills would need to be comfortable owning funds with such exposure. They would need to accept that higher risks must generally be taken to obtain higher yields.

GOLDEN RULES

There are a few simple rules to follow if you are investing for income. First, be diversified – make sure you aren't reliant on a single or handful of stocks for dividends.

"Don't forget to consider total return"

People often refer to funds as offering instant diversification but this isn't true for all of them. Some funds have a very concentrated portfolio of assets and when something goes wrong with one of their holdings, it can have a very bad effect on the whole product. So just remember to check the fact sheet to fully understand what's inside the fund.

The second rule is to understand how the income is generated and the risks involved. With shares, check to see if a high yield is the result of a falling share price as that is often a warning sign of troubles to come.

The third rule is not selecting a fund or stock purely based on its dividend payment frequency. Finally don't forget to consider total return – taking into account dividends AND changes to the value of your shares or funds. After all, what's the point in investing in something that is generating good income if the value of your capital is being eroded?

By **Daniel Coatsworth** Editor

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Property sector faces new crisis as dealing in two funds suspended

Bank of England is expected to reveal new plans to address problems among property funds

The risks associated with open-ended property funds have been brought home to investors again as trading in **M&G Property Portfolio (B89X8P6)** and **Prudential M&G Property Portfolio (0537296)** is suspended.

These events provide an uncomfortable reminder of the immediate aftermath of the Brexit vote when several funds in the space had to be 'gated' thanks to a wave of panic selling and, more recently, the suspension and planned liquidation of **Woodford Equity Income Fund (BLRZQ73)**.

There are differences now in that the suspended funds are linked – they are both from the M&G stable and the Prudential fund itself invests directly in the M&G fund.

Reports suggest the suspension of the latter was partly triggered by large selling by other managers within the wider M&G group. This raises questions over whether other investors who are now trapped in the fund should have been informed earlier on.

The structure of open-ended funds means they are more likely to run into liquidity problems than closed-ended funds. When investors sell or redeem their holdings in an open-ended fund, managers have to sell assets to meet these redemptions.

It's important to be able to buy and sell funds whenever you want but daily liquidity with property funds doesn't work like that. It can take months to sell a commercial property holding.

Funds often hold back money as a buffer against redemptions, something which impacts performance due to the low returns from cash.

The problem is becoming acute again due to the sheer level of outflows from property funds. According to Investment Association data the UK property sector recorded its 13th consecutive month of outflows in October with £1.8bn withdrawn.

The problem is exacerbated by some funds' exposure to retail assets where valuations are collapsing amid the shift to online retail.

There looks to be something of a domino effect from the M&G suspension. Nearly £100m was taken out of other UK property funds in the two days immediately after trading was suspended on the M&G and Prudential products, according to funds transaction network Calastone.

The Financial Conduct Authority is looking to address the issue with regulation, introducing improved oversight and forcing funds to explain the risks more clearly and come up with detailed plans to deal with liquidity issues.

However, these changes aren't currently set to be introduced until September 2020 and, with the situation becoming more and more pressing, the Bank of England is expected to reveal its own proposals in the coming days.

Stock market winners and losers from climate change

Carmakers and utilities could do well if they play their cards right, but unsurprisingly fossil fuel firms may struggle

Carmakers switching to electric vehicles and utilities moving to renewable energy could see their market values double in the next five years. That's according to a study by Vivid Economics, commissioned by the United Nations-backed Principles for Responsible Investment (PRI).

The research looked at how climate change could affect stock markets and in particular the average weighted change in the value of companies.

For example, the report states that sales of new internal combustion engine vehicles are expected to 'decline rapidly', eventually hitting zero in 2050 with all new car sales by then being of ultra-low emission vehicles.

It forecasts carmakers who quickly make the move into electric vehicles could see their market values increase by 108% on average, while those that are slowest or don't go into electric vehicles at all could see their values fall by a third.

While for utilities, by 2050 around 93% of total energy generation will be from low carbon sources and so those with the lowest emissions intensity stand to see their values increase by 104% on average, with those exhibiting the highest emissions intensity set to lose two thirds of their market value.

Other sectors examined by the study include fossil fuel producers and miners. Unsurprisingly for the fossil fuel companies – mostly coal producers and oil and gas firms – there's no likelihood their market values will rise, according to the study.

Companies which have coal as the highest source of revenue are forecast to be hit the most, with a 64% decline in market value, while those in the oil and gas sectors could drop in value by 29%. Miners of so-called 'green minerals', i.e. metals crucial for the low carbon transition, could benefit the most.

The reports forecasts they will see a 54% uplift in their values on average, while those still digging out things like coal could halve in value.

New sustainable water and waste fund

FIDELITY HAS LAUNCHED an open-ended UK-domiciled Sustainable Water & Waste Fund after the Luxembourg-domiciled equivalent fund reached $1bn of assets in just a year.

As manager Bertrand Lecourt explains: 'companies in the sector remain relatively unexplored by investors and there are very few funds dedicated to this unique theme.'

The fund has a ongoing charge figure of 0.9% and is benchmarked against the MSCI All-Countries World Index in pounds.

Premier Oil becomes major short-selling target

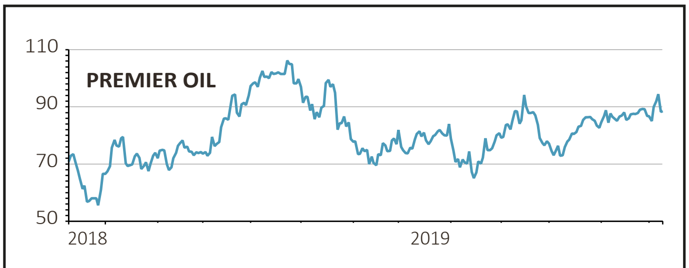
This trade looks to be slightly different to normal short selling which preys on companies in distress

Asia Research & Capital Management, a privately-owned asset management firm based in Hong Kong, has built up one of the largest ever short positions (£132m) in the UK market, targeting oil firm **Premier Oil (PMO)**.

Short-selling is betting that a share price will fall. It involves borrowing stock from institutional investors and then buying the shares back at a lower price in the market and pocketing the difference.

According to shorttracker.co.uk, Premier Oil has 20.5% of its shares held short, with ARCM representing 16.9%.

A high percentage of shares held short would usually be a signal that hedge funds were making a directional bet that the shares were likely to fall, but in the case of Premier Oil it seems that ARCM's motive is to hedge its approximate $380m holding in the company's debt which is repayable in May 2021.



Bond holders are higher up the legal pecking order than equity investors, and so in the event of a company failing to meet its debt obligations, equity holders often get wiped out. If this happened ARCM would make a 100% profit on its short position.

The difference in value between the bond and equity investment represents the estimated recovery value should Premier Oil default on its bonds.

FTSE 350 MOVERS OVER THE PAST WEEK

BEST PERFORMERS

STOCK	SHARE PRICE RISE	REASON
Dunelm	28.4%	Website revamp helps boost sales, expectations upgraded
Aston Martin Lagonda	15.5%	Bid speculation
Plus500	8.8%	Co-founder and strategy director buys £3.8m worth of stock

WORST PERFORMERS

STOCK	SHARE PRICE FALL	REASON
Tullow Oil	-67.0%	Production guidance downgraded, dividend suspended, CEO departs
Glencore	-10.3%	Bribery probe launched by Serious Fraud Office
TUI	-7.4%	Negative market sentiment heading into results

Source: Shares, SharePad. Data to 10 Dec 2019

Hidden in full view

FIDELITY JAPAN TRUST PLC

This investment trust uses local know-how to spot Japan's untapped potential.

Around 90% of Japanese small and mid-sized companies get little or no analyst coverage. As under-researched companies are more likely to be undervalued, that's an opportunity.

The trust looks to benefit from the more dynamic sectors of Japan's economy, focusing on fast growing but attractively valued stocks. With an acute understanding of this unique region and economy, combined with our hands-on local research, portfolio manager Nicholas Price and our team of analysts hone in on stocks often not picked out by others.

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

Past performance is not a reliable indicator of future returns. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. The trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies.

To find out more, go to fidelity.co.uk/japan or speak to your adviser.

PAST PERFORMANCE

	Aug 14 – Aug 15	Aug 15 – Aug 16	Aug 16 – Aug 17	Aug 17 – Aug 18	Aug 18 – Aug 19
Net Asset Value	12.9%	15.1%	32.0%	22.7%	-5.3%
Share Price	10.7%	22.6%	26.3%	21.4%	-1.3%
TSE Topix Total Return Index	13.2%	19.8%	20.8%	8.3%	-0.5%

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 31.08.2019, bid-bid, net income reinvested.
©2019 Morningstar Inc. All rights reserved. The TSE Topix Total Return Index is a comparative index of the investment trust.

MONEY OBSERVER RATED FUND 2019

Fidelity INTERNATIONAL

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Why QinetiQ is much more dynamic than the market thinks

The company has transformed into an integrated global defence and security business with good growth opportunities

Perceived as a sleepy and slightly secretive provider of innovative test and evaluation of military platforms to the Ministry of Defence, **QinetiQ (QQ.)** has transformed its commercial capabilities under chief executive Steve Wadey.

Management implemented a new growth strategy three years ago with the goal of building an integrated global defence and security business. The prize being to gain a share of the estimated £8bn total addressable market.

The vision is to take advantage the company's leading position in providing generation and assurance of defence and security services by targeting select countries with a view to generating at least 50% of future revenues from outside Britain.

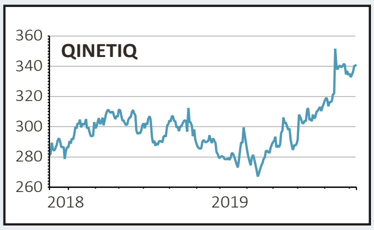
The company is well on its way to achieving its strategic goals and overseas revenue now represents around 30% of the group, having doubled over the last three years.

The recent first half results demonstrate the magnitude of change achieved with organic growth in orders up 30%, revenue up 10% and operating profit up 8%.

Not only are international markets larger than the UK,

QINETIQ ↗ BUY
(QQ.) 341p
Stop loss: 250p

Market cap: £1.9bn



but there are organic growth opportunities too, with an estimated compound annual growth rate (CAGR) of more than 4% out to 2023 according to consultancy Jane's Market Forecast.

In addition to boosting organic growth the company is targeting select acquisitions and recently accelerated its US growth by agreeing to buy MTEQ, a US-based state-of-the-art sensing technology company. This increases the US to 25% of group revenue.

The acquisition creates a leader in advanced sensing, robotics and autonomy, seen as critical building blocks for modern warfare. The operation has around 750 employees and revenues of approximately $300m a year.

MTEQ is expected to deliver low-teens revenue growth and operating margins of more than 7% in year to 31 March 2021 with opportunities to expand profitability with increasing scale.

Meanwhile in the UK, QinetiQ has initiated a two-year transition programme to deliver new processes and ways of working, for example digitalising testing and evaluation to combine live, synthetic and virtual asset threats.

QinetiQ is a high quality business that has achieved an average return on equity of 26.4% over the last five years with stable operating margins around 14%. The business transformation has put the company on a sustainable growth path which should reward shareholders over time.

On that basis a price-to-earnings ratio of 16.1 times March 2021 consensus forecast earnings does not look unreasonable.

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Visionary entrepreneurs offer opportunities for great wealth creation. The **Scottish Mortgage Investment Trust** actively seeks them out.

Our portfolio consists of around 80 of what we believe are the most exciting companies in the world today. Our vision is long term and we invest with no limits on geographical or sector exposure.

Our track record as long-term, supportive shareholders makes us attractive to a new breed of capital-light businesses. And our committed approach means we can enjoy a better quality of dialogue with management teams at transformational organisations. Over the last five years the **Scottish Mortgage Investment Trust** has delivered a total return of 124.7% compared to 101.9% for the sector*. And Scottish Mortgage is low-cost with an ongoing charges figure of just 0.37%**.

Standardised past performance to 30 September*

	2015	2016	2017	2018	2019
Scottish Mortgage	4.2%	37.0%	30.3%	29.0%	-6.4%
AIC Global Sector Average	4.3%	29.0%	26.2%	19.2%	-0.2%

Money Observer Trust Awards 2019 Global Growth Scottish Mortgage

Past performance is not a guide to future returns.

Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.

For a farsighted approach call **0800 917 2112** or visit us at **www.scottishmortgageit.com**

A Key Information Document is available by contacting us.

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Long-term investment partners

*Source: Morningstar, share price, total return as at 30.09.19. **Ongoing charges as at 31.03.19 calculated in accordance with AIC recommendations. Details of other costs can be found in the Key Information Document. Your call may be recorded for training or monitoring purposes. Issued and approved by Baillie Gifford & Co Limited, whose registered address is at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, United Kingdom. Baillie Gifford & Co Limited is the authorised Alternative Investment Fund Manager and Company Secretary of the Company. Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority (FCA). The investment trusts managed by Baillie Gifford & Co Limited are listed UK companies and are not authorised and regulated by the Financial Conduct Authority.

Why you should buy Aberdeen Japan Investment Trust now

Performance pick-up at smaller company-focused trust should see discount narrow

Investors should buy **Aberdeen Japan Investment Trust (AJIT)** at an attractive 9.4% discount to net asset value (NAV). This has scope to narrow as performance improves and an enhanced dividend policy stimulates demand.

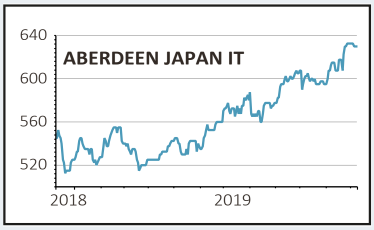
Trade tensions between the US and China as well as Japan and South Korea are headwinds for the Japanese equity market, yet this fund's exposure to mid and small caps with wide competitive moats and strong balance sheets should help it avoid the pitfalls and capture any upside Japan provides in 2020.

Managed by Aberdeen Standard Investments, Aberdeen Japan targets capital growth by investing in companies with above-average growth prospects. After adopting a Japan-focused mandate back in 2013, the trust underperformed for some time, although it has outperformed more recently.

Risks to weigh include the fact Aberdeen Japan is the least liquid Japanese investment trust and its portfolio is concentrated. Since the mandate change, the proportion of small cap companies has increased. This could prove positive in the year ahead, as small caps could be more immune to trade war tensions and the rising yen.

ABERDEEN JAPAN INVESTMENT TRUST BUY
(AJIT) 630p
Stop loss: 504p

Total assets: £110m



For the six months to 30 September, Aberdeen Japan's share price and NAV outperformed the Topix benchmark. And after several false dawns, corporate governance is improving and payout ratios are rising in Japan, making it a far more attractive market for investors.

Admittedly, the ongoing trade tussle between the US and China has dampened Japan's corporate earnings and October's VAT hike has crimped household spending, yet the fund is invested in domestic firms whose growth potential could prove more resilient.

They include skincare products maker Shiseido, 'running a cost-cutting programme even as it expands' according to Chern-Yeh Kwok, Aberdeen Standard Investment's head of Japanese equities.

The trust is also invested in firms that have diversified overseas to reduce dependence on the Japanese market such as baby products maker Pigeon, which is targeting a growing middle class population in China and South East Asia.

Chern-Yeh Kwok believes market leaders with strong balance sheets are best able to drive their own growth, sustain dividend payments and capitalise on record low interest rates to complete earnings-enhancing acquisitions.

Among names in the fund, non-life insurer Tokio Marine bought a US-based peer to tap into the market for wealthy clients; and air con specialist Daikin bought a European freezer manufacturer.

Other portfolio positions include Chugai Pharmaceutical, musical instrument maker Yamaha and car and motorbike parts maker Musashi Seimitsu.

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SENECA GLOBAL INCOME & GROWTH TRUST PLC

Our aims are simple and ambitious:

- A total return of at least CPI plus 6 percent per annum after costs, over a typical investment cycle*
- Low volatility
- Aggregate annual dividend growth at least in line with inflation

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Find out more about Seneca Investment Managers at senecaim.com or call us on 0151 906 2450

The value of investments and any income may fluctuate and investors may not get back the full amount invested.

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TESCO
(TSCO) 243.2p

Gain to date: 2.7%

Original entry point:

Buy at 236.9p, 23 May 2019

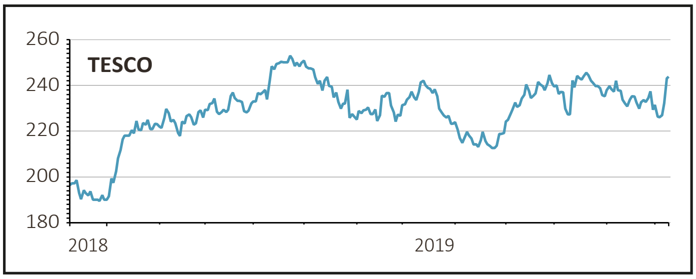
IN ANTICIPATION OF a tough summer compared with last year's abnormally strong sales, in the spring **Tesco (TSCO)** reduced its number of product lines and put more resources into its own-brand offerings, but growth has remained elusive. UK like-for-like grocery sales were down 0.3% in the first half, although this was partly offset by strong growth at its wholesale business Booker.

Since the summer the priority for chief executive Dave Lewis has been to streamline the business before handing the reins to Ken Murphy who joins from Walgreen Boots Alliance next year.

In September, the mortgage business was sold to **Lloyds (LLOY)** for £3.8bn, a slight premium to its £3.7bn book value. The sale not only generated a healthy cash inflow, allowing Tesco to reinvest in prices to maintain market share, it also meant it no longer had to put capital behind a business with minimal profits.

This week Tesco confirmed it is considering the sale of its Malaysian and Thai businesses after receiving an unsolicited approach. The Asian businesses should fetch a good price, allowing the grocer to continue focusing on its home market.

With consumer confidence subdued due to election uncertainty, Britain's biggest retailer is in pole position to benefit once spending picks up again.



SHARES SAYS:

We continue to back Tesco in the battle for shoppers' wallets. Buy

COMPUTACENTER
(CCC) £16.52

Gain to date: 36.5%

Original entry point:

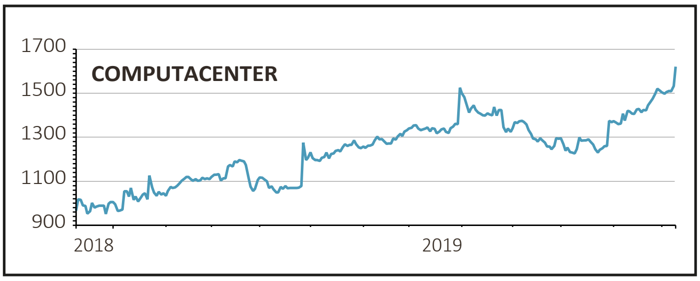
Buy at £12.10, 2 May 2019

OUR FAITH IN IT business **Computacenter (CCC)** continues to be rewarded. A trading update on 10 December revealed full year profit and earnings per share would be 'well ahead' of current market forecasts due to a strong showing from established businesses and its recent US acquisition, FusionStorm.

The improvement at FusionStorm is encouraging after it endured a difficult first half. The group is also benefiting from the fact that a number of problem contracts, which involved material provisions in 2018, are now performing in line or slightly ahead of expectations.

Computacenter says is still has plenty to do in December, typically its busiest month, but also says visibility is starting to improve. Investors don't have too long to wait to hear how December went, with a pre-close trading update scheduled for 23 January.

We still like the company's three-pronged strategy of selling computer equipment, software and providing outsourced IT solutions. This approach has delivered steady growth, robust profit and cash flow and generous dividends over several years and that shows little sign of changing.



SHARES SAYS:

Still a buy

SHARES AJBell

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Best performing shares of 2019: why they soared

We reveal the top risers across four different segments of the market

£4BN+ MARKET CAP

Name	Sector	Year to date change (%)
JD Sports Fashion	Apparel retailers	117
Aveva	Software	87
Next	Diversified retailers	65
London Stock Exchange	Investment services	65
Intermediate Capital	Investment services	64
Halma	Electronic equipment	55
Avast	Computer services	53
Ocado	Food retailers and wholesalers	51
Polymetal	Gold mining	45
Rightmove	Consumer digital services	44

Source: SharePad. Data as of 4 Dec 2019 Excludes investment trusts

JD SPORTS FASHION (JD.) +117%

Retail sector darling **JD Sports Fashion (JD.)** sprinted higher once again in 2019. The branded sports and casual wear purveyor stormed into the FTSE 100 on record results and consistent earnings upgrades.

Like-for-like growth in the core sports fashion business was driven by the savvy mining of an athleisure boom among youthful gym-goers.

Investors also grew increasingly excited about the acquired Finish Line business which provides a platform for growth in the US.

The year also saw JD Sports acquire ailing smaller rival Footasylum, although the deal is being probed by the Competition and Markets Authority.

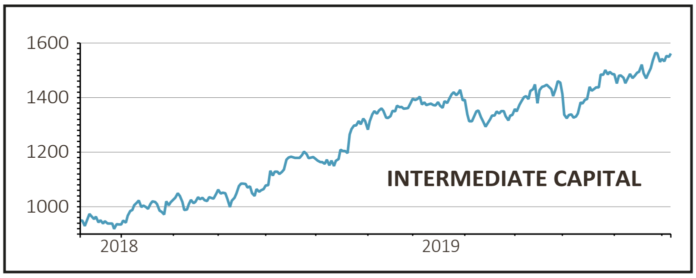
AVEVA (AVV) +87%

This was the year when investors really embraced the compelling power of **Aveva's (AVV)** industrial engineering software potential and stopped quibbling about the value of the shares.

Aveva is bringing disruptive technology to an engineering industry that is finally starting to embrace digitisation because of the obvious creativity and cost efficiency benefits.

No-one wants to risk spending millions building a potentially flawed ship, oil rig, power plant or plane when the design can be tested in virtual reality in almost every way beforehand.

INTERMEDIATE CAPITAL (ICP) +64%



The specialist asset manager is focused on debt and private equity finance for corporate investments. It manages over €40bn of assets mainly in closed-end funds.

Results for the six months to 30 September showed group pre-tax profit up 24% to £153m thanks to €4.6bn of net inflows, strong investment performance and increased fees.

The firm raised its interim dividend by 50% and increased its operating margin target from 43% to 50% based on its positive outlook for the full year. Chairman Kevin Parry described the business as 'more robust than at any time in the company's history'.

POLYMETAL (POLY) +45%

Russian gold miner **Polymetal (POLY)** has hitched a ride from a rising gold price in 2019. It has also beaten production guidance numbers and kept costs down.

Unlike a lot of other miners this year, the company hasn't been plagued by the operational problems commonly seen across the sector as it repositioned itself to focus on larger, low-cost assets.

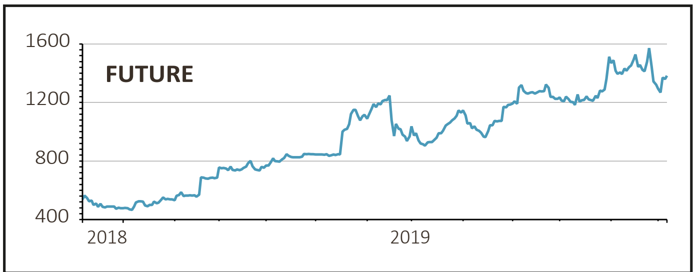
A third quarter update (24 Oct) revealed full year production is likely to exceed previous guidance, while revenue jumped 43% on the back of higher commodity prices.

£1BN - £4BN MARKET CAP

Name	Sector	Year to date change (%)
Future	Publishing	165
Pets at Home	Specialty retailers	109
GlobalData	Publishing	97
Dart Group	Airlines	91
IWG	Professional business support services	91
Boohoo	Apparel retailers	90
Softcat	Computer services	89
Games Workshop	Toys	86
Spirent Communications	Telecommunications equipment	82
Gamma Communications	Telecommunications services	74

Source: SharePad. Data as of 4 Dec 2019

FUTURE (FUTR) +165%



Media group **Future (FUTR)** has had yet another good year. Chief executive Zillah Byng-Thorne has transformed the business, buying up titles which operate in niche areas and fully exploiting their content through a mix of digital advertising, e-commerce, events and getting readers to click through to partnered retailers.

On 31 October the market responded positively to the £140m acquisition of Ti Media, publisher of titles including *Marie Claire UK* and *Country Life*, and to record full year results which beat market expectations and saw upgrades to earnings guidance for the current financial year (15 Nov).

GLOBALDATA (DATA:AIM) +97%

Data analytics and consulting firm **GlobalData (DATA:AIM)** had a breakthrough year in 2019 building on its £90m acquisition of Research Views in April 2018.

The strategy is to create a genuinely differentiated product which is embedded in the working processes of the world's largest industries. This includes sectors such as retail, finance, oil and gas and technology.

All these areas have been unified under a single platform, creating benefits in terms of margin performance. The company swung to a profit of £5.2m in the six months to 30 June from a loss of £4.2m in the same period a year earlier.

BOOHOO (BOO:AIM) +90%

Shares in pure-play online fashion retailer **Boohoo (BOO:AIM)** put smiles on investors' faces in 2019, surging 90% higher as positive earnings momentum fostered bumper appetite for the stock.

Boohoo's delivery of rapid growth in the UK and overseas drove earnings upgrades and was all the more impressive given the dire backdrop for apparel retailers and the downgrades suffered by closest quoted peer **ASOS (ASC:AIM)**.

During the year, sales surpassed the £1bn mark, Boohoo's net cash pile fattened up and the firm also added to its Boohoo, PrettyLittleThing and Nasty Gal brands by acquiring the Karen Millen, Coast and MissPap labels.

Boohoo recently hailed 'a record performance' across the Black Friday weekend with CEO John

Lyttle highlighting strong operational performances from its warehouses in Burnley and Sheffield.

SOFTCAT (SCT) +89%

If you believe that technology is now in the very knitting of almost every organisation, then you'll have a feel for why **Softcat (SCT)** has performed so well in 2019.

The Marlow-based company is what's called a value-added reseller. It sells a wide selection of third party software to small and medium-sized companies and public sector organisations, and provides PCs, smartphones and other devices.

It offers deep technology expertise and advice, effectively removing the burden of customers managing multiple IT products and service relationships by using it as a trusted point of contact.

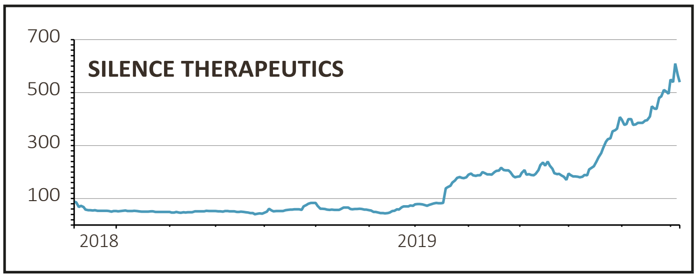
What's changed this past year is that the penny has finally dropped with investors regarding the scope of growth open to the company. With just 6% UK market share, analysts already forecast 50% growth through to 2021, but the company is much more ambitious, aiming for 11% or 12% market share over the next few years, implying a £2bn revenue opportunity.

£200M - £1BN MARKET CAP

Name	Sector	Year to date change (%)
Silence Therapeutics	Biotechnology	933
Shield Therapeutics	Pharmaceuticals	521
Rockrose Energy	Offshore drilling and other services	214
ITM Power	Renewable energy equipment	156
Ienergizer	Professional business support services	145
Judges Scientific	Electronic equipment	120
Jadestone Energy	Offshore drilling and other services	108
Alpha FX	Investment services	97
Rank	Casinos and gambling	82
Knights	Professional business support services	80

Source: SharePad. Data as of 4 Dec 2019

SILENCE THERAPEUTICS (SLN:AIM) +933%



Silence Therapeutics (SLN:AIM) is developing a new generation of medicines by harnessing the body's natural mechanism within its cells to target treatment of serious diseases.

The shares shot up an astonishing 933% to 600p this year on the back of a steady stream of positive trial announcements and a commercial tie-up to monetise its unique technology.

In July the firm announced collaboration with US biotechnology firm Mallinckrodt regarding the commercialisation of its key SLN500 treatment. Silence received an upfront payment of $20m as well as royalties on net sales.

In addition, the deal provides for potential added clinical and regulatory milestone payments of up to $100m for SLN500, as well as commercial milestone payments of up to $563m.

ROCKROSE ENERGY (RRE) +214%

Formed in 2016 to take advantage of opportunities to acquire assets in the North Sea more cheaply in the wake of a collapse in the oil price, **RockRose Energy (RRE)** has seen its share price increase by several multiples in the interim.

A series of deals have helped build production to 20,000 barrels of oil equivalent per day. The most high profile is the £107m purchase of assets from Marathon Oil which completed in July 2019.

Alongside first half results (24 Sep) the company announced its first dividend payment of 25p, underpinned by a 429% increase in operating cash flow to £51.9m.

ALPHA FX (AFX:AIM) +97%

The AIM-quoted group helps businesses to manage their foreign exchange exposure and liabilities.

Clients include retailers such as ASOS and

Halfords (HFD), which buy goods in euros or other currencies and sell them to UK customers in pounds, and energy companies whose products are bought and sold on world markets primarily in US dollars.

At its half year results the firm posted a 60% increase in revenue and a 70% increase in operating profit thanks to new customers in the UK and new operations overseas.

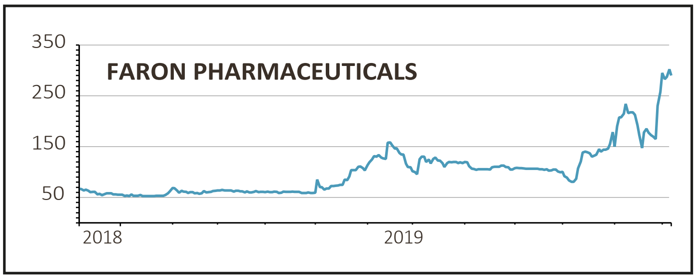
A trading update in October saw Alpha say full year results would beat market expectations.

£50M - £200M MARKET CAP

Name	Sector	Year to date change (%)
Faron Pharmaceuticals	Biotechnology	410
Futura Medical	Pharmaceuticals	400
Eurasia Mining	Platinum and precious metals	400
AFC Energy	Alternative fuels	334
Proton Power Systems	Electronic equipment	240
Zoltav Resources	Integrated oil and gas	225
Luceco	Electronic components	216
GAN	Software	177
Ten Lifestyle	Travel and tourism	167
Renalytix AI	Medical equipment	157

Source: SharePad. Data as of 4 Dec 2019

FARON (FARN:AIM) +410%



Clinical stage biotechnology company **Faron (FARN:AIM)** has seen its shares rise by 410% this year on increasing hopes around its key drug Clevegen, a novel precision cancer immunotherapy targeting inoperable solid tumours.

The market's enthusiasm was justified in November with the announcement that the US Food and Drug Administration had approved an expansion of the original trial.

Faron plans to open new study sites in the US to facilitate a rapid expansion of the study, investigating the safety and efficacy of Clevegen in various cancer cohorts.

GAN (GAN:AIM) +177%

The company provides a technology platform which helps clients convert their marketing dollars into more first-time gamblers.

GAN has seen a stark change of fortune after putting itself up for sale in a strategic review announced on 29 March.

That turned out to be close to the lows for the year for the shares, which have since responded to a string of positive developments in the key US market, leaving the stock up 177% so far this year.

GAN subsequently decided against a business sale and opted for an additional stock market listing in the US. A trading update for the four months to 31 October saw operator revenue jump 269% to $40.6m.

TEN LIFESTYLE +167%

Tech-led personal concierge service **Ten Lifestyle (TENG:AIM)** has more than doubled its value this year after consistently winning new contracts.

The company, which mainly partners with banks to offer perks to their high net worth clients, gained and retained customers in several parts of the world, giving it a bigger global reach than it has had in previous years.

It has also improved its digital platform, which along with the contract wins helped drive a 23% increase in revenue in its full-year results (26 Nov).

Going forward, the firm has said it is not significantly affected by macroeconomic conditions, because when the going gets bad, the last thing big banks want to do is lose valuable clients, and so offering Ten Lifestyle's perks helps keep those customers.

By **The Shares team**

2020 OUTLOOK

10 BIG QUESTIONS FOR THE YEAR AHEAD

By **The Shares Team**

It feels like we are at a major turning point for markets. This year has been dominated by concerns about the US/China trade war, a slowdown in the global economy, Brexit and whether equity markets have peaked.

Next year it feels like we could get more clarity over the trade war and Brexit which in turn might help to provide some answers over the direction of the global economy and how investors could best make positive returns.

In this article we've pulled together some of the most important questions on investors' minds concerning these topics and added a few more questions which we think people will be asking in 2020.

WILL THE US STOCK MARKET DELIVER ANOTHER YEAR OF STELLAR RETURNS?

US stock markets have posted unusually strong returns so far this year. The S&P 500 Composite index is up 26% compared to an average annual return of 8% since the index started in 1957 up to the end of last year.

The biggest driver has been the change in attitude of the Federal Reserve, which switched from raising rates in the first quarter to cutting rates and since then has been perceived as 'having the market's back'. Investors know that at the first sign of market stress the Fed will cut rates.

That situation is likely to persist into 2020, but there are growing headwinds meaning gains next year are likely to be less spectacular.

A key event in 2020 is the US presidential election. Even if Donald Trump wins a second term, the Democrats are still likely to control the Senate and will seek to raise corporate taxes, denting profits. Rising labour costs are also likely to eat into earnings.

Progress on a trade deal with China is another potential stumbling block. Economists at Goldman Sachs estimate that the impact of the trade war this year has been to knock 0.4% off US growth.

While US voters support Trump taking on China over its 'unfair' trade practices, there is a fundamental difference at stake. As JP Morgan's chief strategist Karen Ward says, China believes in industrial policy, the US doesn't.

The US consumer is also

likely to be in focus next year. Consumer spending is crucial to the health of the US economy. Happily the household savings rate of 8% is comfortably above the 20-year average of 6%, while the fall in mortgage rates thanks to Fed rate cuts has reinvigorated the housing market.

However consumer confidence has slipped in the past few months and

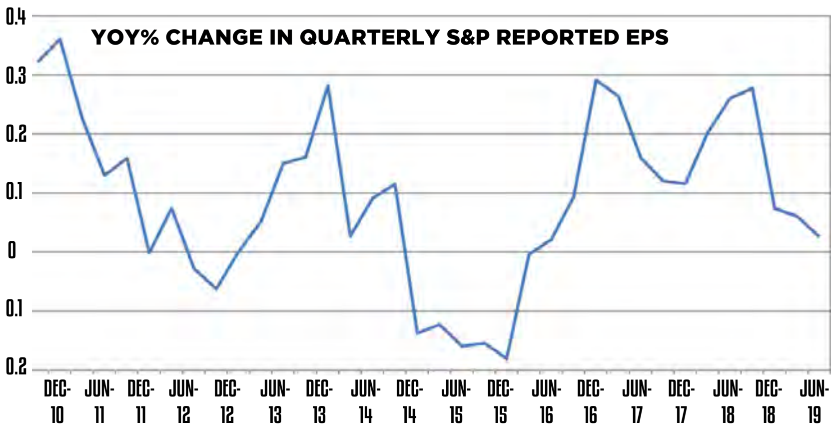
a weak stock market risks creating a ‘doom loop’ of falling confidence and falling share prices.

The final headwind is valuation. On a cyclically-adjusted price-to-earnings (CAPE) basis, the US market has only been more expensive than it is currently on two occasions: before the 1929 Wall Street crash and before the 2000 tech bubble burst.

WILL CORPORATE EARNINGS CATCH UP WITH EQUITY MARKETS IN 2020?

The US tends to set the tone when it comes to equity markets, and so far 2019 earnings are setting a low bar to beat in 2020. The chart shows that reported earnings growth has been slowing since January 2017 if you ignore the one-off tax break that boosted 2018 earnings.

Investors are clearly eying the lush-green pastures of 2020 and resumption in



Source: S&P

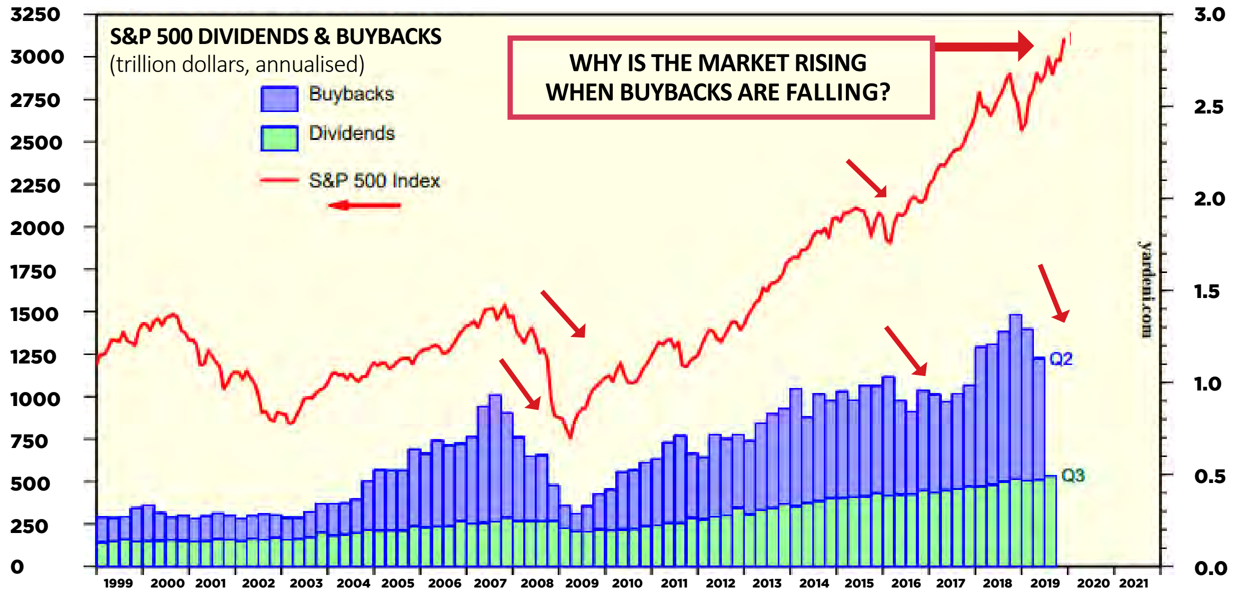
global growth once the US-China trade war abates.

We don’t know yet how the rest of 2019 will pan out, but the weakening trends are in stark contrast to the optimism built into prices.

Current consensus estimates have earnings per share growing around 10% for next year down from around 13% earlier in the year. Goldman Sachs thinks it will come down further to 6%, but doesn’t see it as a problem for stocks.

However, one sign that

> **“WE DON’T KNOW YET HOW THE REST OF 2019 WILL PAN OUT, BUT THE WEAKENING TRENDS ARE IN STARK CONTRAST TO THE OPTIMISM BUILT INTO PRICES”**



Source: Standard & Poor's

should make investors ponder such rosy forecasts is the rough 30% reduction in share buybacks this year. In the first quarter of the year companies purchased around $900bn worth of shares, double the amount of dividends paid out to investors. That has since fallen to $657bn.

Historically, falling buybacks have been accompanied by falling stock prices as the chart illustrates.

WILL THE TRADE WAR EVER GET RESOLVED?

The answer likely hinges on the unpredictable actions of Donald Trump. He said in early December 2019 that a trade agreement with China could wait until after November 2020's presidential elections.

This undermined hopes that the trade war which has dominated the market mood since early 2018 would be resolved soon. Investors, who had already seen the markets price in a so-called 'phase one' agreement between Washington and Beijing, will hope it is merely a negotiating tactic to squeeze more concessions out of China.

1 – 14 Aug 2017 – Trump orders probe into Chinese IP threat (first direct measure against China)

2 – Apr 2018 – US announces tariffs on steel and aluminium imports and Chinese goods, Beijing retaliates

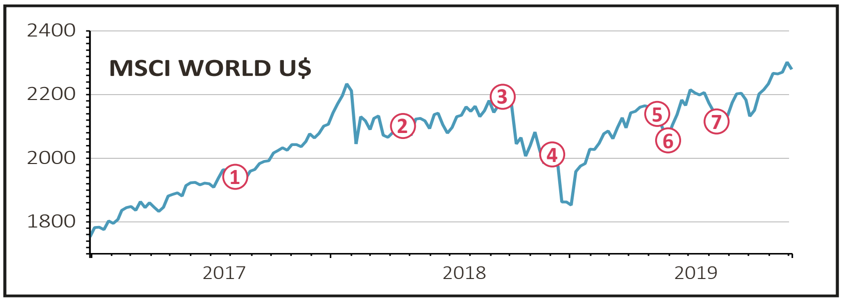
3 – 23 Aug 2018 – First US and Chinese tariffs are implemented

4 – 1 Dec 2018 – Ceasefire agreed with 90-day halt to new tariffs

5 – 8 May 2019 – US gives formal notice of intent to raise tariffs on Chinese goods

6 – 29 Jun 2019 – Agreement to restart trade talks

7 – 13 Aug 2019 – Threatened new tariffs are delayed until 15 Dec 2019



Source: Shares

Tariffs scheduled to be implemented on Chinese goods from 15 December will offer an early test of

Trump's intentions. But if the US leader means what he says when he describes his country as doing 'very well' from the trade war, then there is a clear risk of an escalation.

This could include the $7.5bn worth of tariffs being readied on imports from Europe in response to illegal subsidies for European aircraft maker Airbus, as well as threatened retaliation to French taxes on US tech companies.

On the flip-side, the incentive for Trump in dialling down tensions is to keep the economy on course, thereby boosting his re-election hopes at the end of the year.

CAN GOVERNMENTS PICK UP THE SLACK FROM CENTRAL BANKS?

In the wake of the financial crisis the world's central bankers have looked to keep growth on track through the availability of cheap cash, pursuing loose monetary policies.

They have busily lowered interest rates and introduced so-called quantitative easing, increasing money supply by buying bonds. Now they want governments to do their part through fiscal interventions. This means increasing state spending in areas like infrastructure to help give the economy a boost.

Christine Lagarde, the newly installed chief of the

European Central Bank, recently called for Eurozone countries with the necessary capacity, such as Germany and the Netherlands, to invest more in infrastructure, education and innovation.

In some respects central bank policy has set the stage for this increase in spending. Investment bank JPMorgan observes: 'Low interest rates are an enormous cash windfall for governments, and could encourage governments to turn on the fiscal taps.'

If this happens there is the potential for a double dividend as jobs are created and productivity is improved through the extra investment.

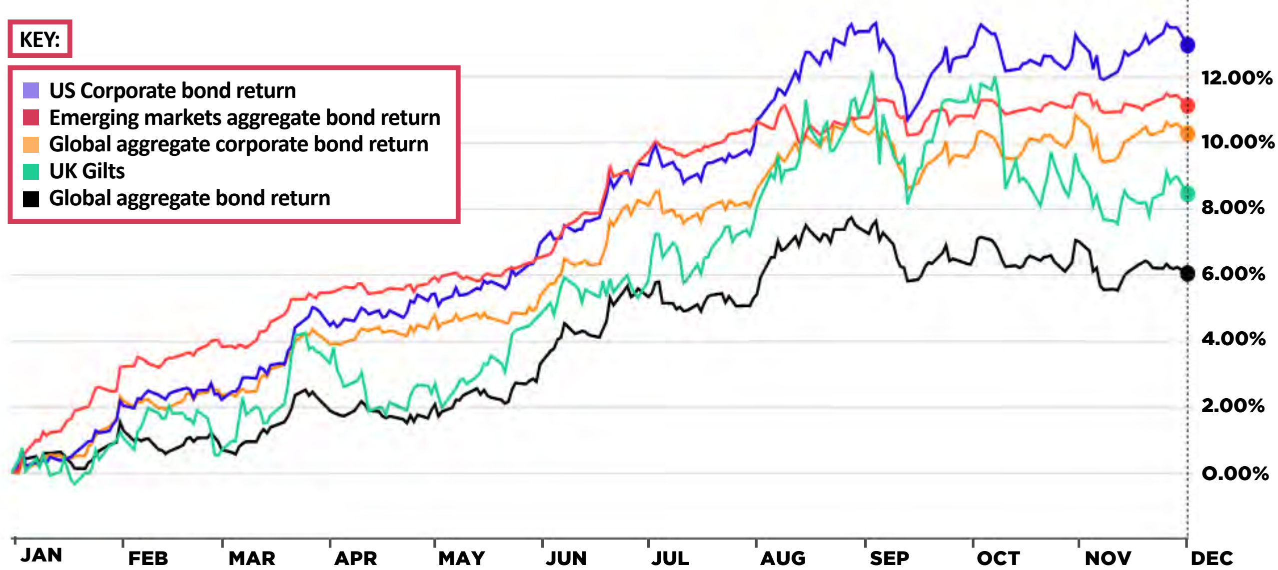
Increased borrowing would be likely to play a big part but higher government spending raises the possibility of increased corporate taxation down the line to help foot the bill. This could undermine business confidence and act as a constraint on growth longer term.

CAN BOND PRICES CONTINUE TO RISE AFTER SUCH A GREAT 2019?

Bonds normally act as a safety zone for investors and tend to do well when equities enter a down phase. However bond strength in response to an equity market wobble last autumn continued into the beginning of this year resulting in strong returns across the fixed income spectrum, from government bonds to corporate and high yield.

Continuing US-China trade tensions and Brexit wrangling has had a dampening effect on global trade and consequently most economists are now predicting slower growth. Meanwhile inflation expectations remain subdued, resulting in little or

LOOK HOW WELL BONDS HAVE PERFORMED THIS YEAR



Source: Bloomberg

no pressure on bond yields.

Some investors see a constructive resolution of these risks as a catalyst for the resumption of global growth which would see bond yields rise and prices fall. But some bond fund managers are less optimistic about growth.

Mike Riddell of Allianz Global Investors thinks the risks are rising. He tells *Shares*: 'we continue to believe that we are at, or approaching, the end of the economic cycle and the risk of a US/global recession next year is still very real.'

In terms of what to avoid, it's all about what's priced in and for Riddell the extra yield on a corporate bond over a government bond is now very close to the historically tight levels seen in June 2007, immediately before the last crisis began.

'In light of this, near record low levels of credit spreads makes no sense and we're avoiding corporate debt at the moment,' he says.

Chris Bowie, a bond fund manager at TwentyFour Asset Management, concurs and says now is not the time to reach for risk in high yield, emerging markets, nor private credit fixed income. He adds: 'Roughly one-fifth of our portfolios are in government bonds to protect capital and lower volatility.'

Clearly it will be more important for bond fund managers to be selective in 2020, with government bonds again reverting to their traditional 'haven' status, while corporate and high yield will face more challenging conditions.

WILL IT BE HARDER TO FIND DECENT SOURCES OF INCOME IN 2020?

Yield scarcity will be one major challenge facing investors in 2020. The sustainability of UK equity income streams has been called into question, with underlying dividends across the market falling by almost 3% on a constant currency basis during the third quarter of 2019 – the worst quarterly performance for three years.

While the latest Link

Group UK Dividend Monitor revealed overall UK dividend growth of 6.9% over the third quarter, this was driven by special dividends and exchange rate gains due to the depreciation of sterling.

Brendan Gulston, co-manager of the **Gresham House UK Multi Cap Income Fund (BYXVGS7)**, points out that with more than half the FTSE 100's dividends coming from just 10 companies, 'most UK equity income strategies are disproportionately invested in a relatively small number of mega-cap stocks'.

Don't assume that

very large companies are dependable dividend payers. Their dividends can still be volatile, as highlighted by the 40% dividend cut for **Vodafone (VOD)** earlier this year.

Investors seeking dividend diversification may want to look to the small and mid-cap market, where Gulston says he is witnessing 'numerous under-researched and under-the-radar companies displaying considerable dividend generation potential over the coming years'.

Calum Bruce, investment manager at **Ediston Property Investment Company (EPIC)**, believes real estate should remain appealing to investors as a way to access strong, sustainable income.

'With many property investment trusts trading at discounts in the region of 10% to 20%, and with yields in the region of 5% to 7%, one has to question at what point sentiment towards Brexit and retail has been more than fully reflected in the share price of select investment trusts.'

HOW BIG COULD ESG INVESTING GET?

The answer is very big. The growing consensus in investment fund circles is that environmental, social and governance (ESG) investing will be the norm within five years, that is to say part of mainstream investing.

The drivers are regulatory changes from governments around the world and, far more crucially, rapidly increasing demand particularly from women, millennials and high net worth individuals.

A Bank of America report predicts a 'tsunami of assets' is poised to flow into ESG investments, with over $20trn of growth in ESG funds in the US alone over the next two decades,

equivalent to the size of the S&P 500 today.

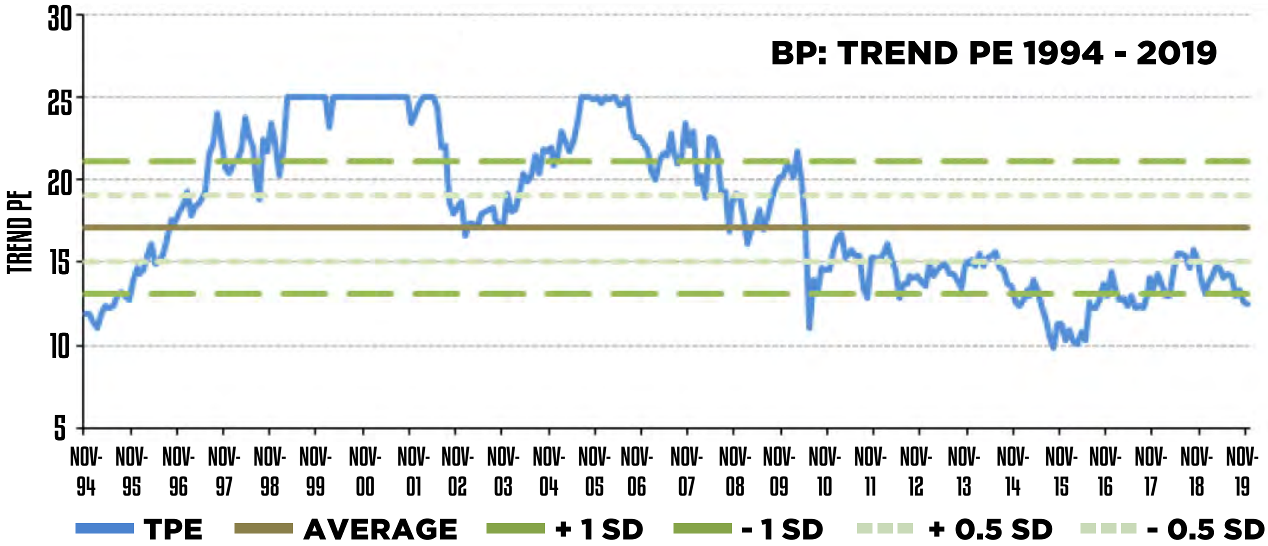
Exchange-traded funds (ETFs) are expected to flourish as more ESG-specific indices are created.

Rebecca Healy, head of market structure at brokerage Liquidnet, says ESG can no longer be seen as an investment 'fad' and is now the way investors determine if a company's business model is sustainable.

She explains: 'Whether that is the automotive company that is investing in the latest active safety technology or a technology company that offers the largest database of academic research at free or low cost to developing nations, or companies investing in electric charging infrastructure to make cities more efficient.

'This isn't about hugging trees. It's about identifying the economic success stories of the future.'

SHOULD OILS, BANKS AND INSURERS TRADE ON PERMANENTLY LOW MULTIPLES?



TPE = Trend PE, SD = Standard deviation. Source: M23 Research

In recent weeks we have discussed the possibility of 'value' stocks re-rating at the expense of 'growth' stocks, and market trends would suggest there is life in the value strategy yet.

However, some sectors look to be so structurally challenged that despite their lowly price-to-earnings (PE) multiples, the chances of them reverting to their former ratings are slim to put it mildly.

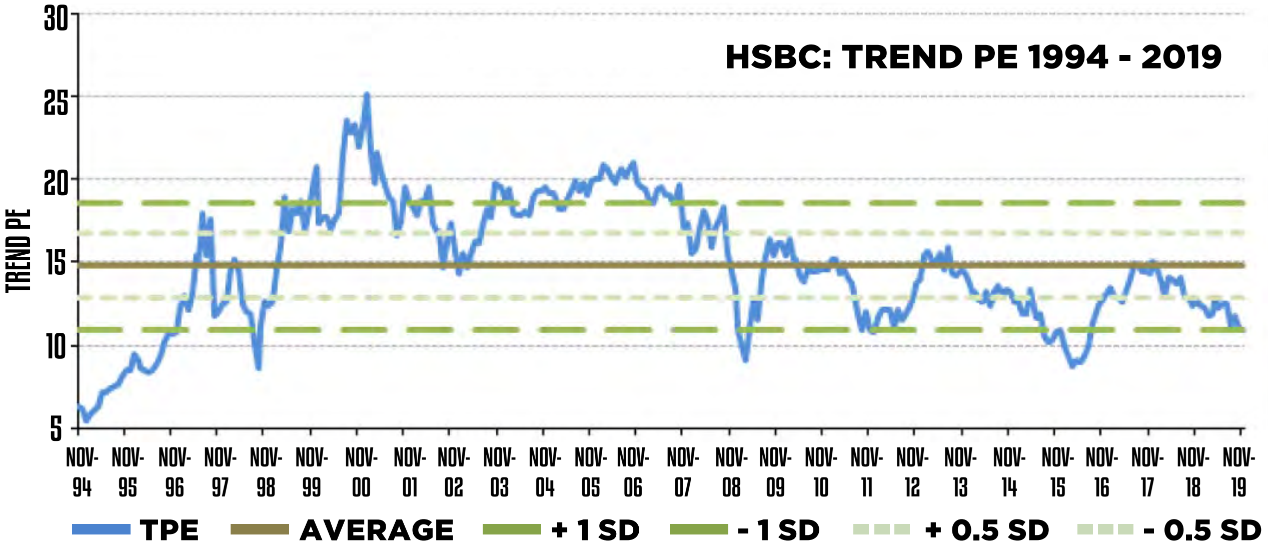
Two sectors which have undergone a major de-rating in the past decade are oils and banks. Just as the days of Brent crude trading at $100 a barrel look unlikely to return, significantly higher interest rates seem improbable for now.

For oil companies there is the added problem that their reserves may no

longer be worth what they were previously. Spanish producer Repsol recently wrote down the value of its assets in line with a 'lower oil and gas price scenario consistent with the Paris Agreement's climate goals'. Pressure for others to do the same will surely grow.

On a cyclically-adjusted price-to-earnings (CAPE) basis, shares in FTSE 100 heavyweight **BP (BP.)** have traded between 10 and 15 times earnings at best over the past 10 years and look like staying there compared with 20 to 25 times or more a decade earlier.

It's a similar story for **HSBC (HSBA)**, another major FTSE stock, which has spent most of the past decade trading just above 10 times cyclically-adjusted earnings with rare forays to 15 times



TPE = Trend PE, SD = Standard deviation. Source: M23 Research

compared with previous highs of 25 times earnings.

Given the growing frequency of climate-related disasters and bigger than expected catastrophe claims, it is worth asking whether insurers such as **Beazley (BEZ)** and **Hiscox (HSX)** will be able to sustain their former rating of 15 to 20 times cyclically-adjusted earnings in the years to come or whether theirs too is now a structurally-challenged business.

WHERE'S THE COMMENT ON BREXIT?

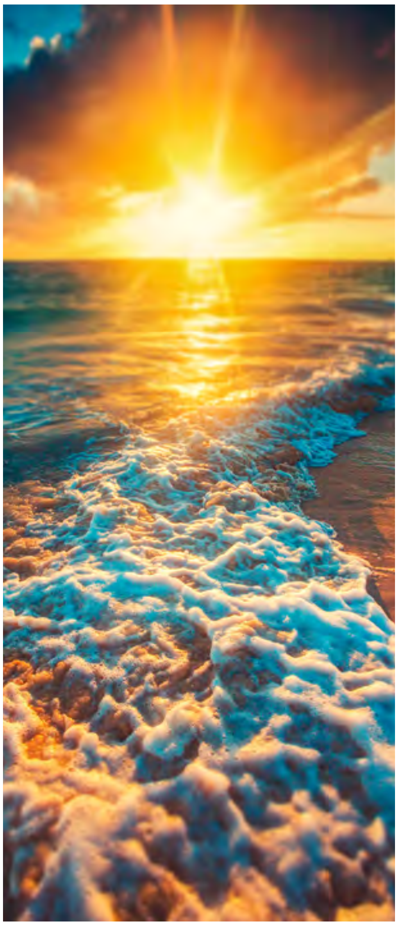
We haven't forgotten about Brexit in our 2020 outlook. We're simply waiting for the UK general election result in order to have a better handle on how Brexit might play out. We will provide commentary in next week's issue of *Shares* (19 Dec) alongside information on how the party or parties which prevail in the election could impact markets over the coming months.

WILL VALUE INVESTING MOUNT A BIG COMEBACK IN 2020?

For a long time value investing – looking to buy shares in companies which trade on lowly valuations – has been out of fashion as investors have focused instead on buying companies which can deliver growth, no matter how expensive they are.

There are signs that could change in 2020, with the performance of value stocks picking up in recent months.

The chief executive of value investment specialist Oldfield Partners, Jamie Carter, sums up the situation: 'The recent decade-long underperformance by value has been the worst since the Great Depression, but value outperformed superbly in the years that followed that period.'



There have been false dawns before in 2016 and late 2018 when value held sway for a short period before growth stocks recovered their dominance.

Contrarian fund manager Alastair Mundy, who steers **Investec UK Special Situations (B61JXN1)**, says: 'The biggest boost for long-term value recovery will be bond yields going up and bond yields are clearly at very low levels so I think the odds are on my side there.' He believes rising inflation and the flood of government debt in the fixed income market could be a catalyst for yields going up.

WILL THIS BE THE YEAR WHEN MULTIPLE INVESTMENT TRUST BOARDS LOSE PATIENCE AND SACK UNDERPERFORMING MANAGERS?

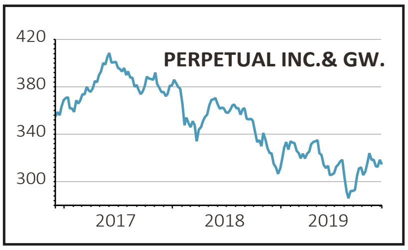
The setbacks involving Neil Woodford's various funds in 2019 have been an eye-opener for the funds world and have also been a reminder that investment trusts have the power to sack the fund manager if they are not meeting expectations.

Active funds are already facing competitive pressure from passive exchange-traded funds and now they've also got reputational issues to address. It seems highly likely that a large number of investment trust boards will no longer put up with underperforming managers and so we could see quite a few changes in 2020.

Ones to watch include

Mark Barnett-managed **Perpetual Income & Growth (PLI)** whose chairman Richard Laing last month said the board was 'very sensitive to shareholder concerns about continued weak results' and that it was closely monitoring efforts by Invesco to improve performance.

Aberdeen Standard Equity Income Trust (ASEI) has described its 2019 performance as 'a considerable disappointment'.



Despite saying a -15.1% share price total return versus 2.7% gain from the FTSE All-Share 'a very poor result and there is no point in pretending otherwise', the board is giving manager Thomas Moore another go at getting the fund back on track. He's probably got one chance to improve performance before more serious thoughts are given to the future management of the trust.

WHERE COULD YOU MAKE MONEY IN THE COMING YEARS?

Financial data specialist Morningstar believes the best place to make money in the coming years could be UK, Korean, German and Japanese stocks. In contrast it believes the US market has already had its strong run and could deliver much lower returns going forward.

Looking at the valuation-implied returns for the next 10 years, Morningstar believes you could get approximately 7% a year from UK equities, 6% a year from German equities and less than 1% from US equities.

'The German stock market has been hurt by auto tariffs and Brexit, but we've seen good changes with cost savings and think some of the price action has been overdone,' says Emma Morgan, a portfolio manager at Morningstar.

'You would normally expect to make 6% to 8% from the US market but it looks so overvalued at the moment that you are unlikely to get that return going forward. UK equities are supported by a large dividend yield and you're getting some growth and inflation as well.'

Lyxor Asset Management favours European equities for 2020, saying there is an improved economic backdrop and valuations are lower than the US.

Investors can get exposure to the aforementioned regions through exchange-traded funds or actively-managed funds.

Don't get caught out by investment bubbles

Learn from the patterns of previous manias

By **Russ Mould**
AJ Bell Investment Director

One theory held by some market strategists is that a tidal wave of cheap cash, provided by central banks' interest rate and quantitative easing policies, means we are witnessing 'The Bubble of Everything' as prices surge across a range of assets, ranging from equities to bonds to property to art, wine, sports cars, thoroughbreds, you name it.

It's a beguiling theory but spotting a bubble is not as easy as it sounds. Former Federal Reserve chair Ben Bernanke flatly denied that the US housing market was in a bubble in the middle of the last decade, only for it to blow up in his face shortly afterwards.

Perhaps most famously of all, economist Irving Fisher argued in mid-October 1929 that 'Stock prices have reached what looks like a permanently high plateau,' only for the Black Monday crash to follow just a fortnight later.

It may be therefore worth revisiting this column's preferred text on the topic of bubbles, Charles Kindleberger's *Manias, Panics & Crashes*, to identify the sequence of events that can be seen through the history of previous market crazes, ranging from the South Sea Bubble of 1720 through to British canals (1790s), Latin American mines (1820s), US equities (1920s), Japanese equities and property (1980s) and global technology stocks (1990s), to name but a few.

BEEN THERE, SEEN THAT

Technology stocks were the first really big bubble of this column's financial market career, which began in 1991, as can be seen from the chart of the NASDAQ Composite, which went parabolic in 1998 to 2000 but then fell so heavily that it wiped out four years of gains in half that time and then took more than a decade to reach its prior highs.

THE TECH BUBBLE AND THE SLOW RECOVERY AFTER IT BURST

Source: Refinitiv, AJ Bell

This decade has seen a sequence of such episodes in quick succession as, flushed by cheap liquidity and driven by the search for yield and returns superior to those offered by cash, markets have proved increasingly bubbly. A long list includes Chinese equities in 2014-15, Bitcoin 2017-18 and Cannabis and marijuana stocks in 2019, a fad which is already leaving many portfolio builders with burnt fingers.

BITCOIN'S DRAMATIC RISE AND FALL

Source: Refinitiv, AJ Bell

BUBBLE CHECKLIST

Looking at the patterns of past bubbles may help investors duck the next disaster which will, inevitably, unfold at some stage.

This is because the details may change from bubble to bubble but human behaviour clearly does not and the running order is pretty consistent.

The starting point for a bubble is a new investment opportunity, one that may be genuine or even one with just a big enough grain of truth to be irresistible to those looking for a quick financial killing.

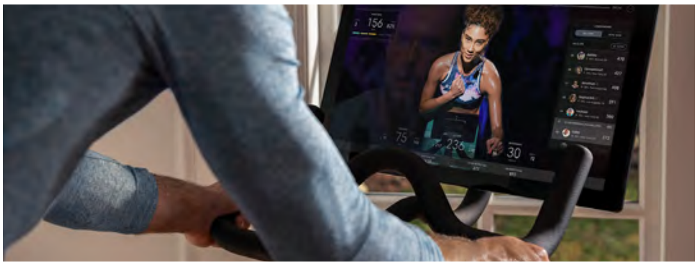
It could be anything from railways to cryptocurrencies and the more disruptive or revolutionary it seems, the better, as everyone likes to get in on a 'new paradigm,' don't they?

The initial price rise catches the attention of newcomers as 'fear of missing out' (FOMO) starts to gather.

Investing (and operational) profits go into orbit

ETFS TRACKING CANNABIS SHARES HAVE BEEN FALLING IN RECENT MONTHS

Source: Refinitiv, AJ Bell



and fresh cash is attracted, often in the form of borrowed cash. One oddity of the current passion for firms like Uber, Lyft and Peloton is they don't make a profit themselves.

More copycats and imitators spring up and more credit is made available as asset prices keep running and the profits keep flowing.

Then the trouble starts. Insiders start to lock in their profits by selling to the unwary at elevated prices and leave investors holding the bag. Prices initially correct but then rally as loyal supporters buy on the dips.

Initial signs of distress then start to sow real seeds of doubt. A new offering goes wrong, a firm runs out of cash and asset prices fail to reach their previous peaks. The queue of copycat flotations and management teams looking to sell their stock on a secondary basis gets longer by the minute and supply of paper begins to outstrip demand.

THE BIG CATALYST

A good, old-fashioned scandal then happens. Someone goes bust or accounts prove to be crooked or someone runs off with the money and investors realise they have been had.

Fear and revulsion replace greed, asset prices collapse as investors scramble to cut their losses and the recriminations begin as scapegoats are sought and publicly pilloried (or worse).

Investors can now judge for themselves where they feel they stand across any asset class they care to consider. Perhaps the easiest signal to follow is the emergence of copycat flotations or multiple versions of the same fund, active or passive, promising access to a hot new theme.

The experiences of cannabis stocks in 2019 certainly suggest as much and with that in mind, this column will be interested to see how many environmental, social and governance (ESG)-themed products and collectives launch in the coming months, alongside any which specialise in electric vehicles, even if it is still very early days for both.

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Fund managers' best and worst stock calls in 2019

Investment experts reflect on their best and worst stock picking decisions this year

It is always fascinating to get insight into fund managers' views on their stock picking decisions and so we've spoken to range of managers about their best and worst calls in 2019.

The managers in this article discuss a range of stocks on both the UK market and ones listed overseas.

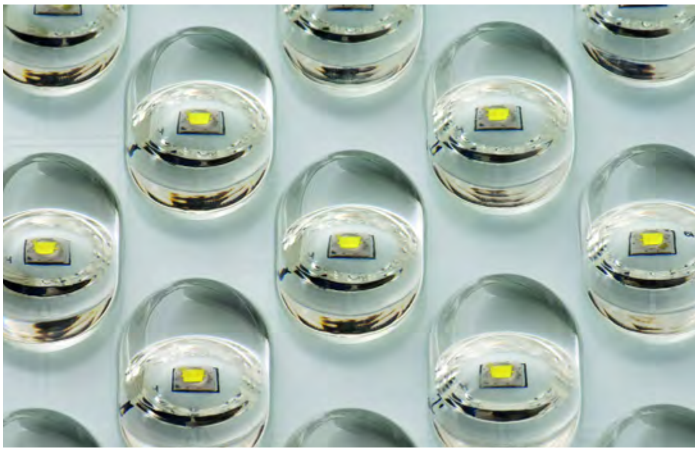
WILL JAMES
Deputy head of European Equities at
Aberdeen Standard Investments

MEDIOBANCA – GOOD CALL

'EUROPEAN BANKS IN aggregate have not had a good time in 2019 given the uncertain growth outlook and continued pressure on interest rates. Our view has been that the odd phoenix should be able to rise from the ashes of an industry that suffers from overcapacity, regulatory headwinds and lack of revenue growth.

'Mediobanca is one such 'scarce' asset. It is ironic and some would say remarkable that an Italian bank has managed to make it into the top performers' list. However, excess capital, relative interest rate insensitivity, ability to reposition the bank and drive growth, and pay a high, sustainable and growing dividend, allowed Mediobanca to fly high in 2019.'

UMICORE – BAD CALL

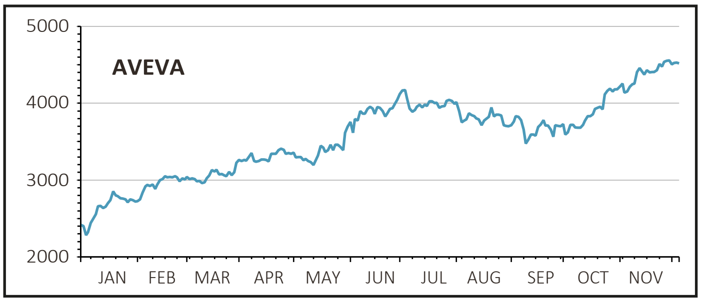


'WE WERE CAUGHT out by the profit warning from chemicals group Umicore earlier in 2019.

'Having been proved right around Umicore's technological prowess with regards to the nascent hybrid and electric vehicle industry and enjoying great performance from the shares, we failed to properly appreciate how much the market had extrapolated the growth.'

CHARLES LUKE
Fund manager of
ASI UK Income Equity (B0XWNB4)

AVEVA – GOOD CALL



‘THE MERGER OF industrial software company **Aveva (AVV)** with Schneider’s software business provided the enlarged company with a larger product set, broader industrial vertical targets and wider geographic exposure.

‘Given the strong revenue and cost synergies, together with a supportive end-market backdrop, Aveva’s trading updates were generally accompanied by earnings upgrades together with a re-rating which resulted in a strong share price performance over the year.’

SAGA – BAD CALL

‘WE OWNED a small holding in **Saga (SAGA)** given its attractive dividend yield, strong brand and the potential to replace its capital intensive underwriting earnings with earnings from broking and its cruise operations.

‘Unfortunately, we were wrong about the strength of the company’s brand and its resonance with its customer base and the impact of the highly competitive and commoditised UK home and car insurance market.

‘Given a stretched balance sheet, a dividend cut and a very significant change to the original investment case, we sold the holding immediately after it issued a profit warning in April.’

SIMON GERGEL
Portfolio manager of
Merchants Trust (MRCH)

GREENE KING – GOOD CALL

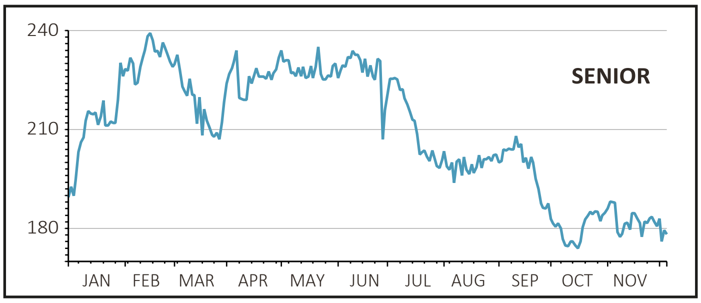
‘GREENE KING IS one of the UK’s largest pub companies with nearly 3,000 pubs. Like many UK consumer-related companies, the shares were attractively valued at the start of the year, as investors were concerned about the economic risks to the UK from the Brexit uncertainty.

‘There were also some concerns about a more competitive trading environment in the food and beverages industry.

‘We were particularly attracted to Greene King’s strong asset base, with brands such as Chef & Brewer and Hungry Horse, and beer brands like Green King IPA and Old Speckled Hen. The company also has a strong management team and a solid long term record of growth.

‘The low valuation of the shares prompted a takeover offer from the private company of one of Hong Kong’s richest men. This led to the shares rising sharply.’

SENIOR – BAD CALL



‘**Senior (SNR)** is a manufacturer of aerospace and industrial equipment with a high exposure to the large civil aerospace manufacturers. The company has a long order book with greater sales per plane on most of the new and growing Boeing and Airbus programmes.

'The company has been hit by a number of different issues this year. Most notable has been the grounding of Boeing's 737 Max aircraft after two tragic accidents. But there has also been an impact from a slowdown in certain industrial markets and a non-renewal of some historic contracts.

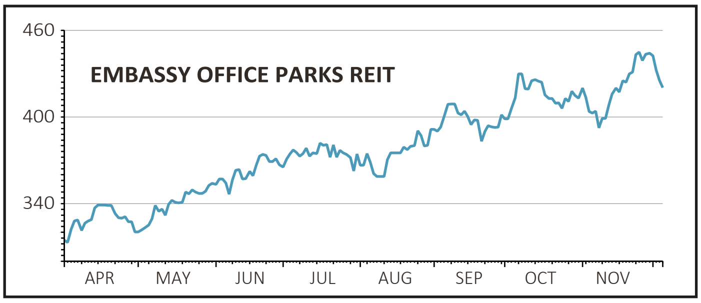
'In combination, these factors have had a significant impact on the company's profit expectations, and this has led to the shares being one of the weakest performers in our portfolio this year.'

JASON PIDCOCK
Fund manager of
Jupiter Asian Income (BZ2YMT7)

EMBASSY OFFICE PARKS REIT – GOOD CALL

'WE BOUGHT INTO office landlord Embassy Office Parks REIT earlier this year – the first REIT to list in India (and the only one to date). We liked the opportunity so much we became anchor investors and bought in the aftermarket until we'd established a significant (for us) position.

'It floated in April at 300 rupees and the shares now trade at 442 rupees. We've also had two dividend payments. Embassy has so far outperformed the Indian market by 45%.'



HONG KONG STOCK EXCHANGE – BAD CALL

'WE CONSIDERED BUYING shares in Hong Kong Stock Exchange at the end of September after it had made an indicative bid for **London Stock Exchange (LSE)**.

'We met the management and were impressed but thought they might raise their bid and waited to see if we could get a better entry price. It didn't happen.

'HKEX abandoned its bid for LSE and the shares have rallied from HK$222.60 on 25 September to HK$247.60.'

MIKE KERLEY
Fund manager of
Henderson Far East Income (HFEL)

ANTA SPORTS – GOOD CALL

'CHINA BRANDED sportswear Anta Sports – which has the rights to the Fila brand in parts of Asia – is a stock we owned through 2019 on the basis of three key themes – government support for leisure, exercise and heathier lifestyles; aspirational purchases as incomes rise; and finally, that local brands would take market share from foreign brands as quality improves and pricing remains competitive.

'Anta has the third largest market share in sports apparel and has taken market share from the leaders, Nike and Adidas.'

LEND LEASE – BAD CALL

'WE INVESTED IN Australian property development and engineering contractor Lend Lease for its urban regeneration projects in Australia, Europe and the UK and for its exposure to increased infrastructure spending, primarily in Australia but also worldwide.

'Unfortunately, some ill-conceived legacy engineering projects in Australia led to a series of provisions which were unexpected and badly communicated to the market which saw the stock underperform.'

LAURA FOLL
Co-fund manager of **Lowland (LWI)**

XP POWER – GOOD CALL

'WE INVESTED IN **XP Power (XPP)** at the beginning of this year for around £20 a share; they now trade around the £29 level. XP makes power converters for a range of industries – healthcare, semi-conductors as well as more general industrial applications.

'It has always generated good operating margins and in our view the management team are excellent, but it had de-rated hugely towards the end of 2018 because of concerns about the semi-conductor cycle and the possible earnings downgrades that would result.

'In our view the long-term quality of the business was such that this looked like an interesting entry point and we built a position.'

KIER – BAD CALL

'OUR WORST NEW position in 2019 was a small stake in **Kier (KIE)** at the start of the year, following the rights issue.

'We felt that the balance sheet issues were being addressed, and under a new CEO who wanted to simplify the business and take costs out that Kier could be well positioned for a recovery from a low valuation.

'What I underappreciated was the scale of working capital outflow for this type of business when customers and suppliers lose trust. What that meant was the rights issue proceeds were quickly offset by the working capital outflow that occurred, leaving ongoing balance sheet stretch.'

TREVOR GREEN
Head of UK equities and a senior portfolio manager at **Aviva Investors**

AVEVA – GOOD CALL

'AVEVA IS A GLOBAL leader in engineering and industrial sector software which merged with Schneider Electric Software in 2018. In this case bigger seems to be better, with the firm delivering very strong earnings this year, assisted by the ongoing move by its customers to embrace digitalisation.

'Recurring revenue has increased for the business and investors have rewarded the company in 2019 with a higher rating.'

IOMART – BAD CALL

'WEB HOSTING CLOUD computing company **Iomart (IOM:AIM)** has strong end market growth drivers as the ever-increasing demand for more computer power, storage and connectivity gives it an ever larger market to play for.

'Despite this situation, the share price has struggled since I invested in late January, with earnings forecasts drifting in 2019 as the business has made increased investment towards targeting larger and more complex contracts.

'This year will go down as one of consolidation and investment, with investors looking to next year and beyond for this investment to pay off.'

LUCY MACDONALD
Portfolio manager of
Brunner Investment Trust (BUT)

TAIWAN SEMICONDUCTOR MANUFACTURING – GOOD CALL

'THE GROWTH PROSPECTS for Taiwan Semiconductor Manufacturing are driven by increasing demand for smaller, faster processors across a widening range of industries, in particular 5G smartphones and artificial intelligence computing.

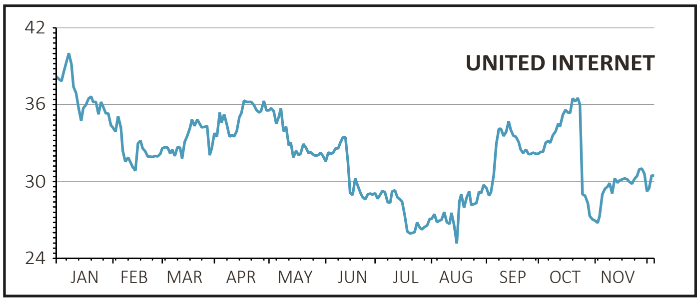
'It has a leading market position in advanced-node fabrication driving high sustainable returns and a broadening customer base, supplemented by an increase in outsourcing, from Intel in particular.

'The competitive landscape has improved for TSM with the announcement from Globalfoundries of its suspension of 7-nanometer development.

'This competitive strength is reflected in gross profit margins around 40%, with a target of 50%. Long term growth forecasts are being revised upwards.

'At the beginning of 2019, the stock was attractively valued due to short term cyclical factors and offered a yield close to 4%. Over the year the earnings have recovered, surprising on the upside against overly conservative estimates and the stock has seen a re-rating, resulting in a 39% return.'

UNITED INTERNET – BAD CALL



'UNITED INTERNET PROVIDES internet access services to homes and small and medium-sized companies in Germany.

'The original investment case was based on low capital intensity growth in a relatively concentrated market, with a regulatory background supportive to new entrants. The company demonstrated market share gains and high returns.

'There was also attraction in the potential stock market flotation of the Business Applications segment of the business, which was seeing strong growth.

'This core thesis, which worked for a year or two, was broken with the decision of the company to pursue 5G licences at scale, raising concerns about a shifting business model and a lower return on investment.

'The change in strategy raised questions about the corporate governance and our engagement with the company on the issues were unsatisfactory. We therefore made the decision to sell after collecting a dividend payment. The dividend has subsequently been reduced.'

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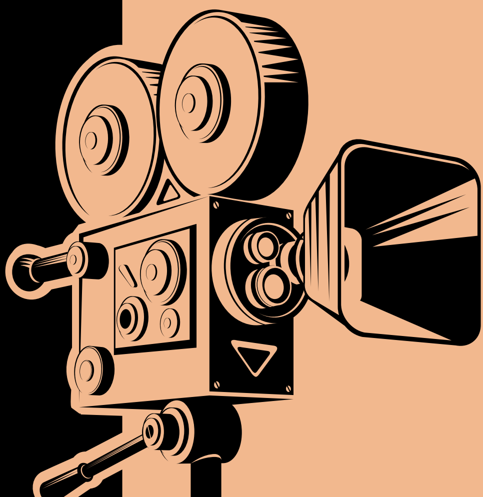
Stuart Ashman, CEO
SkinBioTherapeutics (SBTX)

SkinBio Therapeutics is a life science company. The company is engaged in the development of technology to protect, manage and restore skin utilising proteins found in human microbiota.

Dr. Rob Quinn, CFO
Silence Therapeutics (SLN)

Silence Therapeutics is a biotechnology company in the United Kingdom. It uses its RNA technology to develop drugs to address genetic disorders.



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Learning the lessons from corporate disasters

We take a closer look at some of the most damaging stock market gaffes of 2019

In 2019 UK companies have issued more profit warnings than at any time since the financial crisis. Research from accountant EY found that until September, 235 firms had already sounded the alarm.

This year has also seen household names like Thomas Cook and Debenhams depart the stock market in disgrace.

It is not hard to see why businesses have become more accident-prone given Brexit uncertainty and global growth concerns, but some stock market gaffes are so shocking they are worth looking at in a bit more detail.

By learning the lessons from these episodes investors might stand a better chance of running a successful portfolio. The *Shares* team has examined some key mis-steps over the past 12 months to determine what can be gleaned.

A CAR CRASH AT ASTON MARTIN

What happened?

Luxury carmaker **Aston Martin Lagonda (AML)** may be the name behind suave spy James Bond's vehicle of choice but it has endured anything but a smooth ride since joining the stock market in October 2018.

The shares trade at a little over a quarter of the £19 IPO (initial public offering) price with the company beset by profit warnings and concerns over its financial position.

The £120m bond issue in September 2019 at an eye-watering borrowing rate of 12% summed up the firm's dire situation given how it only seemed to be able to get financial support by offering a very high yield.

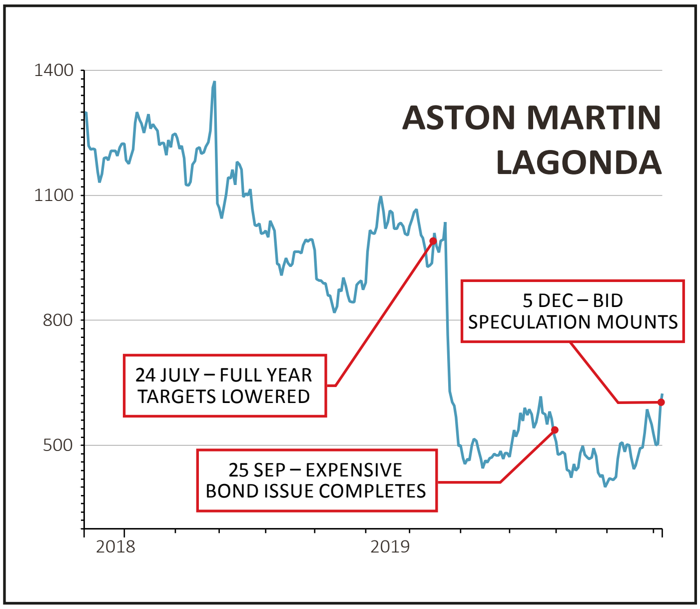
Recent speculation suggests a takeover bid from Canadian billionaire Lawrence Stroll might put shareholders out of their misery.

Lessons learned:

Don't believe the hype with an IPO and always make sure you do your research. Investors drawn in by the prestige of the company's name following its listing may have regretted backing the business.

The fact that the company had already gone bust seven times in its 105 year history was a warning signal as was the extremely patchy cash flow performance and the need for significant investment in research and development.

We also pointed out in an article in November 2018 that the company engaged in aggressive accounting practices, while the depressed state of the wider car industry was another reason to give the stock a swerve.

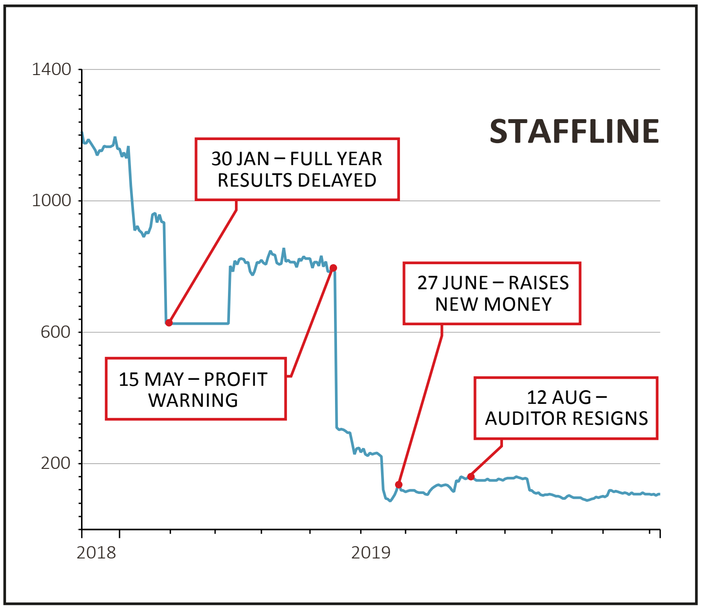


STAFFLINE SUNK BY RESULTS DELAY

What happened?
Staffline's (STAF:AIM) problems began in January when it had to delay the release of its 2018 results due to allegations over payroll practices. After consulting with the tax authorities, the issue was identified as non-compliance with the national minimum wage, specifically payment for preparation time.

In fairness, Staffline was simply following its end-customers' procedures for clocking in and clocking out yet it had to provision for additional costs and raise over £40m in capital to avoid breaching its banking covenants.

Lessons learned:
There was nothing investors could have done to predict events at Staffline. Regarding non-compliance with the national minimum wage and specifically non-payment for preparation time, the firm was working in strict accordance with its contracts with end-employers. The delay in publishing its 2018 accounts impacted customer confidence during 2019 while weak consumer confidence reduced demand for contract staff from the same customers. The key takeaway is that when a company delays publication of its results, it is usually bad news. The right response would have been to sell the shares on the day news of the delay broke. As we write Staffline shares are still down over 90% from their January highs.



SIRIUS MINE FINANCING DEBACLE

What happened?
Potash miner **Sirius Minerals (SXX)** stunned the market when it pulled a $500m bond offer in September. The bond was crucial to securing funding needed for its big mine in North Yorkshire, but Sirius couldn't get investors on board. Its share price halved following the news, with its whole existence thrown into doubt. If Sirius is to get back on track, it needs to find a strategic partner – but this route will heavily dilute existing shareholders.

Lessons learned:
Popular with retail investors, Sirius Minerals was meant to be a poster child for UK mining and engineering with myriad economic benefits. But this is a reminder of the very high risks of investing in mining, even in the UK, and the big risks of investing in a firm trying to clear a major financial hurdle. As Sirius prepared to launch the bond, commentary from analysts implied there was no reason to doubt the issuance and that Sirius shares could surge once the deal was done. However, this is a clear lesson not to get swept up in the hype and to fully consider a company's history in raising finance, investors' appetite for companies not generating revenue as well as the general risks of the sector.

WEWORK DOESN'T WORK

What happened?
The aborted stock market listing of overhyped property firm WeWork will likely live long in the minds of investors, not least its chief backer, Masayoshi Son, the enigmatic founder of Japanese investment firm Softbank. The latter largely bankrolled the venture to startling valuations – $47bn at its last fundraising. From publication of a grand IPO prospectus to emergency rescue took two months and left WeWork valued at $8bn.

Lessons learned:
WeWork was never the type of next-generation, technology company it was made out to be, especially when there was a very similar sub-letting business listed on the London stock market. **IWG (IWG)** makes proper profits, throws off cash and pays dividends yet is valued at a tiny fraction of

WeWork's venture capital-puffed peak at £3bn. Softbank's job is to spot emerging businesses capable of using technology to disrupt and dominate, and it has had many successes such as the Chinese retail platform Alibaba. But calling the odd dud is par for the course in a high stakes game. The real winners from the WeWork debacle are stock market investors, who refused to accept fantasy in place of hard fundamentals.

SPORTS DIRECT STUMBLES

What happened?

Sporting goods giant **Sports Direct International (SPD)** stumbled numerous times in 2019, its maverick moves further souring relations with the City. The Mike Ashley-controlled retailer spooked the market by delaying its full year results, a postponement that angered analysts and was later blamed on an unexpected bill from the Belgian taxman. Sports Direct also flagged that the problems facing acquired department store House of Fraser were 'nothing short of terminal in nature'. Embarrassingly, Sports Direct also then struggled for some time to find a replacement auditor for Grant Thornton before RSM UK eventually stepped up to the plate.

Lessons learned:

This was a year in which the unorthodox corporate governance at Sports Direct came to a head, creating further negative sentiment towards the Shirebrook-headquartered shopkeeper and deal-hungry billionaire owner Ashley. His insatiable appetite for acquisitions created additional management distractions at a time when the core business offered more than enough challenges to keep his team busy, with major rival **JD Sports Fashion (JD.)** gorging on market share. Investors will be hoping a change of name to Frasers begins a new chapter for the cut-price tennis rackets-to-trainers seller.

TED BAKER UNRAVELS

What happened?

Quirky British fashion group **Ted Baker (TED)** had won a lot of fans on the stock market thanks to the strength of its brand, high margins and substantial cash flow.

From mid-2018 onwards there were signs that all was not well as sales growth began to evaporate.

The departure of founder and CEO Ray Kelvin amid misconduct claims in March 2019 was preceded and followed by major profit warnings.

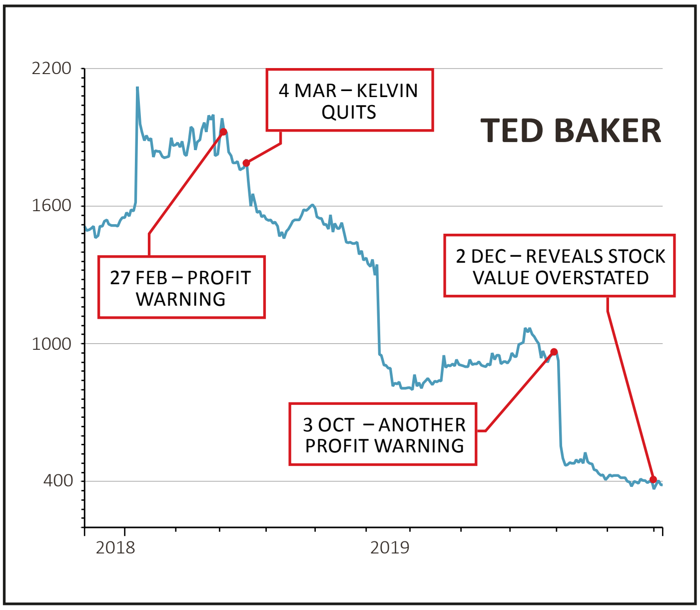
Arguably the biggest foul-up was yet to come as the company revealed on 2 December the value of stock on its balance sheet had been overstated by as much as £25m.

It then issued another profit warning, saw the new CEO and chairman quit and the dividend was suspended (10 Dec).

Lessons learned:

Investors need to be wary of companies with overly dominant executives. Partly because this means decisions and behaviour might not be robustly challenged but also because it creates a key person risk, with one individual integral to a company's fortunes.

Kelvin was the one with control over Ted Baker's design strategy and as such helped keep it ahead of the competition and his departure always looked likely when the allegations against him first emerged in 2018.



Equitile Resilience: the quality-focused fund you've never heard of

It focuses on best-in-class firms which it believes are able to survive and thrive

In today's rapidly-evolving business world, companies are living faster and dying younger. For private investors, that means picking tomorrow's big winners or long-term survivors is becoming increasingly tough.

Just buying and holding the most profitable companies today is becoming a much less viable strategy for the long-term investor. However by adapting portfolios, you can ensure you aren't left behind.

Such thinking is at the heart of the Equitile Resilience Fund, a master fund which retail investors can access through the **Equitile Resilience Feeder Fund (BDD1KW2)**. The latter invests 100% in the master fund and has a 0.89% ongoing charge.

TOP TEN HOLDINGS	
APPLE	4.29%
NVIDIA	3.80%
MICROSOFT	3.79%
LVMH	3.62%
LAM RESEARCH	3.61%
APPLIED MATERIALS	3.48%
ESTEE LAUDER	3.43%
ASML	3.43%
BROADCOM	3.33%
ACCENTURE	3.02%

Source: Equitile Investments

"The portfolio aims to deliver capital growth by investing in large, growing companies"

Managed by Equitile Investments' co-founder and chief investment officer (CIO) George Cooper, Equitile Resilience has delivered three year annualised returns of 14.52%, according to fund research firm Morningstar.

The portfolio aims to deliver capital growth by investing in large, growing companies in developed markets. Cooper is focused on resilient, conservatively financed, well-managed companies with a proven track record of innovation and growth.

A concentrated portfolio of 37 holdings, its characteristics reveal a fund with a large cap bias – the average market cap is $190.4bn – a low net debt-to-operating cash flow ratio of 0.44

and impressive five year earnings per share growth of 31%.

DARWINIAN APPROACH

The Equitile approach is designed to find the world's highest-quality companies. The thesis is that because no company leads forever, the fund must have an adaptive process. Stock selection mistakes are dealt with swiftly in order to keep the fund resilient.

Companies passing muster with Cooper, who has an optimistic world view given the innovation currently underway, must be able to achieve exceptional rates of profitable growth without using excessive leverage.

Such companies are typically leaders within their respective fields and operate in industries that are expected to grow more rapidly than the wider economy and for an extended period too.

Due to the rapid pace of innovation no company can be considered safe from changing competitive pressures. Hence the actively-managed portfolio adapts to ensure it remains at the vanguard of economic progress and resilient to an ever-changing economic environment.

And in contrast to the likes of the legendary investor Warren Buffett, Cooper and the Equitile team don't believe in the 'buy and hold' mantra. While they like to minimise dealing costs, they see no merit in sitting on the same portfolio for years and years.

'We have a brutal, survival of the fittest attitude,' explains the cerebral Cooper, the author of *The Origin of Financial Crises*, *Money, Blood and Revolution* and *Fixing Economics*. 'If they aren't performing, we take them out.'

AVOIDING EXCESSIVE DEBT

Crucially, Equitile Resilience only puts money to work in companies with impressive track records of cash-generative growth and avoids companies that rely on excessive debt.

By eschewing companies that have grown by over-stretching their balance sheets, the fund avoids the worst aspects of financial distress while also ensuring that the corporate names in the portfolio are growing because they have a genuinely good business franchise.

'We look for companies with very sound balance sheets,' continues Cooper. 'And we are quite debt obsessive as a firm.' Indeed, Equitile Investments' chief executive Andrew McNally is the author of a book entitled *Debtonator: How Debt Favours The Few and Equity Can Work For All of Us*.

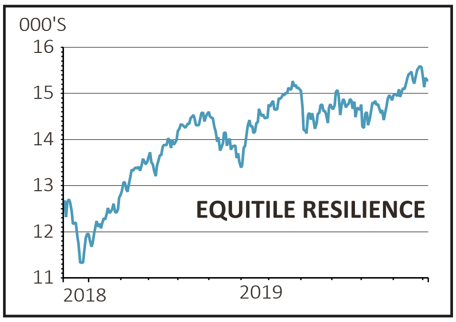
'We look for companies with very sound finances and we look at interest service costs relative to their free cash flow,' adds Cooper, who also screens for firms with a 'high quality corporate culture'.

PORTFOLIO NAMES

Investors are buying into names including tech titan Microsoft, US chipmaker Nvidia and consulting and outsourcing services provider Accenture. The strongest portfolio performers in November were iPhone maker Apple, software developer Adobe and Australian pharmaceutical behemoth CSL, all of which gained 10% in the month.

'We are also heavily invested in luxury goods,' enthuses Cooper, pointing out that LVMH, the luxury conglomerate buying US jeweller Tiffany & Co, is strategically positioned to sell into China.

'We also own Estee Lauder and we are in medical technology including surgical robots maker Intuitive Surgical.'



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

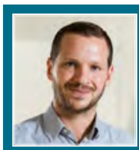
'How much can I pay into a SIPP when I've also got a defined benefit pension?'

AJ Bell pension expert Tom Selby explains the rules

I'm a civil servant and fortunate to have a defined benefit pension. I plan to retire prior to my scheme's normal pension age and intend to leave this pension preserved as long as possible.

I will be receiving a lump sum in the region of £60,000 from some investments and I'm considering adding this to a SIPP I have just opened. I plan to draw this pension down before I start to take my civil service pension.

My current gross salary is £32,150. How much can I pay into my SIPP per year to gain benefit from the pension tax rebate?
Colin



Tom Selby
AJ Bell
Senior Analyst says:

The amount you can pay into your pension (or pensions) each year depends on your 'relevant' UK earnings and the annual allowance.

For most people the maximum annual allowance in the current tax year is £40,000.

If you have relevant UK earnings below the £40,000 annual allowance, your earnings will be the maximum you can put into a pension and receive tax relief in the current tax year. In your case, total relevant earnings of £32,150 means you can pay up to £25,720 into a pension in 2019/20, with tax relief boosting this by £6,430.

If your earnings are more than £40,000 you might think the annual allowance is the limit. But you may still be able to pay in more than £40,000, by making use of something called 'carry forward'. More information is available here.

If you want to find out more about what counts as relevant earnings, this HMRC page is a good place to start.

You should be aware that if you did set up a SIPP and took taxable income from it, either through drawdown or ad-hoc lump sums, the money purchase annual allowance (MPAA) would kick in, reducing what you could pay into your SIPP to £4,000, regardless of your level of earnings.

If you chose to take an income from your defined benefit scheme, on the other hand, this would not trigger the MPAA and you would retain a £40,000 maximum allowance.

CALCULATING THE ANNUAL ALLOWANCE

The amount of your annual allowance will be reduced by any part of it used up in your civil service pension.

The following example illustrates how the annual allowance is calculated in defined benefit schemes.

Take someone earning £30,000 who has been a member of a defined benefit scheme with a

$1/60^{th}$ accrual rate for 20 years, with CPI inflation running at 3%. There are three steps to figure out how much annual allowance this will use in the current tax year.

First, you need a value for the start of the tax year. This is the value of the pension accrued up until that point in time, multiplied by your salary at that point and then increased in line with CPI inflation.

So in this example, it's $20/60^{ths}$ x £30,000 x 1.03 x 16 = £164,800.

Second, you need a value for the end of the year. To do this, just multiply the current year's accruals by 16.

We'll assume the salary is the same, so in this example it's $21/60^{ths}$ x £30,000 x 16 = £168,000.

Finally, subtract the start of year number from the end of year number. In this example, that's £168,000 - £164,800 = £3,200 annual allowance used.

If you don't want to do this calculation yourself, ask your administrator if they can figure it out for you or speak to a regulated adviser.

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.

Gifting stocks and shares to the family this Christmas

We look at the process of handing over investments to your spouse, children or even charity

This Christmas you might decide to shun the usual smellies, M&S jumper or cuddly toys and instead give investments to family.

While they are trickier to wrap to go under the tree, you could be giving a present that lasts for years and is far more lucrative than many other gifts.

One thing you need to bear in mind if you're gifting shares is that you'll be handing over a very concentrated investment – rather than it being spread around different assets – meaning the risk is higher as your returns are based on just one company.

TAXING PROBLEMS

When you gift shares to a spouse you wouldn't need to pay capital gains tax but if you're giving them to children you could be subject to the tax. You'll pay capital gains tax on the difference between the value of the shares when you bought them and the value when you pass them on.

"One thing you need to bear in mind if you're gifting shares is that you'll be handing over a very concentrated investment"

However, you wouldn't need to pay tax if the gain is within the £12,000 annual limit, for the current tax year. Anything above this will be charged at 10% tax if you're a basic-rate taxpayer or 20% tax if you're a higher or additional rate taxpayer.

If the gains are sizeable it may be worth gifting the shares over two tax years, to make the best use of allowances. So you could use £12,000 worth of gains now (assuming you haven't used any of your capital gains tax allowance so far this year) and the remainder, up to £12,000 of gains, in April next year. Although you should factor in any other investments you may want to sell too.

You also need to consider inheritance tax if you're gifting to your children. Everyone has a limit of £3,000 they can give away each tax year without it being considered in your estate were you to die.

OTHER ALLOWANCES

There are various other allowances too, such as if a child or grandchild is getting married. A particularly lucrative allowance is the 'gifts out of income' rule, which means if you're gifting money from your income and can prove it's not detrimental to your lifestyle, you can gift an unlimited amount.

However, if that doesn't apply and you exceed your annual gifting allowance then IHT may be due on the gift if you die within seven years, assuming your estate is worth more than the nil rate band for IHT.

The tax works on a sliding scale, so if you die less than three years after gifting then

GIFTING SHARES TO CHARITY

If you have a small number of shares that aren't worth a large sum, you might find that it costs more to sell them than they are worth. Instead, you can put them to good use and donate them to ShareGift, which groups shares together and sells them for charity.

OTHER FINANCIAL GIFTS

Better than vouchers: While giving gift vouchers seems like a good idea for those tricky-to-buy-for people, they often go unused or expire before they can be used, meaning you've wasted your money.

Instead, you could give someone a pre-paid card, it's safer than handing over cash and saves the hassle of going to the bank to deposit a cheque. You load money on these cards, like a gift card, but then they work like a normal debit card and can be used to buy things in most shops.

Millionaire potential: The minimum amount you can save into Premium Bonds was cut to £25 this year, down from £100, opening it up as a present option for more people. What's more, while previously you had to be a parent or grandparent to gift Premium Bonds to children, other adults can now gift them too.

While the effective interest rate on Premium Bonds is only 1.4% – based on the average prize payout – and the recipient could win nothing, the lure is that you could win lots more. It means you could be the auntie or uncle that made someone a millionaire, even if this is a very unlikely scenario it would make for a pretty unbeatable present.

Junior ISA gifts: If you ditch the plastic and instead put money into a Junior ISA it can add up by the time they turn 18. If you put £100 into a Junior ISA each Christmas from when the child is born you'd hand them £3,000 on their 18th birthday, or £50 each Christmas would give them just over £1,500, assuming 5% growth a year after fees.

While parents will need to open the Junior ISA for their children, after that anyone can pay into the account – grandparents, friends or other family.

GIVING TO YOUR PARTNER

It can be really tax efficient to give investments to your partner. Any gift of investments to a spouse won't be liable for CGT, which means that you can make use of your partner's annual CGT allowance too.

Alternatively you can use something called 'Bed and Spouse', which effectively means selling investments to realise gains up to the value of your annual CGT allowance and then buying them again in your spouse's name.

40% IHT will be due but if you die between six and seven years after the gift then only 8% tax would be due.

You also need to be aware of how much income is generated from the investments. While children can earn up to £100 in income a year free of income tax, anything above this is taxed at the parent's marginal rate.

One way around this is to use a Junior ISA account, which protects the money from tax. However, contributions to Junior ISAs must be made in cash, so you would need to sell the shares and then re-purchase them within the ISA.

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

SIPPs | ISAs | Funds | Shares

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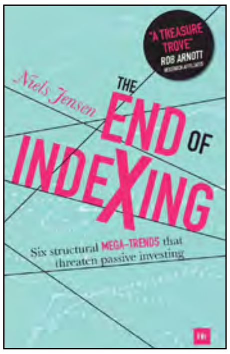
AJ Bell Youinvest does not provide advice. Capital at risk.

Investment book ideas for Christmas

Three ideas for presents and your chance to win a copy of Lord Lee's new book

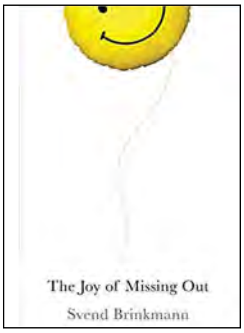
Are you looking for Christmas ideas for family and friends? Here are three cracking books that will help anyone serious about investing and living a better life. They are thought-provoking and all-round fascinating books.

'THE END OF INDEXING' BY **NIELS JENSEN**



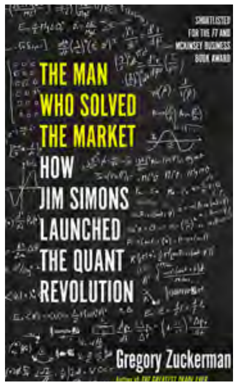
Fund manager Jensen argues that six mega-trends will disrupt the status quo leading to decades of low economic growth and the demise of 'passive' investing.

'THE JOY OF MISSING OUT' BY **SVEND BRINKMANN**



Danish philosopher and psychologist Brinkmann explains why restraint and a 'less can be more' attitude is good for our souls and for society as a whole.

'THE MAN WHO SOLVED THE WORLD' BY **GREGORY ZUCKERMAN**



Award-winning *Wall Street Journal* reporter Zuckerman's book discusses one of the most successful yet least-known investors of modern times, Jim Simons.

Since 1982, Simons' quantitative investment firm has returned almost 40% per year to clients after fees.

COMPETITION TIME: WIN A BOOK

We've got three copies of '*Yummi Yoghurt: a first taste of stock market investment*' by Lord Lee of Trafford to give away.

Veteran investor John Lee's 'primer' on investing tells the story of a West Country farming family whose homemade yoghurt business eventually floats on the stock market.

As well as describing the journey from private to public ownership and the basics of the market, the book contains a glossary and tips to help first-time investors.

TO WIN A COPY, ANSWER THIS QUESTION: **IN WHAT YEAR WAS RETAILER-TO-TECHNOLOGY GIANT AMAZON FOUNDED?**

Send your answers by email to **editorial@sharesmagazine.co.uk** with '*Book competition*' in the subject line. Please include your full name and postal address.

All entries must be submitted by 31 December 2019. We will randomly pick three names and the winners will be announced in the 12 January 2020 edition of *Shares*.

SHARES
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During the event and afterwards over drinks, investors will have the chance to:

- Discover new investment opportunities
- Get to know the companies better
- Talk with the company directors and other investors

AMRYT PHARMA
Speaker: Kieran Rooney, Vice President
Amryt Pharma is a specialty biopharmaceutical company focused on developing and delivering innovative new treatments to help improve the lives of patients with rare or orphan diseases.

MERCIA FUND MANAGEMENT
Speaker: Dr. Mark Payton, CEO and Martin Glanfield, CFO
Mercia is now known as Mercia Fund Managers and is part of Mercia Technologies PLC. It is a UK-based venture capital fund manager. The company provides venture capital to businesses focused on innovative technologies.

SURFACE TRANSFORMS
Speaker: Dr Kevin Johnson, CEO
Surface Transforms develops and manufactures carbon ceramic products mainly for the brakes market. The firm engages in developing new products and application of carbon fiber reinforced ceramic materials.

Event details
Registration: 17.30
Presentations start: 18:00
Complimentary drinks and buffet will be available after the presentations

Register for free now
www.sharesmagazine.co.uk/events

Contact
Lisa Frankel,
Events Operations Manager
Lisa.Frankel@sharesmagazine.co.uk
020 7378 4406

KEY

- **Main market**
- **AIM**
- **Investment trust**
- **Fund**
- **Overseas share**

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

13 December: Hollywood Bowl. **16 December:** Chemring. **17 December:** Pressure Technologies.

Half year results

16 December: Fulham Shore, Sports Direct, Studio Retail.

Trading statements

13 December: Balfour Beatty, Sthree.

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