STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

10 WINNING STOCKS FOR 2020

DISCOVER OUR TOP INVESTMENT IDEAS

OUR 2019 PICKS UP 23%

GENERAL ELECTION: WHAT THE RESULT MEANS FOR YOUR MONEY AND BREXIT

SCOTTISH MORTGAGE INVESTMENT TRUST

WHO SAID THE SKY HAD TO BE THE LIMIT?

Business's ability to exhibit exponential growth lies at the heart of the **Scottish Mortgage Investment Trust**.

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.

We like companies that can deploy innovative technologies that threaten industry incumbents and disrupt sectors as diverse as healthcare, energy, retail, automotive and advertising.

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.

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A Key Information Document is available by contacting us.

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*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.

A year of celebration as equity markets soar

It’s been a rewarding 12 months for investors, particularly as markets rally going into Christmas

A year ago this column offered some reassurance to readers that it is normal for markets to both rise and fall and not to give up when markets are going through a difficult patch. At the time the FTSE 100 was nursing a 12% loss for the year.

Twelve months later the mood has switched from commiseration to celebration. The FTSE 100 is now on track for a 12% gain this year and UK equities look like they are back in demand following a long period in the doldrums.

Staying invested in a difficult market (2018) has enabled investors to not miss out from a rebound in equities (2019) and so hopefully all of *Shares*’ readers will have made decent money this year.

Our annual stock picking portfolio has certainly delivered market-beating returns and we’ve also seen decent gains from many of our other investment ideas throughout the year.

Against this backdrop, it is important to stress that we don’t always get it right and we continue to learn from our mistakes.

For example, we got it wrong with retailer **Ted Baker (TED)** by suggesting that its shares looked cheap after a few problems. Unfortunately they are now even cheaper as the negatives continue to mount up. Fund managers also regularly get it wrong and their strategy is to make sure the portfolio winners exceed the losers.

The key message is that one investment failure does not make you a bad investor. Equally a year of success doesn’t mean you will always achieve strong returns going forward. After all, equities have historically delivered an average of 6% to 7% a year and you’ve just had considerably greater returns in 2019.

The outlook for investing in 2020 is encouraging with risks around Brexit and trade wars seemingly receding. However, with US markets now hitting yet another record high and UK markets on a comeback mission, don’t let overconfidence cloud your investment decisions. Remember to do thorough investment research and don’t simply buy anything because it’s going up.

Anyone looking for their latest dose of investment news should visit *Shares*’ website over the Christmas and New Year period to get information on market movements.

The weekly digital magazine is now going to take a break over the festive period and will be back on Thursday 9 January 2020. Until then, why not browse through our rich archive of online magazines and catch up on the *Shares* / AJ Bell Money & Markets podcast.

Have a great Christmas and I wish everyone a fantastic 2020.

By **Daniel Coatsworth** Editor

THE NEXT ISSUE OF SHARES WILL BE PUBLISHED ON THURSDAY 9 JANUARY 2020

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Why shares soared on the election result

The scale of the Conservative victory caught investors by surprise

Markets were already pricing in a victory for the Conservatives in the 12 December election but what caught investors on the hop was the scale of the victory. That resulted in a major share price rally for UK equities.

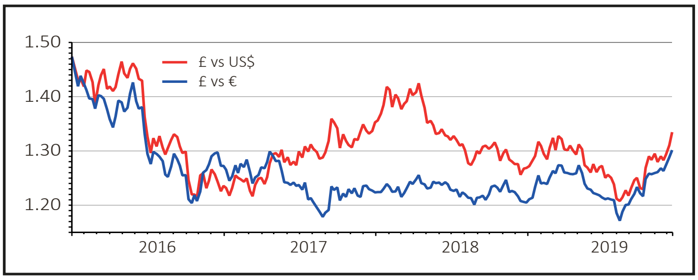
A landslide Tory win should offer greater political certainty after a long period of turmoil and there is an expectation that this will provide some relief for UK plc in 2020.

Stockbroker Peel Hunt comments: 'The scale of the majority gives Boris and the Conservatives their clearest electoral mandate for over 30 years. There will undoubtedly be twists and turns in the Brexit process, but at least the direction of travel now looks clearer.

TOP PERFORMING FTSE 350 STOCKS IN WAKE OF ELECTION

COMPANY	PERFORMANCE ON 13 DECEMBER
Virgin Money	18.7%
Stagecoach	16.6%
Taylor Wimpey	14.7%
Barratt Developments	14.0%
Berkeley	14.0%
Savills	13.5%
International Consolidated Airlines	13.1%
Persimmon	12.0%
Bellway	11.8%
Tullow Oil	11.8%
Kainos	11.6%
Telecom Plus	11.4%
OneSavings	10.7%
Trainline	10.5%
Hill & Smith	10.1%
Countryside Properties	10.0%
Capita	9.8%
Rank	9.5%
Paragon Banking	9.3%
Pennon	9.3%

Source: Sharepad



'We should also have a fiscal stimulus in the February budget, a step-up in investment and greater confidence from consumers and corporates.'

DOMESTIC STOCKS SOAR

The election polls were fairly accurate this time, unlike the US presidential elections and the vote for Brexit in 2016. However the first past the post system made the ultimate result in terms of seats unpredictable and some polls suggested a hung parliament remained a possibility in the week of the vote itself.

As trading resumed in London after the results, UK-focused stocks mounted a charge. This was reflected in the performance of the FTSE 250 which at one stage was up by nearly 5%.

A look at the best performing shares on the FTSE 350 index on 13 December is telling with property plays, housebuilders, transport operators, utilities and banks all enjoying high single-digit or double-digit gains on the day. Additional gains, albeit on a smaller scale, were seen at the start of the following trading week.

SECTORS IN FOCUS

The real estate and housebuilding sector should benefit as the result gives the housing market a lift, with the Conservatives looking set to introduce policies to boost home ownership.

The expectation that the Tories will move to reinvigorate the economic fortunes of working class communities in areas which turned blue for the first time ever, or at least the first time in generations, seems to be giving **MJ Gleeson (GLE)** a particular lift.

The company specialises in affordable homes in the Midlands and North of England which helped deliver the big Tory majority.

The transport and utility firms were reacting with relief that Labour's renationalisation policies are no longer a live threat.

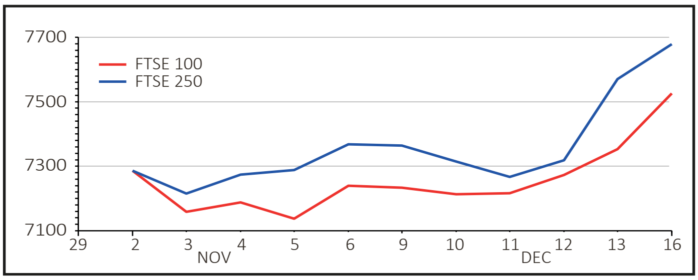
Should the economy show signs of coming back to life, the financial sector could benefit from interest rate hikes, however recent economic data shows an increased rate at which the manufacturing and services sectors are contracting.

Against this backdrop the Bank of England will likely be cautious about moving too soon. Particularly as a replacement for governor Mark Carney, who departs at the end of January 2020, is yet to be appointed.

With the scale of the Conservative win becoming clear, sterling started to rally sharply, moving above $1.34 against the dollar and €1.20 against the euro.

STERLING'S SURGE HOLDS BACK THE FTSE 100

This explains the relative weaker showing of the FTSE 100 relative to the FTSE 250 – a strong pound affects the relative value of the overseas earnings which dominate the large cap index. Although positive news on trade relations between the US and China mean the FTSE 100 is still firmly on an upward path.



INVESTMENT TRUSTS BOOSTED BY UK EQUITY RALLY

Investment trusts with a strong focus on the UK stock market enjoyed a boost following the election result. The following table shows the best performers on Friday 13 December.

TRUST	SHARE PRICE RISE
JPMorgan Smaller Companies	7.1%
Montanaro UK Smaller Companies	6.7%
Aberdeen Smaller Companies High Income	6.2%
Lindsell Train Investment Trust	5.8%
Henderson Smaller Companies	5.8%
Mercantile	5.3%
Herald	4.8%
Aberforth Smaller Companies	4.7%
BlackRock Smaller Companies	4.3%
Temple Bar	4.1%

Source: SharePad. 12 Dec market close to 13 Dec market close

So can the rally for domestic stocks continue? Paul O'Connor, head of the multi-asset team at asset manager Janus Henderson, says: 'The big picture is of a modest fiscal stimulus in 2020, boosting GDP growth by less than 0.5% in that year but with little additional thrust after that, given the pledge to balance the budget over a three-year window.

'Compared to the typical Conservative governments of recent years, the Johnson administration seems likely to tilt fiscal stimulus more towards Government spending than taxation and more towards blue-collar Britain than higher earners and companies.'

The performance of UK-focused shares is also likely to depend heavily on what happens next with Brexit.

It now looks certain the UK will come out of the EU on 31 January 2020 but the fate of a trade agreement after the transition period concludes at the end of next year remains in the balance. And already the rally is losing some steam as an extension to the transition period looks increasingly unlikely.

The strong election showing of nationalist parties in Scotland and Northern Ireland could also put the union itself under pressure, opening up another source of uncertainty.

What are the next steps for Brexit?

The withdrawal agreement looks set to be concluded but uncertainty remains over trade talks

31 JANUARY
UK SET TO EXIT EU

SPRING 2020
TRADE TALKS EXPECTED TO BEGIN

1 JULY 2020
DEADLINE FOR ANY EXTENSION TO TRANSITION PERIOD

31 DEC 2020
CURRENT TRANSITION PERIOD ENDS

The big majority secured by prime minister Boris Johnson and the Conservative Party means the UK is almost certain to exit the European Union on 31 January 2020 in an orderly fashion. Attention will then switch to the deal on future trade between the UK and EU.

With a 31 December 2020 deadline, most observers believe there is too short a time frame to agree a trade agreement, raising the prospect of an effective no-deal scenario at the end of the transition period.

With a substantial majority and a large cohort of MPs who will feel significant personal loyalty to the man who helped get them elected, Johnson should have a fairly free hand when it comes to Brexit policy.

M&G Investments' investment director Ritu Vohora says: 'Does this majority allow Johnson sufficient leverage to get a good trade deal from Europe? To what extent does the majority allow him the latitude to seek an extension to the transition period if that is what is needed to get a trade deal signed? This would remove one of the last remaining risks that there could be a no-deal rupture at the end of 2020.'

If there is to be an extension to the transition period it needs to be agreed by the end of July 2020 under the terms of the Withdrawal Agreement. Government plans to rule out an extension have raised fears of a new cliff edge for businesses and consumers.

If Johnson is to confound the sceptics and get his trade deal agreed by the end of next year it is likely to be a so-called 'bare bones' agreement.

Paul O'Connor, head of Janus Henderson's multi-asset team, says: 'That deal would probably involve tariff-free trade in goods but with border checks and non-tariff trade barriers, reflecting the UK's desire to achieve some form of regulatory independence.

'It is worth noting that the EU has a sizeable trade surplus in goods with the UK, measured at £94bn in 2018. However, in services, where the UK has run a trade surplus with the EU for over a decade, there is little hope for meaningful progress on establishing new trade relations in 2020.

'That will leave a large cloud of uncertainty overshadowing more than 80% of the UK economy, which means that this clean-break Brexit will effectively be quite a hard Brexit.'

The question facing the markets is whether Johnson might use his comfortable majority to pivot away from hard-line Eurosceptic MPs and pursue a softer form of Brexit. Early signs suggest this is unlikely.

UK banks rally but misconduct fines still hang over the sector

We explain why the election result could be good news for leaders

BANKING STOCKS RALLY AFTER THE ELECTION RESULT

BANKS	
Virgin Money	13%
Barclays	10%
Royal Bank of Scotland	10%
Lloyds	8%

Source: SharePad. Data 12 Dec market close to 12.30pm 16 Dec.

Shares in high-street banks **Barclays (BARC)**, **Lloyds (LLOY)**, **Royal Bank of Scotland (RBS)** and **Virgin Money (VMUK)** rocketed on 13 December after the landslide Conservative victory in the general election.

The banks were in demand amid expectations of higher bond yields due to Tory promises of higher public spending.

Higher bond yields are seen as necessary for banks to increase their net interest margin – the difference between what they charge on loans and pay for deposits – and therefore their profits.

With the election out of the way and the Government free to pursue its strategy on Brexit, hopes are that businesses will unleash a wave of pent-up investment and consumers will respond with an increase in spending in the months ahead, which should be good for bank lending.

However the banks are still not out of the woods as regards fines for misconduct. After years of penalties for mis-sold payment protection insurance (PPI) and for rigging the London inter-bank offered rate (LIBOR), two UK banks are in the firing line for rigging the currency markets.

Two US law firms have launched billion-dollar class action suits in London against a group of banks for rigging the foreign exchange markets between 2007 and 2013. The banks, including Barclays and RBS, have admitted illegally setting foreign exchange rates between themselves and have already been fined over €1bn by the European Commission.

The US claims have been brought on an 'opt-out' basis which means that all those affected by the banks' actions can be automatically included in the class action case.

Meanwhile **HSBC (HSBA)**, which isn't included in the class action for currency rigging, faces a different but equally thorny problem. It has been ordered to pay $192m to the US Department of Justice (DoJ) to resolve an investigation into its role in helping wealthy American citizens evade taxes using undeclared Swiss bank accounts.

HSBC Private Bank in Switzerland has been charged with 'conspiracy to defraud the US' between 2000 and 2010 by helping US clients hide some of their assets and income offshore.

The DoJ claims that HSBC bankers travelled to the US specifically to 'scout for clients'. Swiss lenders Credit Suisse and UBS have already paid out billions of dollars for similar activities and the whole of the Swiss private banking sector has had to undertake a major 'house-keeping' exercise in the wake of the DoJ investigation.

New Year stock rally predicted by Bank of America

Investor sentiment continues to improve according to its latest report

Shares could soar in the first quarter of 2020 according to analysts at Bank of America who predict a 'risk asset melt-up'.

The bank's measure of investor sentiment hit an 18-month high last week marking an 'outright bullish' reading and suggesting clear skies for global markets.

With the US Federal Reserve and the European Central Bank still adding liquidity to money markets, helping to keep interest rates low, and tensions between the US and China having eased after the 'phase one' trade deal, its analysts believe the S&P 500 index could hit 3,333 points by the beginning of March compared with a closing level of 3,169 last week, equal to a 5% gain.

UK stocks are also forecast to see further sharp gains following the Conservative landslide in last week's election, which paves the way for higher public spending and a clear strategy on Brexit,

while emerging markets have seen continued inflows of funds.

The bank also highlights the fact that expectations for global growth and profits are bullish and that investors, having taken $182bn out of equities globally this year, are now at risk of having insufficient exposure to stocks if prices move higher.

Why Sports Direct is going upmarket

Now rebranded as Frasers, its shares have shot up as an update shows signs of promise

SHARES IN SPORTING goods giant Sports Direct, which now trade on the stock market as **Frasers (FRAS)**, surged on half-year results (16 Dec) which showed a bumper rise in earnings despite testing times for retailers.

The tracksuits, trainers and tennis balls seller also flagged the 'green shoots of recovery' at acquired department store House of Fraser and maintained it wouldn't be on the hook for any material liabilities arising from a £674m Belgian tax enquiry.

Stemming losses at House of Fraser, Sports Direct is full steam ahead with a new strategy. Gross margins are improving as it shifts towards the sale of more premium, higher-priced products, opens new flagship stores and takes existing stores upmarket in order to make them more appealing to third party brands, notably Nike and Adidas.

The Frasers rebrand reflects the new strategy and widening retail offer, including new luxury lifestyle stores.

However, this programme still looks a gamble, given that the retailer's long-run success has been built on the 'pile them high, sell them cheap' mantra.

Sports Direct must therefore ensure it doesn't alienate both price-conscious shoppers and high-end brand buyers alike.

SHARES AJBell

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The big personal finance changes coming to you in 2020, this year's hot metal and is value investing back in fashion?

Investing in Coca-Cola, M&G's fund problem, the changing world of property and giving money for Christmas

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Big companies with big decisions to make in 2020

What could happen to Pennon, Marks & Spencer, Micro Focus and more next year?

Knowing what's on the road ahead for companies can help you make better investment decisions. It can help you form a bigger picture of the potential risks and rewards for certain stocks.

With that in mind, we now look at six companies in the FTSE 350 and one of the biggest names on AIM where there are some potential big events in store for 2020.

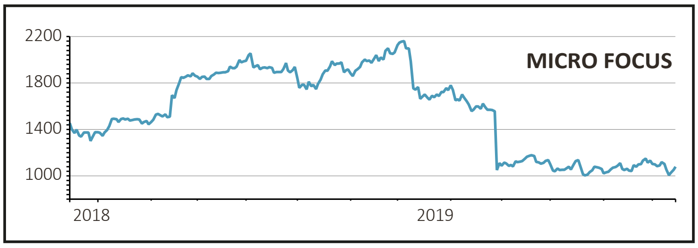
WILL MICRO FOCUS BE TAKEN OVER?

Micro Focus (MCRO) has effectively been in play since its latest profits shock in August sparked a strategic review that many analysts felt was a euphemism for raising the 'for sale' sign.

The company, which provides software that bridges the gap between new and old technology systems, has been a bag of bits for a while so it is no surprise that selling unwanted parts of the business is the official line.

Yet speculation persists that the entire company is on the block and various rumours have come and gone.

It is quite possible that the publication of its full-year results on 4 February 2020 could finally draw genuine offers, with analysts anticipating 35% to 40% premiums to be offered to the current £10.36. You should expect trade and private equity to be interested in parts of, or more likely, the entire business.



WHEN WILL KAZ MINERALS MAKE ITS BIG RUSSIAN MOVE?

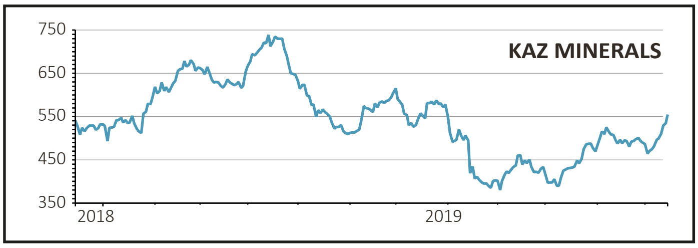
Copper miner **KAZ Minerals (KAZ)** has a big call to make next year on when it wants to develop a mine it spent $900m buying in far eastern Russia. The construction cost is currently estimated to be $5.5bn.

A potentially lucrative but high risk project, the Baimskaya copper deposit sits in an area so remote that 250km of roads need to be built just to connect the mine to an existing road, which is then 100km away from the nearest town.

The benefits are obvious. The project is one of the largest undeveloped copper deposits in the world, and copper demand is forcast to soar in the next few years.

But the market has little confidence in KAZ, with its shares halving to £5 after announcing the deal in August 2018, albeit also weighed down by copper price weakness earlier this year.

A feasibility study will be completed in the first half of 2020, while talks on financing continue and partnering options assessed.



WILL FORESIGHT SOLAR ENTER THE SUBSIDY-FREE MARKET?

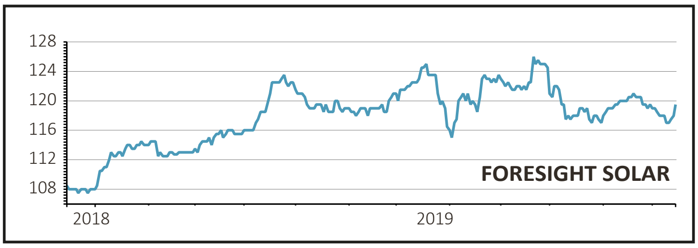
Next year could prove momentous for the **Foresight Solar Fund (FSFL)**, which makes money by selling power from its solar farms to electricity suppliers and it recently entered the FTSE 250.

Thanks to increasing momentum behind renewable energy, building and running a solar farm in the UK is now becoming an economically viable thing to do without needing to rely on government handouts.

This is something which could transform the industry and its growth potential going forward.

Yet in addition to reviewing investment opportunities in UK subsidised solar markets, the investment manager Foresight is closely monitoring the development of subsidy-free markets in Spain, Portugal and the UK.

This area has developed rapidly in Southern Europe, where a number of relevant transactions have been announced in Spain and Portugal, so 2020 might just mark the fund's debut foray into the subsidy-free arena.



CAN MARKS & SPENCER MAKE ITS NEW ONLINE SERVICE WORK?

Next year marks a major milestone for two of the UK's best-known retailers, the 135-year-old veteran **Marks & Spencer (MKS)** and the 19-year-old upstart **Ocado (OCDO)**.

In February this year the two firms agreed to form a joint venture to supply M&S groceries to UK shoppers using Ocado's 'out of the box' software platform.

In September 2020 Ocado will stop selling Waitrose products and switch to M&S products. In exchange M&S is buying half of Ocado's UK retail business for £750m, some of which is deferred.

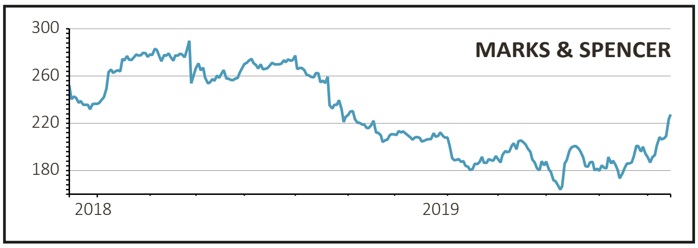
Ocado's retail arm is already doing very nicely, with trading for the three months to 1 December up by more than 10%. By contrast M&S food sales were up just 1.4% in the three months to the end of September.

Food now accounts for more than half of sales at M&S and it needs the deal with Ocado to work seamlessly. Research by YouGov suggests

that Ocado's current customers are likely to embrace M&S products as both brands are seen as offering 'quality'.

In fact the M&S 'Simply Food' brand was recently voted the UK's favourite retailer, ahead of John Lewis, while Waitrose failed to make the top 10.

Naturally for Ocado, a successful transition to M&S products matters but its ambitions are further afield as shown by its recent deal with Aeon to enter the £25bn-a-year Japanese online grocery delivery market.



WILL FIRSTGROUP EXIT THE US COMPLETELY?

Under attack by activist investors, the board of transport company **FirstGroup (FGP)** will have to make some trade-offs next year.

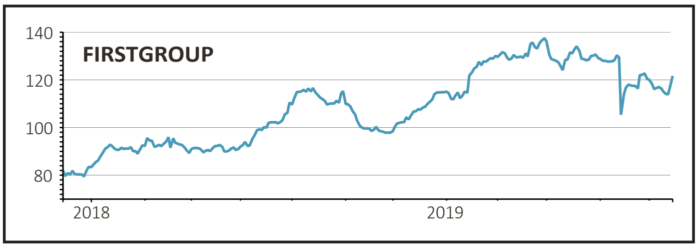
Does the company bow to activist pressure and sell all of its US assets? One major shareholder, Royal Bank of Canada, says if FirstGroup does exactly that, its share price could go up to around 245p, well ahead of its current price of 121.3p.

The company has already relented to some pressure, putting its struggling North American coach business Greyhound up for sale.

But its US student bus service, First Student, is the second best performer in the business when it comes to revenue and profit, behind only its UK rail division, while another American bus division, First Transit, has also performed strongly.

FirstGroup has come under pressure from several shareholders to sell all its US assets, but the business has previously said it would rather sell off the less profitable parts and argues the company's pension deficit would soar if it sold

the best bits. However, the board seems to be changing its mind with an announcement on 16 December that it is now looking at options for the First Student and First Transit operations, including a potential disposal.



WILL PENNON BE BROKEN UP?

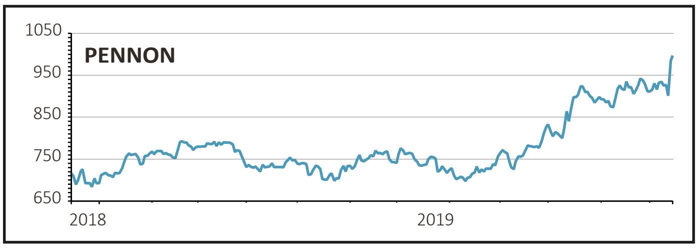
Water, waste and recycling company **Pennon (PNN)** announced on 27 September that it would conduct a strategic review of the business, raising the prospect that 2020 may see the company demerge the Viridor waste management business or its water businesses to become a pure recycling play.

Strong investor demand for green investments makes it an opportune time to consider the best options to maximise value for shareholders.

In addition, growth capital expenditure for Viridor is due to peak in the current financial year to 31 March 2020. The business model has been de-risked with 100% of revenues under contract including 80% under long-term index-linked contracts.

Three of its energy recovery facilities are in operational ramp-up which should translate into healthy earnings growth in the next two years.

Having proved its credentials, Viridor is in an enviable position to take advantage of strong market dynamics. In 2020 investors will find out whether they can invest in that opportunity through a separate, listed vehicle.



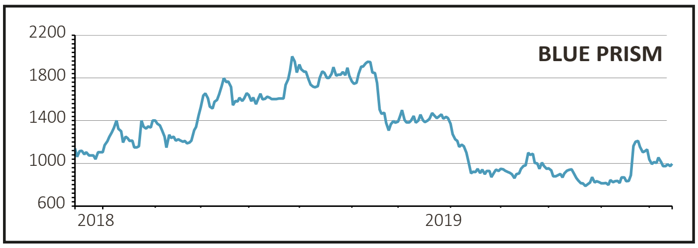
WILL BLUE PRISM NEED A BIG SLUG OF CASH?

Blue Prism's (PRSM:AIM) ongoing challenge to lead the fast-growing robotics process automation sphere is exciting and seldom does the UK produce a genuine contender to the Silicon Valley elite in cutting edge technology.

Locked into an industry land grab with venture capital-backed rivals Automation Anywhere and UiPath, Warrington-based Blue Prism has tapped investors for more than £120m since its IPO in March 2016 including a £100m fundraise at the start of 2019.

That may pale against the $1bn-odd raised by its two rivals over the past couple of years yet since 30 April Blue Prism's cash pile of £129.4m has dwindled to £74m, implying a burn rate of nearly £10m a month.

You should expect Blue Prism to ask investors to back its ambitious growth strategy with fresh cash again in 2020, probably following any run of share price strength.



By **The Shares Team**

OUR 2019 PICKS HAVE SMASHED THE MARKET WITH A 23% RETURN

WE'VE HAD ONE OF OUR BEST YEARS IN A LONG TIME WITH STELLAR SHARE PRICE GAINS

SHARES' 2019 PORTFOLIO	
Company	**Total return**
Next	75.8%
GB Group	70.9%
Keystone Law	47.0%
On The Beach	31.4%
Hollywood Bowl	18.2%
Euromoney	11.6%
Renishaw	2.8%
Fevertree Drinks	-4.2%
Coats	-9.1%
Rolls-Royce	-14.2%
TOTAL	**23.0%**
FTSE All-Share	**16.7%**

Source: Datastream. 18 Dec 2018-13 Dec 2019

After a difficult 2018, our latest annual portfolio of 10 stocks has delivered far superior rewards. Last year we outperformed the market, albeit still making a loss. This year we've smashed the returns from the FTSE All-Share and generated significant profits.

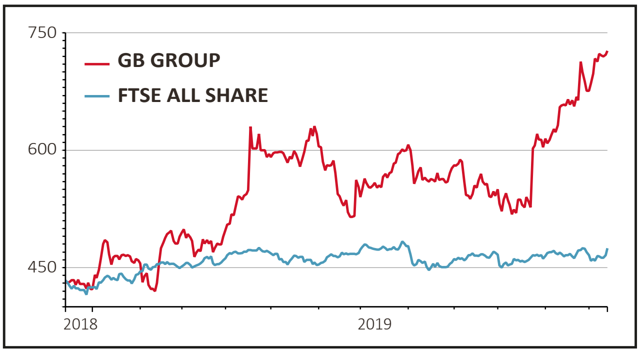
SHARES **23%** VS MARKET **16.7%**

Our portfolio has delivered a 23% total return (capital gains and dividends) versus 16.7% from the market. That's one of our best results in many years. To put it in some context, it is more than 15 times better return than you'd get from the current best paying easy-access cash savings account (1.45% from Marcus).

Clearly investing in stocks

is much higher risk than putting cash in the bank and three of our selections actually lost us money in the year. However, many of the ones that achieved positive returns did impress on a large scale.

Top performer retailer **Next (NXT)** surpassed our expectations with a 75.8% total return. Despite a very difficult retail backdrop, Next managed to keep growing its online operations and make good progress in repositioning its physical store estate.



One of the best performers was **GB Group (GBG:AIM)** with a 70.9% total return. The identity data intelligence specialist doubled post-tax profit in the six months to 30 September. Chief executive Chris Clark summed up the period as having strong organic performance, the successful integration of acquisitions and ongoing investment in the business.

Small cap **Keystone Law (KEYS:AIM)** rewarded investors with a special dividend a few months ago after delivering 15% growth in adjusted pre-tax profit in the six months to July. It has been hiring more people, expanding its office space and issuing very bullish commentary on its outlook.

BOUNCING BACK

It is quite impressive that one of our stocks has delivered double-digits returns despite issuing a profit warning only four months ago. **On The Beach (OTB)** troubled the market in August after a weak pound led to a significant increase in its holiday prices compared to rivals who used currency hedging strategies, thus making it less competitive.

A month later Thomas Cook collapsed, leaving a big gap in the supply of holidays and flights. That created a once-in-a-lifetime opportunity for travel companies to chase a large slice of extra market share.

On The Beach took a hit from having to make alternative travel arrangements for some of its customers previously booked to fly with Thomas Cook, but the market opportunity got investors really excited and put the share price back on an upwards trajectory.

RIDING THE UPS AND DOWNS

Some of our top picks were very volatile in the year, principally **Fevertree Drinks (FEVR:AIM)** amid slowing UK sales growth and **Renishaw (RSW)** on weakness in Asia. We did well to avoid major portfolio losses with these stocks given the mixed news flow.

We've nursed a small loss with **Coats (COA)**, which recently issued a dissapointing trading update, and the same with **Rolls-Royce (RR.)** which fought considerable negative market sentiment in the second half of 2019. It has found that the cost of resolving problems with its Trent 1000 engines would be higher and last longer than expected.

THE RELIABLE ONE

Despite these portfolio detractors, if there is one stock we knew would be our reliable friend throughout the year it's **Hollywood Bowl (BOWL)**.

It reported 15.3% growth in pre-tax profit for its 2019 financial year, ahead of expectations. Bowling has proved to be an affordable leisure activity and fairly resilient against different types of economic conditions. Investors are being rewarded with a 22% increase in the final dividend to 5.16p and a 4.5p special dividend on top.

By **Daniel Coatsworth** Editor

10 WINNING STOCKS FOR 2020

DISCOVER OUR TOP INVESTMENT IDEAS

OUR PICKS IN A NUTSHELL

BEGBIES TRAYNOR

Martin says: Increasing insolvencies are a boon to specialist practitioner Begbies Traynor

CENTRICA

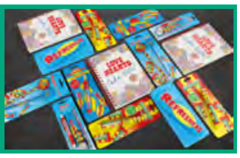
Martin says: A refocus on cheaper tariffs is already starting to change customer switching habits

HOTEL CHOCOLAT

James says: The posh chocolates seller is a cash generative growth business with global aspirations

IG DESIGN

James says: It is growing with some of the world's leading retailers and pays rising dividends



KAINOS

Steven says: Kainos is capitalising on huge opportunities to help government departments and companies embrace 21st Century technology

LLOYDS BANKING

Tom says: A generous dividend yield and an improved domestic picture means now is the time to buy this 'boring' bank

LUCECO

Steven says: Luceco has the power to drive significant profit growth in 2020

REDROW

Tom says: Cashed up housebuilder Redrow should benefit from a revived housing market and offers generous dividends

SCHRODERS

Ian says: Schroders is set to cash in on wealth management and US growth

WIZZ AIR

Yoosof says: Wizz Air is growing fast and is the underappreciated star of the airline sector

BEGBIES TRAYNOR (BEG:AIM)

Insolvency specialist and property services company **Begbies Traynor (BEG:AIM)** derives two thirds of its revenue from activities which are counter-cyclical, which means that in any future slowdown or even recession the business will see rising demand for its insolvency services.

The company's shares therefore provide a compelling hedge against future economic difficulties as well as good earnings expansion in the current low growth environment.

That isn't to say the business needs a recession to perform well as the results for the six months to 31 October amply demonstrated.

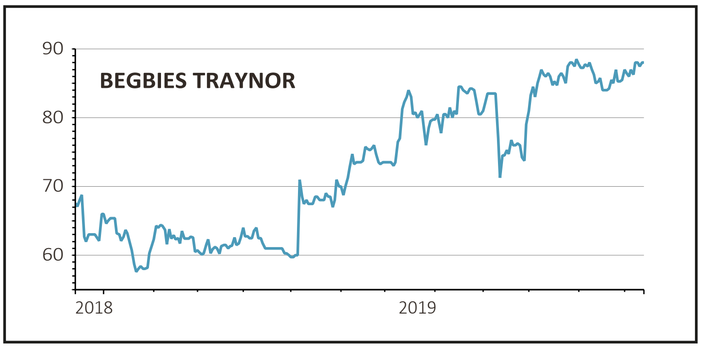
Revenue rose 21% aided by acquisitions, but organic growth was still an impressive 10%, while profits surged 29%, helped by improving operating margins, which reached 13.2% (2018: 12.6%) as central costs were reduced as a percentage of revenues.

It is worth noting that businesses can also come under pressure as the economy starts to recover from a difficult period as they risk failing due to cash flow constraints. Therefore Begbies is attractive as an investment in both an economic downturn and upturn.

Chairman Ric Traynor sees increasing activity in the year ahead as the insolvency market continues its recovery. In the 12 months to 30 September volumes expanded by 7% to 16,857 cases nationwide.

This level is still some way off the peak seen in the financial crisis which saw annual insolvency cases peak at close to 25,000.

In anticipation of a growing workload the company has increased its capacity by recruiting additional fee-earners, taking the number of employees working in the insolvency division to 412 from 364 last year.



In October the firm purchased Alexander Lawson Jacobs which brings a team of 24 directors and employees focused on London and the South East.

Typically the firm earns revenue based on hours worked with the fees paid from asset realisations which are approved by creditors. On average each case can last from two to three years.

The company's other division generates revenues from providing property advisory and consultancy services.

Begbies is the UK's largest insolvency practitioner by volume with around 8% market share, serving the small and medium sized business community while the big four accountancy firms tend to handle the bigger insolvencies.

The insolvency marketplace is fragmented leaving scope for Begbies to grow by buying up smaller competitors. The business throws off strong free cash flows equivalent to around 10% of revenue.

It had a £2.3m net debt at 31 October 2019. A £25m revolving credit facility and a £5m acquisition facility provides the company with enough firepower to make selective acquisitions.

SHARE PRICE: 88p	**FORECAST DIVIDEND 2020:** 2.8p
MARKET CAP: £112M	**DIVIDEND YIELD 2020:** 3.2%
FORECAST EPS 2020: 5.78p	Financial year end: 31 December
PE 2020: 15.2	Source: Shares, Stockopedia

CENTRICA (CNA)

Whether the latest strategic change of direction at British Gas owner **Centrica (CNA)** is yet another false dawn or a genuine reset onto a more profitable path, the shares are so beaten up that the risk/reward ratio here is attractive.

There are early signs that greater retail customer focus is having a positive impact on market share.

For instance a net 20% of households switched to British Gas in November as it offered one of the most competitive tariffs on comparison website Compare the Market.

Peter Earl, head of energy commented: 'British Gas has put its foot on the gas in November, accounting for more than a third of all switches on our platform.'

The company is exiting oil and gas production as well as its interest in nuclear generation and is expected to provide net proceeds of around £2.7bn, most of which will be used to reduce the firm's £3.37bn of debts.

Centrica is targeting £1bn of annualised efficiencies over the 2019 to 2022 period, a third higher than its prior target. It estimates these savings will cost £1.25bn to deliver.

If the new initiatives work they will result in a rough £20 saving for customers on dual fuel contracts, in real terms, propelling the firm into the top quartile cost position compared with the competition.

The firm has identified three fundamental trends which are reshaping the energy landscape today and its strategy is founded on an analysis of these changes.

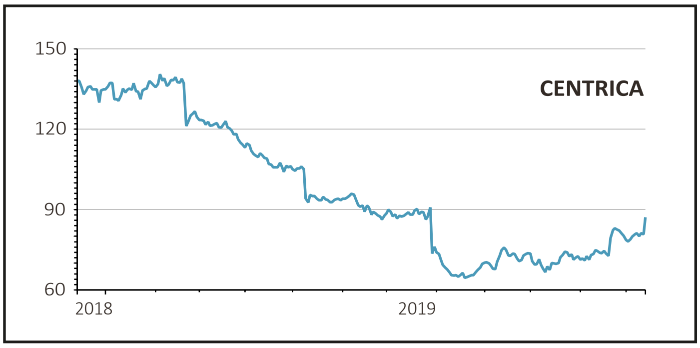
The energy system is becoming more decentralised as renewable technologies are deployed on a smaller scale. At the same time

customers have more choice about how they obtain their energy and the services they require, all aided by technology which puts the customer in control.

Positioning its services at the value-for-money end of the price spectrum should maximize the firm's strong brand awareness and plays into the company's strengths.

Centrica is the largest gas supplier and installer of boilers in the UK and has the widest range of on-demand services through its Local Heroes platform.

From an investment perspective, the most important consideration is that the market is sceptical on management achieving and keeping the cost savings announced, leaving room to surprise on the upside.



SHARE PRICE: 90.42p	**FORECAST DIVIDEND 2020:** 5.05p
MARKET CAP: £5.3bn	**DIVIDEND YIELD 2020:** 5.6%
FORECAST EPS 2020: 9.48p	Financial year end: 31 December
PE 2020: 9.5	Source: Shares, Stockopedia

HOTEL CHOCOLAT (HOTC:AIM)

Premium British chocolatier **Hotel Chocolat's (HOTC:AIM)** enviable record of beating earnings forecasts has been rewarded with a rich equity rating, yet the growth story is just getting started.

This cash generative chocolate brand's product range is going from strength to strength and it plans to take a bite out of huge US and Japanese markets.

Guided by co-founder and CEO Angus Thirlwell, the leading UK premium chocolate brand sells products online and through locations in the UK and abroad.

It has a flagship UK restaurant in London and a cacao estate and hotel in Saint Lucia. A vertically integrated business, Hotel Chocolat grows its own cocoa and owns (and enforces) its own intellectual property too.

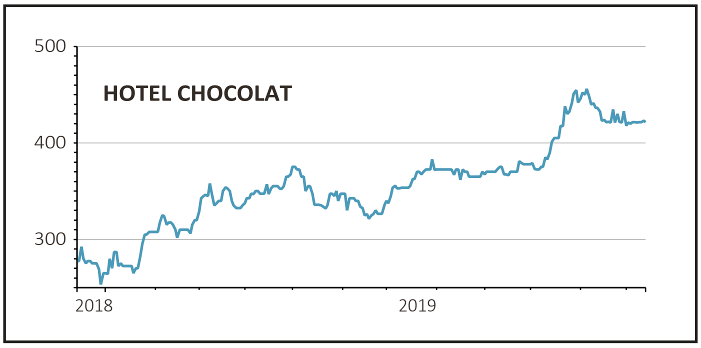
Risk factors include the fact that the bulk of its cocoa comes from a single supplier.

Hotel Chocolat's stores – 'a doorway into instant escapist happiness' according to Thirlwell – are flourishing. Consumers are drawn in by relentless product innovation and experiences including Chocolate 'lock-in' tastings.

Like-for-like store growth accelerated in the first six months of 2019 following the launch of an in-home hot chocolate system and a loyalty scheme. And forthcoming launch 'Biscuit of the Gods' – where it is aiming to offer the 'best chocolate biscuit on the planet' – could boost sales momentum.

Hotel Chocolat is delivering tasty growth in the digital channel, as well as in the wholesale business, where it sells through **Next (NXT)**, John Lewis and Amazon.

While being a near-term drag on group-level



earnings, overseas developments are among the key upside catalysts to watch in 2020.

The gifting markets in the US and Japan are huge, roughly five and 3.8 times bigger than the UK respectively, while the brand's 'More Cacao Less Sugar' mantra is already resonating in Tokyo and New York.

Having also formed a new joint venture in Scandinavia, Hotel Chocolat is exploring the potential for wholesale tie-ups in the US.

Furthermore, the gifting seasons are different in Japan, where Valentine's Day and White Day in February and March generate a sales peak similar to Christmas in the UK.

For the year to June 2020, Peel Hunt forecasts £15m adjusted pre-tax profit (2019: £14.1m), rising to £16.3m in 2021.

We consider Hotel Chocolat one of those rare businesses with the right ingredients to keep growing thanks to geographical expansion opportunities. The shares have done well since it joined the market in 2016 and we see that trend continuing.

SHARE PRICE: 423.5p

MARKET CAP: £489m

FORECAST EPS 2021: 11.4p

PE 2021: 37.1

FORECAST DIVIDEND 2021: 2.4p

DIVIDEND YIELD 2021: 0.6%

Financial year end: 30 June

Source: Shares, Peel Hunt

NB: We've used 2021 figures for this article because the market is forward-looking and Hotel Chocolat has a June year end, so investors will soon be looking beyond the 2020 financial year

IG DESIGN (IGR:AIM)

You'd be crackers to ignore this global growth winner. Investors willing to pay up for a quality long-term consolidation story with global earnings momentum should snap up **IG Design (IGR:AIM)**.

Despite having already delivered stellar returns for shareholders, we believe there is more to come as the company leverages long-standing ties with the world's top retailers.

IG Design makes and supplies products that help people celebrate life's special occasions. Its hugely diverse range spans gift packaging and greetings cards, stationery, creative play products and design-led giftware.

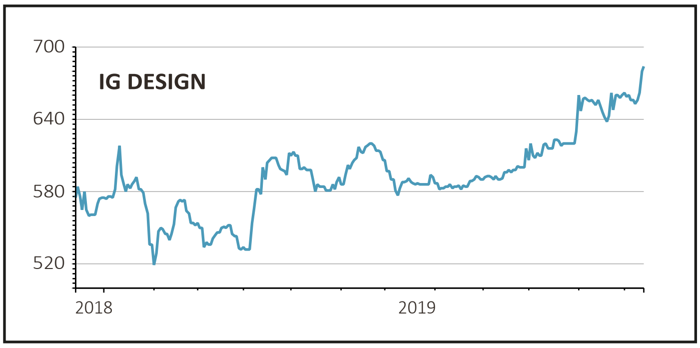
It is growing with the likes of Walmart, the world's largest retailer, and Target in the US. It also has agreements with names such as **Tesco (TSCO)**, Action, Dollar Tree and Lidl.

Successful licensing deals are in place for key brands including Peppa Pig, Toy Story and Frozen and these offer additional earnings upside for IG Design, whose UK business is taking a lead in developing more environmentally-friendly products such as fully recyclable Christmas crackers.

Results for the six months to 30 September showed a double digit profit gain amid impressive showings in the UK, Europe and US, where IG Design is geared into the buoyant consumer.

Following the acquisition of Impact Innovations, the US now speaks for 60% of group revenue. Sales and profits in the country are growing like topsy and it recently inked a deal with one of the largest retailers – it isn't allowed to disclose the name for commercial reasons – for the supply of all-year-round themed and seasonal impulse gifting products to over 1,500 stores.

IG Design is primed for long-term organic



growth as it expands with new and existing retail customers.

Risks to consider include cost pressures and competition, although this company has scale and manufacturing advantages over peers. Possible disposable income declines could also reduce gifting spend in key markets.

A new printing press in Memphis will reduce costs, increase gift-wrap production capacity and help the company mitigate the impact of tariffs.

Cash-generative IG Design also offers investors a progressive dividend, one forecast to rise from 8.5p to 10.54p in the year to March 2020 ahead of 12.61p and 13.71p in the 2021 and 2022 financial years respectively.

Chief executive Paul Fineman – whose personal stake in IG Design is now worth £15.7m – is likely to pursue further acquisitions, supported by the company's strong balance sheet, to drive incremental growth.

SHARE PRICE: 697p	**FORECAST DIVIDEND 2021:** 12.61p
MARKET CAP: £553m	**DIVIDEND YIELD 2021:** 1.8%
FORECAST EPS 2021: 34.8p	Financial year end: 31 March
PE 2021: 20	Source: Shares, Berenberg

NB: We've used 2021 figures for this article because the market is forward-looking and IG Design has a March year end, so investors will soon be looking beyond the 2020 financial year.

KAINOS (KNOS)

A desire to go digital is one thing that unites organisations both large and small. From ordering a pint in a pub via a phone app to calculating a tax return, plus a million more things, this is a multi-year transition that will separate winners from losers.

Among those thriving from this structural growth trend is Belfast-based **Kainos (KNOS)** which helps large organisations transition their processes and operations into the 21st Century digital world.

Kainos is one of the key IT expertise suppliers to UK Government departments, often writing bespoke tools and software services for the Cabinet Office, Home Office, Driver & Vehicle Licencing Agency (DVLA), Department for Transport, Land Registry and others.

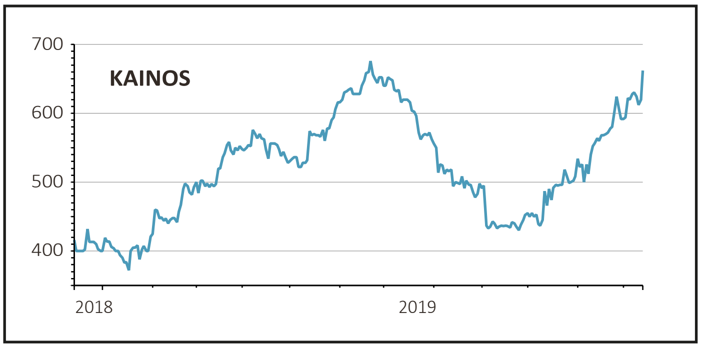
The company is also one of 35 global accredited installation providers for Workday, the $37bn US human resources and financial planning software platform. Kainos provides implementation and testing for users of Workday enterprise management tools.

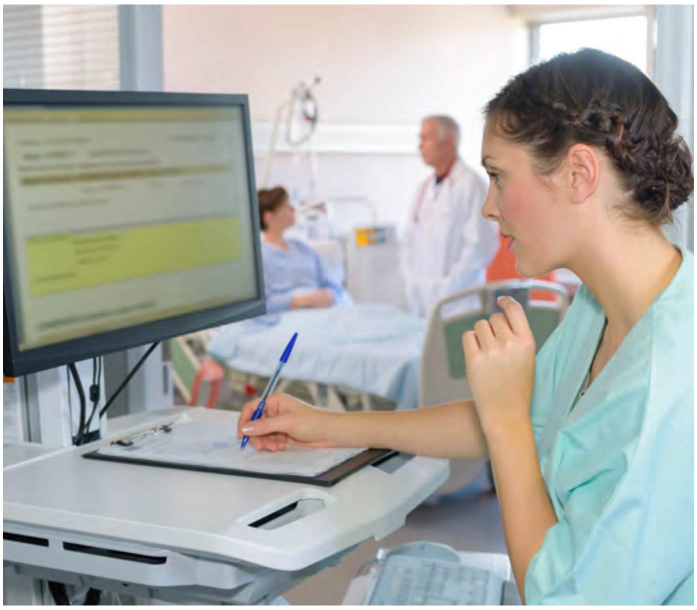
It also runs Evolve, an NHS IT system including things like electronic medical records that help streamline the service delivered to patients.

One of the real attractions of Kainos is this multi-paced, segmented model. It means as growth temporarily slows in one part of the business, the slack can be picked up elsewhere.

This has been illustrated over the past couple of years. While Evolve has been muddling along due to years of austerity cuts biting into NHS budgets and investment spending, other parts of the business have been progressing at a blistering pace.

In the year to 31 March 2019 its digital services drove revenue growth, up 69% to £132.6m, with momentum in both Workday implementation and





on UK Government digital transformation despite parliamentary deadlock over Brexit concerns.

If politicians are to be believed we are on the cusp of some of the largest healthcare and public sector digital services investment ever. That's really exciting for Kainos and could unleash huge opportunities that could make current earnings forecasts look far too cautious.

The high price-to-earnings multiple will worry some investors but we believe the premium is justified by Kainos' high-quality track record and impressive cash dynamics. It has £42m on the books with no debt making the balance sheet as bulletproof as they come.

SHARE PRICE: 718p	**FORECAST DIVIDEND 2021:** 11.4p
MARKET CAP: £878m	**DIVIDEND YIELD 2021:** 1.6%
FORECAST EPS 2021: 18.9p	Financial year end: 31 March
PE 2021: 38	Source: Shares, Stifel

NB: We've used 2021 figures for this article because the market is forward-looking and Kainos has a March year end, so investors will soon be looking beyond the 2020 financial year

LLOYDS BANKING

The political situation in the UK is clearer than it has been for some time and the stage looks set for **Lloyds' (LLOY)** steady approach to win favour with the market.

The shares are cheap. According to consensus forecasts the shares trade at parity with book value and Shore Capital's estimates imply a price-to-earnings ratio for 2020 of 8.1.

With the PPI issue largely in the rear view mirror Lloyds can get on with doing the basics of banking well and rewarding shareholders with generous returns.

The company's recovery from the financial crisis has been built on getting back to the old 'boring' retail banking model.

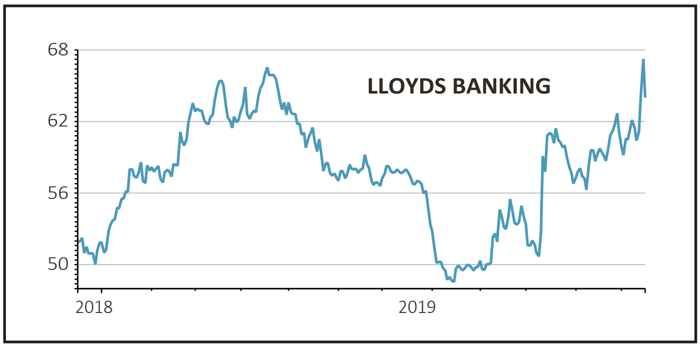
It funds a good chunk of its (almost exclusively UK) operations from customer deposits, secured through savings and current accounts, and offers mortgages, personal loans and credit cards.

The company has also strengthened governance of risk, by establishing a management structure which can hold the board to account and making bonuses dependent on long-term rather than short-term outcomes.

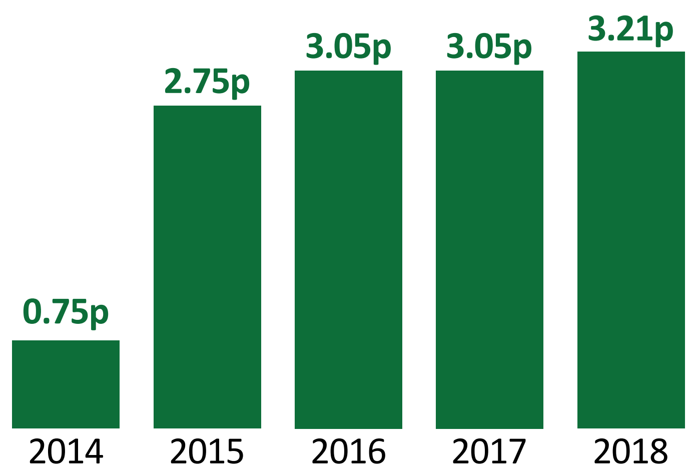
This model is helping deliver strong profitability and cash generation, underpinning a key attraction of the stock, namely its dividend.

Before the credit crunch banks were widely bought for income and Lloyds is renewing its credentials in this area. Since dividends were resumed in 2015, the company has grown its annual payout from 0.75p to more than 3p per share.

With the PPI provisions behind it – the deadline for claims having elapsed in August 2019 – the company could now be able to increase its generosity to shareholders. This might even involve resuming the share buybacks it suspended in September as well as continuing to deliver material growth in the dividend.



GROWING DIVIDEND APPEAL AT LLOYDS



Source: Lloyds. Includes special dividends

Like its rivals Lloyds comfortably cleared the latest Bank of England stress tests and it looks to have plenty of headroom to absorb the requirement to increase its capital buffer to deal with distressed economic conditions.

Greater levels of political certainty and increased Government spend could help give the UK economy a boost in 2020 and there is even a chance the Bank of England might use the current window of opportunity to raise interest rates (thereby benefiting the banks) to give it greater flexibility to deal with any future downturns.

The next obvious catalyst for the shares will come with full-year results on 20 February with the focus likely to be on the level of shareholder returns and the near-term outlook.

SHARE PRICE: 63.93p	**FORECAST DIVIDEND 2020:** 3.54p
MARKET CAP: £44.8bn	**DIVIDEND YIELD 2020:** 5.5%
FORECAST EPS 2020: 6.61p	Financial year end: 31 December
PE 2020: 9.7	Source: Shares, Refinitiv

LUCECO (LUCE)

Some of the best investment opportunities are found when fundamentally good companies temporarily come a cropper. This is exactly the case with **Luceco (LUCE)**, which continues to enjoy strong orders and has the scope to repair profit margins from the high single digits of today to the mid-teens of the past.

Having sorted out the disastrous stock and currency mis-management problems of a couple of years ago, Luceco has the opportunity to transform itself and its share price through 2020 and beyond.

There is scope for significant profit margin recovery to around 12% by 2021, improve free cash flow and possibly make value-adding acquisitions.

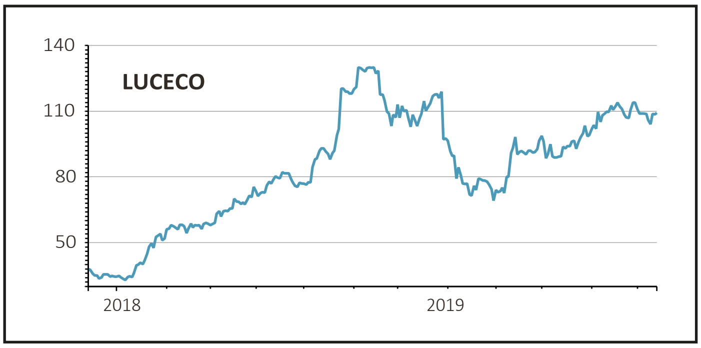
The Telford-based business supplies a large collection of electrical and wiring products to both retail and wholesale providers, covering industries such as commercial construction, residential housebuilding and housing maintenance.

Perhaps best known for its relatively new LED business (started from scratch just five years ago), many investors fail to recognise its much larger and more profitable wiring accessories operation, trading as BG, which supplies to the likes of B&Q and **Travis Perkins (TPK)**.

This part of the business runs on high-teens margins and produces roughly 75% of operating profit. This is a regulated and defensive market with 50%-odd recurring revenues providing safety solutions to large landlords in both new build and repair, maintenance and improvement.

No-one wants to run the risk of electrocuting tenants when they plug the iron or kettle into the mains, for example.

Luceco's wiring accessories business is still largely UK-based making international expansion an exciting opportunity.



Now that LED start-up costs have been largely sunk, free cash flow should really race ahead. For example, it threw off roughly £18m of free cash flow between 2014 and 2018. By contrast, analysts forecast £18m free cash flow in 2020 alone. This will allow Luceco to both deleverage the balance sheet and begin making bolt-on acquisitions to power growth.

Luceco is expected to have around £30m of net debt at the end of 2019, but that is forecast to be slashed to less than £5m by the end of 2021, giving the company up to £80m of acquisition firepower.

The stock is inexpensive in price-to-earnings terms, trading on just 12.6 times 2020 earnings forecasts of 9.2p.

With significant profit growth potential from both operational improvements, underlying expansion and acquisitions, we believe Luceco shares have significant re-rating potential.

SHARE PRICE: 116p

MARKET CAP: £186m

FORECAST EPS 2020: 9.2p

PE 2020: 12.6

FORECAST DIVIDEND 2020: 2.29p

DIVIDEND YIELD 2020: 2%

Financial year end: 31 December

Source: Shares, Liberum

REDROW (RDW)

Improved prospects for the housebuilding sector driven by more clarity on Brexit means it is time to buy **Redrow (RDW)** which has quality earnings and a strong cash position.

The landslide victory for the Conservatives in the 12 December General Election has created a measure of political certainty, in the short-term at least, which should be supportive to the housing market. This should allow housebuilders to increase asking prices, thus mitigating a rise in build costs.

The robust dynamics behind residential property, namely a lack of supply to meet demand, remain in place and mortgages remain cheap.

The Tories have made some positive noises about supporting the sector, including finding a new way to support home ownership once the current Help to Buy scheme expires in 2023.

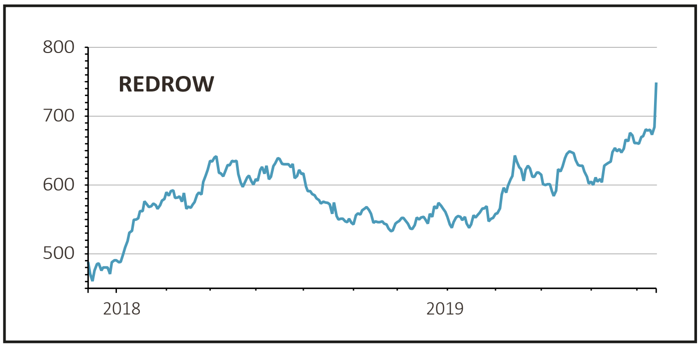
And, although it was not in the party's manifesto, prime minister Boris Johnson has previously discussed cuts to stamp duty which could provide a further boost to transactions.

Redrow's focus on building premium quality homes means it is more exposed to the higher end of the market but also should help it steer clear of the build issues and poor customer service which have affected some of its peer group, notably **Persimmon (PSN)**.

The company is also well aligned with the higher levels of investor and consumer focus on sustainability, with commitments to source 90% of its products locally and ensure 100% of its timber is responsibly sourced.

And unlike some of its rivals, who are taking their foot firmly off the accelerator, Redrow is still looking to grow, opening up its Thames Valley division in 2019 and with plans to open new outlets in 2020.

Its price-to-book value of 1.4 times is lower than the peer group average of 1.7, making the shares particularly attractive from a valuation perspective.



The company offers generous dividends; based on consensus estimates the shares offer a dividend yield of 6.2% underpinned by strong cash generation and the net cash which is piling up on the balance sheet.

The next catalyst for the share price is likely to be the results for the six months to 31 December published on 5 February 2020 which may offer some commentary on the prospects for the key spring selling season.

SHARE PRICE: 729.54p	**FORECAST DIVIDEND 2021:** 44.95p
MARKET CAP: £2.6bn	**DIVIDEND YIELD 2021:** 6.2%
FORECAST EPS 2021: 92.34p	Financial year end: 31 June
PE 2021: 7.9	Source: Shares, Refinitiv

NB: We've used 2021 figures for this article because the market is forward-looking and Redrow has a June year end, so investors will soon be looking beyond the 2020 financial year.

SCHRODERS (SDR)

With assets under management of £444bn, **Schroders (SDR)** is one of the few UK financial firms able to stand shoulder-to-shoulder with its international peers.

While the UK accounts more than a third of assets under management, two thirds of operating revenue comes from outside the UK making it a truly diversified global business.

In terms of products, equities account for 37% of the total followed by multi-asset investments at 25% and fixed income at 18%.

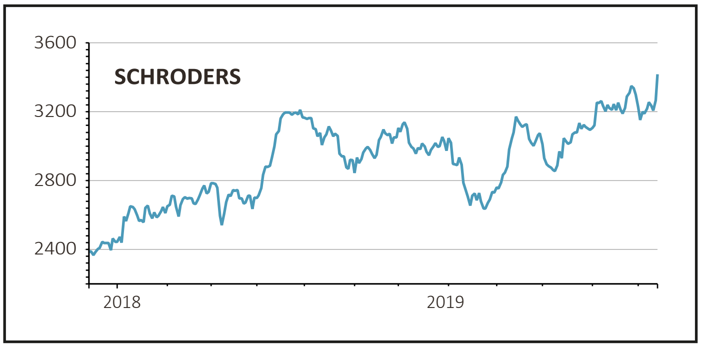
Admittedly this means that Schroders has suffered net outflows from equities this year, along with the rest of the asset management industry, but these have been balanced by inflows into fixed income, multi-asset products and private assets.

Also the firm's investment returns have been particularly strong this year, generating £35bn uplift in assets under management in the first half.

As well as its traditional asset management business, Schroders recently partnered with **Lloyds (LLOY)** to form a wealth management company after being awarded £80bn of the £109bn in pension assets that the bank pulled from its former partner **Standard Life Aberdeen (SLA)**. It is also reaching out to younger investors with its MoneyLens service.

Success isn't assured, however. Some observers have questioned how effectively Schroders Personal Wealth will be able to compete given that the bigger industry players have many more advisers and are unlikely to allow it to carve out a meaningful slice of the lucrative personal wealth management market.

Schroders Personal Wealth launched with 300 Lloyds advisers, while some of its bigger rivals have



up to 10 times that number, although it plans to increase headcount substantially.

In a sign of confidence, earlier this year fund manager Nick Train doubled his holding in Schroders from 5% to 10% making him the second largest shareholder after the founding family.

The holding is a bet on Schroders cracking the US market, where it is 'not well represented' according to Train, through distribution deals. Of its assets under management, just 15% are owned by clients domiciled in the US compared with 41% owned by clients based in the UK.

'Most of the trillion-dollar asset managers are in the US because of the scale of the domestic savings pool. How are they (Schroders) going to get to a trillion dollars? It has probably got something to do with the US,' says Train.

SHARE PRICE: £33.46	**FORECAST DIVIDEND 2020:** 117p
MARKET CAP: £9bn	**DIVIDEND YIELD 2020:** 3.5%
FORECAST EPS 2020: 199p	Financial year end: 31 December
PE 2020: 16.8	Source: Shares, S&P Market Intelligence

WIZZ AIR (WIZZ)

An outstanding growth stock leaving its rivals trailing, **Wizz Air (WIZZ)** is structurally better placed than its peers to exploit the rise in air travel.

A low-cost airline focused on connecting travellers from Central and Eastern Europe (CEE) with the rest of the continent, Wizz has carved a niche as the biggest airline in the region.

It provides relatively low cost travel to people from CEE countries whose rising income means they can now afford to go on holiday and see more of the world.

Wizz has a clear focus in this regard with its chief executive Jozsef Varadi calling for a ban on business class, and deriding plans of rival **EasyJet (EZJ)** to launch package holidays as 'paying a premium for nothing'.

By targeting countries with high GDP growth, Wizz has grown earnings faster than its peers.

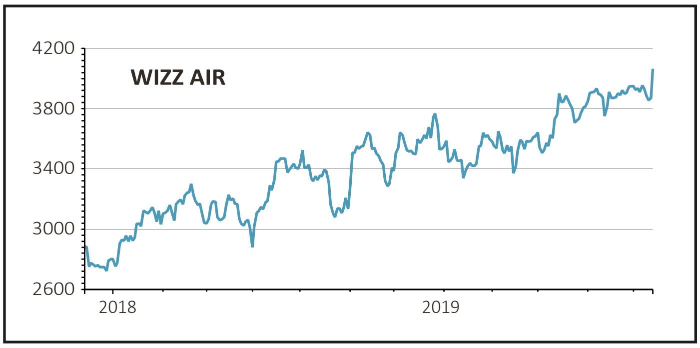
In 2020 the firm is forecast to grow revenue by 21.8% and earnings before interest, tax, depreciation and amortisation (EBITDA) by 98.7%.

In comparison, main rivals **Ryanair (RYA)** and EasyJet are projected to grow revenue by 12.1% and 7.6% respectively, with EBITDA growing at -2.8% and 17%.

Wizz has done a better job than rivals in generating ancillary revenue, i.e. extras once a passenger has booked their flight.

Ancillary revenue makes up 43% of its revenue, compared to 26% from Ryanair and 19.5% from EasyJet, and is important for airlines because it is stable income – prices of extras don't change whereas passenger fares fluctuate.

The company is also known as something of an innovator in the airline industry, with latest chatter suggesting it could a launch a 'Netflix-style



subscription' next year, where passengers pay a monthly fee for an unlimited number of flights.

One area to which Wizz may be more exposed than some of its rivals is fluctuating fuel costs, set to be a big challenge for airlines next year.

Fuel prices are forecast to go up by around $26 a tonne in 2020. To mitigate that Wizz has hedged 77% of its fuel for next year capped at $692 per tonne, and 43% in 2021 at $661 per tonne.

But EasyJet for example has hedged 68% at a lower price of $655 per tonne for the year to 30 September 2020, and 45% for 2021 again at a lower cost of $643 per tonne.

The airline industry is a tough one to crack. Wizz is no different to others in being affected by fuel costs, staffing issues and volatile fare income, particularly if the economic picture is sluggish.

But this is an airline much better placed than others with a stronger structural growth trajectory ahead.

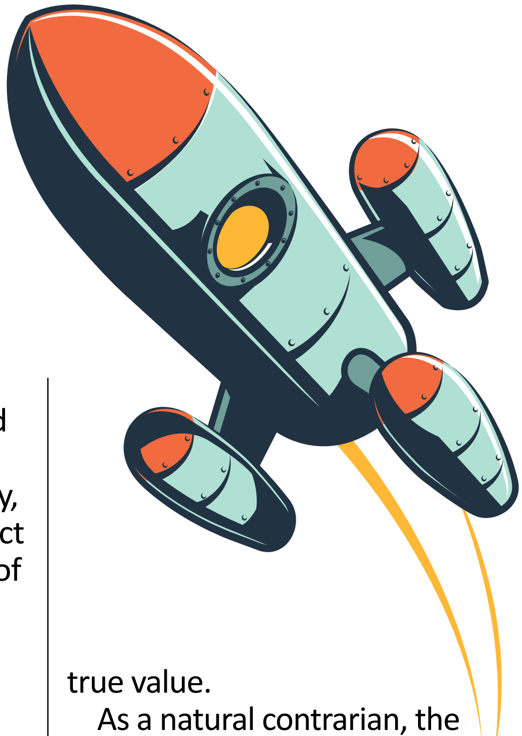
SHARE PRICE: £38.99	**FORECAST DIVIDEND 2021:** N/A
MARKET CAP: £2.8bn	**DIVIDEND YIELD 2021:** N/A
FORECAST EPS 2021: €3.30	Financial year end: 31 March
PE 2021: 14	Source: Shares, Berenberg

We've used 2021 figures for this article because the market is forward-looking and Wizz Air has a March year end, so investors will soon be looking beyond the 2020 financial year

COMING UP LATER IN THIS ISSUE OF SHARES:

Four great funds to buy for 2020

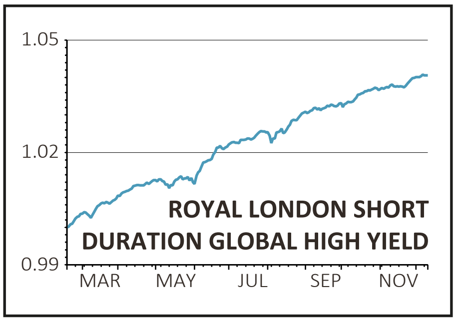
We also reveal how last year's fund selections delivered excellent returns



As we approach the New Year it is a good time for investors to think about their portfolio choices and check that they match their appetite for risk. Here are four fund ideas for specific types of investors.

ONE FOR CAUTIOUS INVESTORS

ROYAL LONDON SHORT DURATION GLOBAL HIGH YIELD (BD0NHK8)



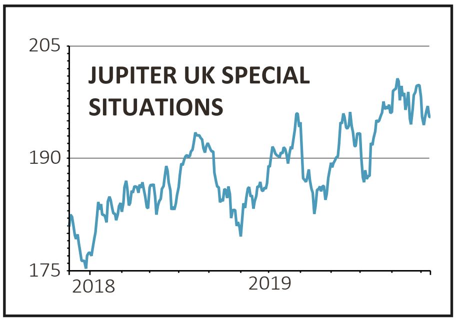
Cautious investors have benefited from strong returns this year as bonds have performed strongly. Looking ahead, the government is indicating higher spending which could well steepen the yield curve. As a result, traditional corporate and government bonds may struggle.

One alternative would be to look at short duration high yield bonds which are less correlated to interest rates and bond yields. With bonds only one to two years from maturity, these investments could protect investors from the full impact of yields increasing.

With cash rates so low, this may be a way of eking out a little extra return but it does come with some risk.

ONE FOR BALANCED INVESTORS

JUPITER UK SPECIAL SITUATIONS (B4KL9F8)



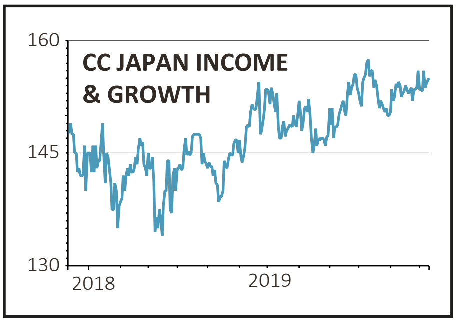
Manager Ben Whitmore has managed the fund for 15 years, employing a consistent approach that focuses on companies that have materially underperformed the market.

Whitmore looks for fundamentally sound companies that are unloved by other investors and priced below true value.

As a natural contrarian, the portfolio can look very different from the index which is a positive. The portfolio is currently tilted towards domestically-focused companies that may come back in the spotlight should a resolution to Brexit be found.

ONE FOR ADVENTUROUS INVESTORS

CC JAPAN INCOME & GROWTH (CCJI)



Japan continues to be a market seemingly in a constant struggle to get out of the doldrums.

Beneath the headline weakness is significant corporate change which is making companies more focused on delivering shareholders returns.

CC Japan Income & Growth Trust looks to capitalise on this changing dynamic with a focus on those companies that offer stable or growing yields.

With a strong stock picking process, overseen by an experienced manager in Richard Ashton, this trust has a well-developed philosophy and process in place that is comfortable investing away from the benchmark and taking a long term view.

The trust has a 2.4% yield and sits at a small discount of 3.3% to net asset value at the time of writing.

LAST YEAR'S FUND SELECTION

A year ago I picked four different funds to buy for the year ahead. Did they live up to expectations? The answer is definitely 'yes' with very good performance figures.

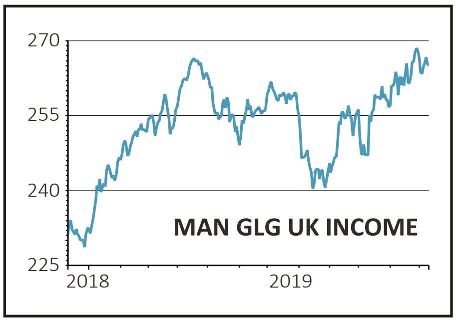
RYAN'S FOUR PICKS A YEAR AGO: HOW DID THEY PERFORM?

Polar Capital Global Insurance	**23.8%**
BNY Melon Global Income (previously called Newton Global Income)	**16.1%**
Troy Trojan Income	**15.1%**
Janus Henderson UK Absolute Return	**3.4%**

Source: FE Fundinfo, Data 20 Dec 2018 to 11 Dec 2019. Total return

ONE FOR INCOME SEEKERS

MAN GLG UK INCOME (B0117D3)



There are many income funds available that simply allocate to the big dividend payers in the index but this fund is different.

Manager Henry Dixon takes a multi-cap approach and also has a value bias, potentially gaining a double boost from a positive resolution to Brexit.

In addition, the manager can invest in corporate bonds if appropriate, albeit in a limited manger making this a slightly different UK equity income fund. The strategy currently yields over 5% and pays monthly making it an interesting option for income seekers.

At the time of writing, the financial services sector accounted for nearly 30% of the portfolio, industrials and energy both approximately at 14% and consumer cyclical at a little below 13%.

By **Ryan Hughes**
AJ Bell Head of Active Portfolios

Where next for the price of oil and its producers?

By **Russ Mould**
AJ Bell Investment Director

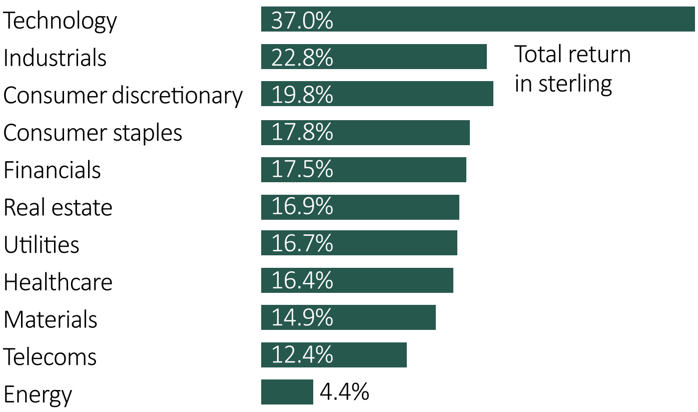
The industry looks to be a major turning point and not necessarily a good one for those involved

OPEC is ending 2019 where it ended last year – on the back foot, trying to support the price of oil with production cuts pushed through in conjunction with Russia and other countries who are not members of the cartel.

The extra reduction, which takes the total to 1.7m barrels of oil a day, is giving the price of crude a little lift but not enough to really give succour to shares in oil explorers and producers.

Looking at the S&P Global 1200 index, the energy sector is the worst performer among the 11 major industrial groupings that make up the benchmark and the only one that has failed to provide a double-digit percentage total return in sterling terms:

ENERGY IS THE WORST PERFORMING GLOBAL SECTOR IN 2019



Source: Refinitiv data, based on S&P Global 1200 indices. Total returns in sterling. Covers period 1 January to 11 December 2019

Looking at the MSCI World global equity benchmark, energy is down to an index weighting of less than 5%, right down by its all-time lows.

That means the energy constituents of the

1,650 member index have a combined market cap of $2.1trn – which is less than the current combined valuation of the two largest stocks, Apple and Microsoft.

ENERGY'S WEIGHTING IN THE MSCI WORLD INDEX IS NEAR ITS ALL-TIME LOWS

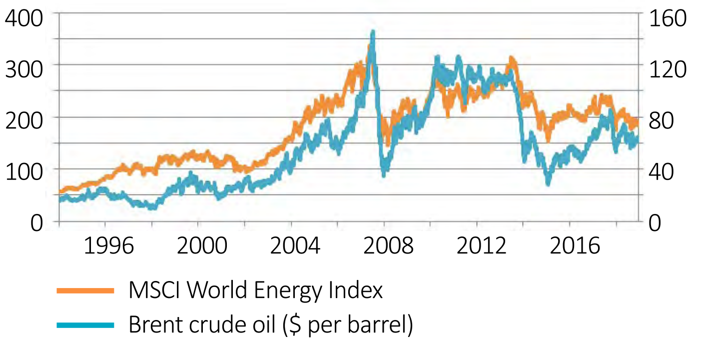
Source: MSCI

Investors with exposure to individual oil firms, specialist energy funds or geographic stock indices with a hefty exposure to oil companies (including the FTSE 100) must now decide whether the latest bout of oil stock underperformance is merely cyclical or the result of something more structural.

CYCLICAL ISSUES

It is possible to argue that oil's woes are merely cyclical. The MSCI energy sector is trading at the same level as it did in March 2005 and the actual oil price is barely changed from August of the same year in nominal terms. This may not be a coincidence. In inflation-adjusted terms, this means oil is cheaper still.

OIL AND OIL STOCKS ARE TRADING NEAR 14-YEAR LOWS



Source: Refinitiv

The problem seems be one of supply, thanks to the boom in US shale oil production, which is now exceeding 9m barrels a day equivalent, up from 1.5m a decade ago.

Oil bulls will point out how the US shale boom is turning to bust. The HaynesBoone Oil Patch Bankruptcy Monitor reveals that 33 US oil and gas drillers have filed for bankruptcy so far in 2019, up from 28 in the whole of last year, thanks to the sector's $100bn in borrowing, which mean even a flat oil price is straining some balance sheets.

As a result US shale oil output is up 'just' 13% year-on-year (or 1m barrels a day), thanks in part to financial distress at some of the debt-funded shale drillers. There could be more pain to come and the chart shows how lower oil prices reined in US shale output in 2015-16.

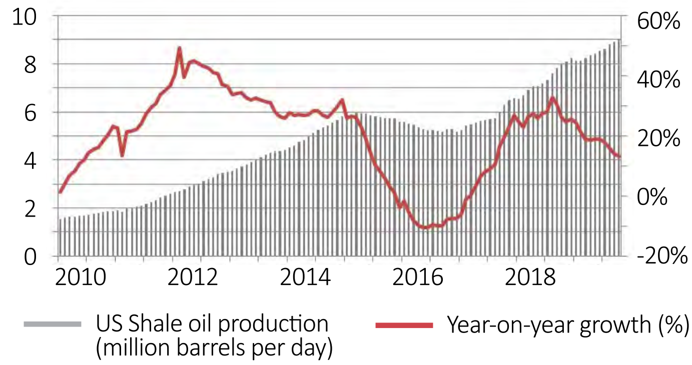
SECULAR ISSUES

This provides some support to the argument that the best cure for low oil prices is low oil prices, as supply is squeezed out of the market in a normal cycle.

Whether an era of unprecedentedly cheap money, as a result of zero or negative interest rates as well as quantitative easing will allow enough bankruptcies is an open question.

A stronger case for a secular stagnation or

US SHALE OIL PRODUCTION GROWTH IS SLOWING



Source: US Energy Information Administration

outright decline in oil price and oil stocks lies in the rise of alternative energy sources, relative to hydrocarbons.

This story is yet to play out, since oil demand continues to rise. According to data from the US Energy Information Administration, global annual oil consumption has fallen just five times since 1980 and only twice this century. On each occasion (1981-1983 and 2008-09) the reason was a deep recession.

As such, the world is yet to wean itself away from crude but the Paris Climate Accord and other initiatives targeting carbon neutrality, let alone the rise of solar and wind power and electric vehicles, lead many to hope that the process will begin soon.

If that is the case, then oil fields could become stranded assets, worth less than investors think – and asset write-downs by America's Chevron and Spain's Repsol mean this re-evaluation may already be happening.

A further secular theme to consider is the rise of environmental, social and governance (ESG) issues on investor sentiment.

It is possible that more investors will simply shun oil stocks on ethical grounds. This could hurt – the lower their share prices go, the lower their weighting in the headline indices and the more shares that passive and tracker funds will sell as a result, in what could become a self-perpetuating trend.

Equally, contrarians could argue that passive money departing the sector before its economic use comes to an end will create a value opportunity for active money to exploit.

We shall see, but this is no academic issue for investors in the UK, since the energy sector is forecast to produce 16% of the FTSE 100's profits in 2020 and pay 20% of its dividends.

Is inflation really dead and what can investors do if it isn't?

Reports of its demise are premature as rising wage pressures show

In April this year *Bloomberg Businessweek* ran the headline 'Is inflation dead?'. Inside the magazine was a lengthy discourse on why inflation *is* dead and why it is likely to stay that way for some time.

It's true that *expectations* for inflation are about as low as they have ever been, with many developed countries boasting negative short-term interest rates and around $15trn of outstanding bonds trading on negative yields.

However with unemployment rates at historic lows businesses are starting to feel the pinch from rising wages. Together with rising energy and other input costs, this could prompt them to raise prices to protect their profit margins.

Creeping inflation could cause central banks to not just roll back rate cuts but to raise rates further than expected, which would dramatically change the outlook for bonds and equities.

A POOR INDICATOR

Readers with a long memory will recall it was *Businessweek* – as it was previously known – which ran the story 'The death of equities' 40 years ago, blaming inflation for 'destroying' the stock market.

> 'Creeping inflation could cause central banks to raise rates further than expected, which would dramatically change the outlook for bonds and equities '

That headline more or less marked the start of a 20-year bull run which saw inflation tumble from its peak and the S&P 500 index rise more than 10-fold before the tech bubble burst in 2000. So is the magazine any better at calling the direction of markets or inflation today?

WHY IS INFLATION SO LOW AND WHY MIGHT IT RISE?

The main reason that official rates of inflation are so low is that the weak economic recovery from the global financial crisis has resulted in a long period of falling prices rather than rising prices.

The US Federal Reserve's preferred measure of inflation is the core personal consumption expenditures (PCE) index, which has been running at around 1.7% annually, below the bank's 2% target rate.

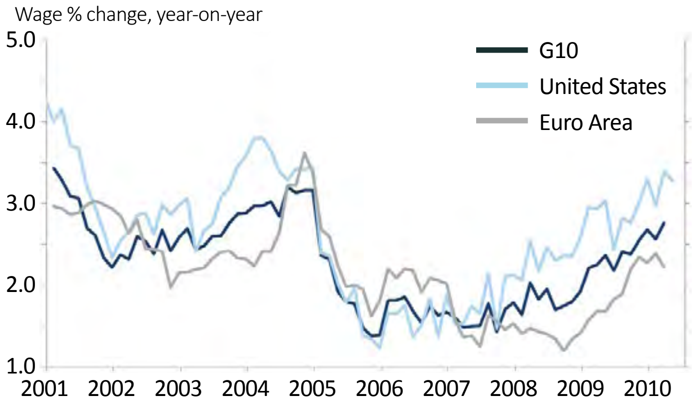
However US 'core' consumer prices – which exclude food and energy – are above 2% and are trending higher. UK core inflation is running at 1.7%

but as recently as July it was 1.9%, just below the Bank of England's 2% target rate.

The biggest threat to low prices is a tightening labour market. US hourly earnings are rising at a 3.5% annual rate while the 'quits rate' – the percentage of US workers quitting their jobs – is at an all-time high implying that employers will have to raise wages to keep staff.

Wages are rising across the G10, which is putting pressure on companies to increase the price of core goods to defend their profit margins.

WAGE GROWTH IS PICKING UP



Source: Goldman Sachs Global Investment Research

THE ROLE OF DEBT, CURRENCIES AND CENTRAL BANKS

Inflation could also rise as governments increase the supply of debt. In the UK, the Conservative Party has ditched its previous 'austerity' mantra and promised to spend an extra £20bn it doesn't have, while US president Donald Trump could announce a major spending plan to win re-election next year.

Bears of inflation point to the situation in Japan, which has much higher debt to gross domestic product (GDP) than either the UK or the US, and where inflation is just 0.2% despite repeated attempts to stoke prices higher.

Another source of inflation is exchange rates. When a currency falls sharply it raises the cost of imported goods which feeds into the consumer price index. The fall in sterling since the referendum vote in 2016 is likely to feed through eventually into higher prices.

Meanwhile the Federal Reserve is reviewing its policy of inflation targeting with a view to letting inflation rise above its 2% limit during booms, and other central banks are considering similar policies.

INFLATION WAVE THEORY

In his book *The Great Wave*, economist David Hackett Fischer looks at data going back to the early Middle Ages and concludes that inflation comes in very long waves, interspersed with periods of stability.

In periods of stability people tend to view life positively and have more children, which puts pressure on resources and causes a slow but steady rise in prices.

Once people adopt an inflationary mindset in their behaviour – such as demanding inflation-linked pay rises – this reinforces the upward spiral. Interestingly easy monetary policy typically doesn't trigger inflation, but it amplifies the trend once it has started.

THINK ABOUT PROTECTING YOURSELF

One way to protect against the threat of inflation and avoid your returns being 'nibbled to death' is to look at long-dated index-linked bonds.

As inflation rises, so the government adds principal to the note's value and the coupon.

Around 25% of the UK government bond or 'gilt' market is made up of index-linked bonds or 'linkers'. There are a handful of funds which invest in index-linked gilts and there are some exchange-traded funds such as **iShares Index-Linked Gilts ETF (INXG)** for investors who want exposure to a range of maturities.

By **Ian Conway** Senior Reporter

Embrace these money-boosting New Year's resolutions

Seven ideas to make you smarter with money in 2020

The New Year is hurtling towards us and many people will start 2020 with goals for the year and changes they want to make, such as losing weight, getting fit or working less.

But it's estimated that around 80% of people fail their resolutions and about a third of people will ditch them after the first month. So why not make some different resolutions this year that could make you richer.

1. Start a money club: Start a club with your friends that focuses on any aspect of money, so a savings club, an investing club or a paying-down-debt club.

Firstly, it will start you talking about money with those closest to you. People are more likely to discuss their sex lives than their finances, so to break this taboo Brits needs to start talking about money.

But also much like diet clubs or antenatal groups, having the support of people who are in the same situation will help you to learn tips and tricks to achieve your goals – as well as hold you accountable.

2. Tackle a bill a month: Millions of people have lapsed from their initial offer rates onto the standard rate for all manner of bills, from electricity and gas to TV services and their gym.

Pick one bill each month and cut the cost. In the simplest way this can be calling your current provider and asking what their best rate is – this is low hassle and usually results in a saving.

If you invest a bit more time you can research other providers, check which is cheapest and switch to save more. Either way you'll hopefully end the year richer.

3. Build an emergency fund: One in eight UK adults have no cash savings at all, and a further third have savings of between £1 and £1,999, according to the FCA Financial Lives survey.

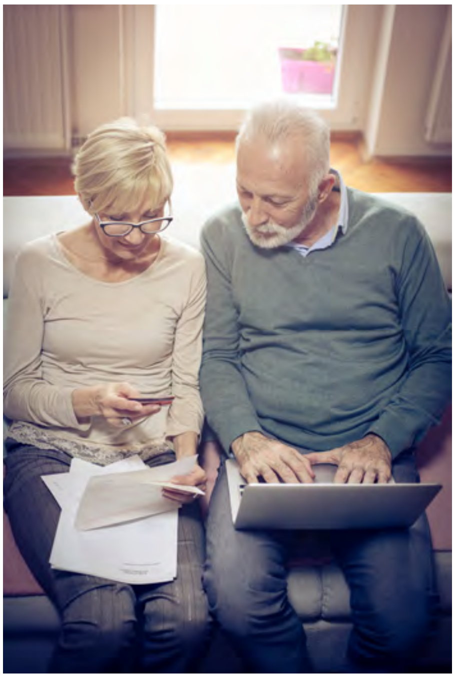
This means that lots of people will struggle if they have an unexpected cost or run into financial problems.

It is easy to just say 'save more' but if you squirrel away a little bit of money each week or month it can add up – even if you start with a small amount.

You can also use rounding-up services offered by many banks, where they round up your purchases to the nearest pound and save the difference.

4. Commit to 'no spend' days: In the same way that the Government advocates drink-free days, and others have opted for meat-free Mondays, you should commit to at least one 'no spend' day a week – or more if you can manage it.

The idea is that by avoiding spending any money on one day it will make you more aware of the money you spend on other days – and will also highlight areas where you're spending without thinking.



5. Stop ignoring your pension: Most employees will now have money coming out of their salary each month into their pension, thanks to auto-enrolment.

At the very least you should make sure you know who your pension provider is, how much you're paying and what that money is invested in.

If you want to go one step further you could use online calculators to look at how much your pot could be worth by the time you retire – and so whether you're putting enough in and if you should consider changing the investments.

6. Start saving for your children: If you're fortunate enough to have some spare cash each month that you can lock away, get around to opening that savings account for your child.

Putting away small amounts when they are little can really add up, and help to pay for costs such as university, buying a car or a house deposit in the future.

Putting away just £100 a year every year since a child was born can add up to £3,000 when they turn 18, assuming it's invested and achieves 5% a year growth after fees. Putting away £50 a month would equal more than £18,000 by the time they turn 18.

7. Keep a money diary: Most people think they could save more or cut out some expenses, but don't really know where to start.

Money diaries have exploded in popularity, with people publishing tell-all accounts of how they spend their cash on the internet.

You don't have to open yourself up to this much public scrutiny, but keeping a diary of everything you spend for a week or a month can reveal some honest truths about whether you're wasting cash.

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

'How does the lifetime allowance test at 75 work?'

AJ Bell pensions expert Tom Selby explains how the system works

My SIPP is currently worth £900,000. If I crystallise the fund into drawdown today, will that mean I avoid a lifetime allowance charge if it subsequently grows in value above £1,055,000?
Romesh

Tom Selby
AJ Bell
Senior Analyst says:

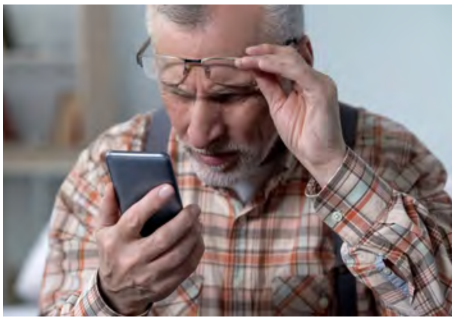
There are a number of 'benefit crystallisation events' which HMRC uses to test how much of your available lifetime tax-free pension savings allowance you have used up.

If you exceed the lifetime allowance, a charge of 55% will be levied on lump sum withdrawals, or 25% where you allocate the excess to provide an income, which is then taxable when taken.

If we take your example of crystallising a £900,000 pot in the 2019/20 tax year, a quarter of this (£225,000) will be available tax-free, with the remaining £675,000 going into drawdown.

Once in drawdown, this money can be left invested, drawn as an income or taken as a single lump sum. Note any withdrawals above your tax-free lump sum will be taxed as income.

In this example, putting the entire fund into drawdown



will use up 85.3% of the £1,055,000 lifetime allowance (£900,000/£1,055,000), meaning 14.7% of your lifetime allowance remains intact.

This might not be the end of the story, however, as a second lifetime allowance test will be applied at age 75. This test will take account of any fund growth you have enjoyed in the intervening years, less any income taken.

Let's assume the £675,000 fund designated to drawdown enjoys strong growth and is valued at £875,000 by age 75. If the lifetime allowance has increased in line with CPI inflation to £1,200,000 at that point, then the second test will apply to the difference between your fund value when it was initially crystallised and your fund value at age 75.

In this case, that means an extra £200,000 (£875,000 - £675,000) needs to be tested against the new, higher lifetime allowance of £1,200,000, meaning you would have used up 16.66% of your allowance. As you would only have had 14.7% of your lifetime allowance left from the first benefit crystallisation event, a lifetime allowance charge would be applied to the excess.

Note that where a lifetime allowance charge is applied at age 75, HMRC rules stipulate the funds must be used to provide a taxable income and therefore the lifetime allowance charge of 25% applies (rather than 55% if taken as a lump sum before age 75).

One final caveat: if you have successfully applied for one of the seven forms of transitional protection created since 'A Day' in April 2006, you might be entitled to a higher lifetime allowance. You can read more about these protections **here**.

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.

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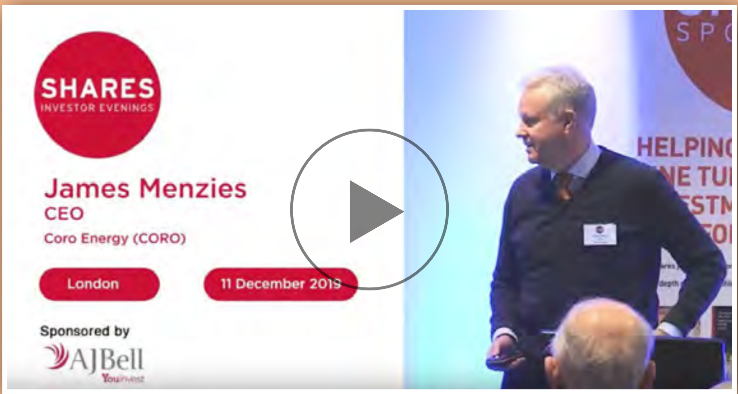


James Menzies, CEO
Coro Energy (CORO)

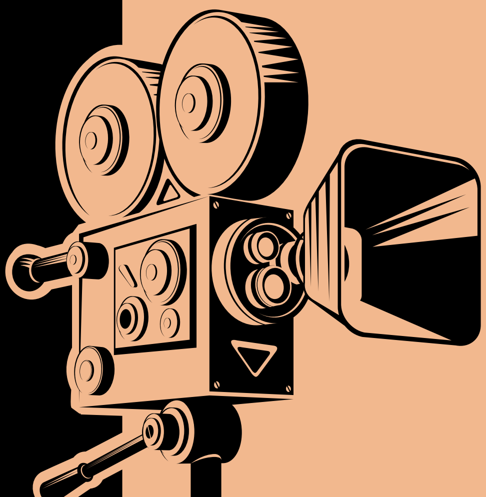
Coro Energy is an oil and gas exploration company focused on delivering long-term production of natural gas. Coro Energy's aim is to become a mid-tier, south east Asian focused exploration and production company.

Ian Simm, Founder & CEO
Impax Asset Management (IPX)

Impax Asset Management's investments are based on the strong conviction that resource scarcity, inadequate infrastructure and environmental constraints will profoundly shape global markets, creating investment risks and opportunities.

Steven Cooklin, CEO
Manolete (MANO)

Manolete is one of the leading players in the high growth insolvency litigation finance market.



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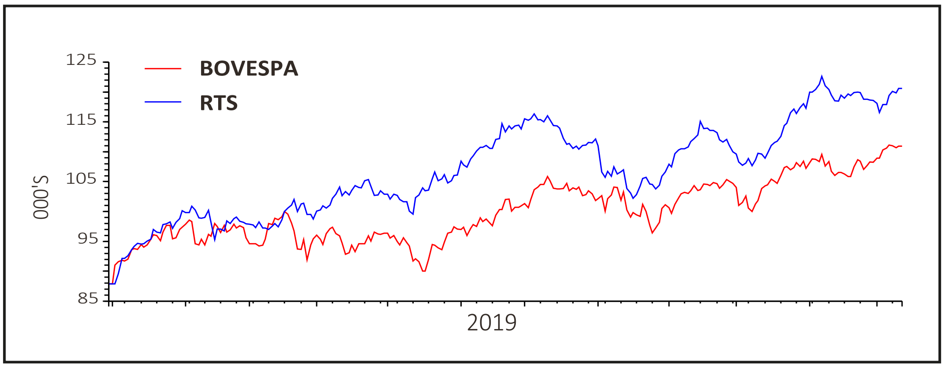
Tracking the performance of emerging markets

How shares in Russa, Brazil, China and India fared in 2019 and what's in focus for 2020

How have the main emerging market stock indices performed in 2019? We now take a look at what's behind the performance.



RTS (RUSSIA) +37.1%

WHAT IS BEHIND THE PERFORMANCE?

Among the key factors were Russian companies increasing dividends, as well as the country being less indebted than other emerging markets and the central bank helping to keep the economy on track with targeted rate cuts.

WHAT COULD MOVE MARKETS IN 2020?

The economy and stock market continue to be dominated by energy companies so whether cuts agreed with oil producers' cartel OPEC, and deepened in December 2019, are extended beyond March 2020 could have an influence.

BOVESPA (BRAZIL) +25.9%

WHAT IS BEHIND THE PERFORMANCE?

The election of business-friendly president Jair Bolsonaro in late 2018 provided a catalyst for Brazilian shares. While GDP growth slowed in 2019, fiscal stimulus and interest rate cuts to get the economy moving supported market momentum.

WHAT COULD MOVE MARKETS IN 2020?

Bolsonaro's ability to deliver further market reforms and increased infrastructure spending will be watched. Municipal elections in October 2020 could help gauge political opposition to his administration's more controversial policies.

SSE COMPOSITE (CHINA) +19.5%

WHAT IS BEHIND THE PERFORMANCE?

Despite the trade war with the US, China's shares have bounced back after a difficult time in 2018 as sentiment among retail investors in the country has improved. Also helping matters was MSCI raising the share of Chinese shares in emerging markets indices and domestic consumption has increased.

WHAT COULD MOVE MARKETS IN 2020?

Continuing developments in trade negotiations with Washington, plus the policies of the Chinese central bank.

NIFTY 50 (INDIA) +9.6%

WHAT IS BEHIND THE PERFORMANCE?

After a difficult start to the year, linked to weaker domestic demand and a credit crunch, the introduction of tax cuts in September 2019 helped give Indian shares a much-needed lift.

WHAT COULD MOVE MARKETS IN 2020?

This depends on the extent to which domestic consumption recovers and whether the Indian government introduces further measures to boost growth.

Emerging Markets: Views from the Experts

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

1. MSCI completed the third phase of the 20% partial inclusion of **China A-shares** in its benchmark indices during November. Following the increase, the MSCI Emerging Markets Index included 472 China A-share companies with a total weighting of 4.1%. If and when all China A-shares are included in the index, they could account for over 16%, bringing China's total weighting to over 40%. The increased exposure is likely to result in additional inflows in China's domestic A-share market, which, along with improving liquidity, could provide better market accessibility to a wider range of companies in structural growth sectors such as health care, technology and financials.

An aging population and rising health care costs should drive demand for health care, including services provided in facilities, such as hospitals and clinics. Technological advancements and infrastructure development—including 5G and Internet of Things— are important investment themes.

We believe the financial sector also stands to benefit from structural reforms as financial institutions are playing an increasingly important role in the efficient allocation of savings and resources.

2. Environmental, social and governance (ESG): We believe that ESG factors can have a material impact on a company's current and future corporate value and are an embedded component of the rigorous fundamental bottom-up research our team conducts.

When potential concerns arise, we believe engaging is in the best interest of our shareholders and will lead to better returns.

3. We believe that, at its core, corporate governance determines how well companies are able to operate in the longer-term and is in the interests of all shareholders. Take **Russia**, for example. Most investors are unlikely to associate Russia with governance excellence. Yet many Russian companies have taken the initiative to set higher governance standards and promote shareholder value. Indicating the shift in corporate mindsets, the dividend payout ratio in Russia increased from 21.8% at end-2013 to 33% at end-2018. Despite this, Russia remains one of the most undervalued markets globally, trading at a forward price-to-earnings multiple of 6 and a dividend yield of 7%, as of end-November.

Outlook 2020: UK equities

With valuations at extreme levels, Sue Noffke and Andy Brough explain how they're looking at the UK stock market heading into 2020.

By Sue Noffke,
Head of UK Equities
and Andy Brough,
Head of Pan-European Small and Mid Cap Team

- UK equities at 30% discount to global peers, close to a 30-year low.
- Valuation extremes within the market – some stocks are very overlooked, others very expensive.
- There is high demand for UK equities from large and experienced buyers.

Introduction

The UK equity (stock) market is trading at a 30% valuation discount to global peers, close to a 30-year low.

For a detailed explanation of the valuation metrics which are used to calculate this discount please see [Three reasons why the UK stock market looks compelling](#).

While domestically focussed UK stocks are particularly out of favour, other areas of the market are very expensive – extremes exist at both ends of the spectrum.

The UK has a lot of "quality growth" stocks, many of which have performed very well over the past few years. Growth stocks have revenues that are expected to increase at a faster rate than the average company. Quality stocks are those with consistent profitability, market-leading positions and low debt. In all equity markets investors are paying large, many would say unsustainable, premiums for such safety or growth.

Against this backdrop, two of our fund managers who cover different areas of UK equities explain how they're looking at the UK stock market heading into 2020.

UK equities are global in nature. International developments often set the tone, and in this regard the ongoing US-China trade discussions and the state of the world economy are key considerations. They could be as important market drivers in 2020 as any domestic factors, such as UK political or Brexit uncertainty.

Market participants and policymakers are becoming increasingly concerned that we are reaching the limits of quantitative easing (QE) to support economic growth.

QE is a form of monetary policy and effectively involves central banks injecting money directly into the financial system by way of asset purchases (buying mainly bonds) to encourage additional investment and incentivise people to consume more.

Equity market distortions

There is a growing body of opinion that national governments should now be doing more to counter the slowdown with increased spending in areas such as infrastructure to take advantage of ultra-low borrowing rates. This is known as fiscal policy and, like monetary policy, is a means by which policymakers attempt to manage economic fluctuations.

In the UK we have seen both the Conservatives and Labour make significant spending pledges as part of their election campaigns.

One particular equity market

UK GROWTH VERSUS UK VALUE (PRICE-TO-EARNINGS VALUATIONS)

Source: Schroders, Thomson Reuters Datastream, data from 27 September 2013 to 27 August 2019. CS2242

distortion resulting from the loose monetary policy of the last decade has been the outperformance of growth stocks versus "value" stocks. Growth has become an increasingly sought-after commodity and as a result more highly priced.

The chart above shows the huge valuation premium that such stocks trade on in the UK, relative to value stocks. Value stocks tend to trade at a lower price relative to their fundamentals such as earnings or revenues.

A group of shares can rise simply because investors view them more favourably, without any corresponding change in near-term prospects. Collectively, investors ascribe a higher value to the group.

The chart illustrates how UK growth stocks are being ascribed a high value relative to value stocks. It compares the price-to-earnings ratio (a commonly-used valuation metric) of these two groups. On this basis, growth stocks are being valued almost twice as highly as value stocks, which is significantly above the average valuation premium shown by the green line.

However, these distortions will not last forever. If monetary policy has indeed been stretched to its limits, then fiscal policy and economic restructuring will likely be turned to in order to lift economic activity.

Financial markets may see this as a trigger for rising inflation and higher interest rates. This would likely be supportive to the outperformance of lowly-valued value stocks over their growth counterparts.

Bias towards more lowly-valued stocks

A resolution of the Brexit stalemate may also be positive for UK value stocks. These include domestic banks, property companies, housebuilders, consumer discretionary areas (general retailers and leisure companies), food retailers, media agencies and utilities.

Accordingly, we have a slight bias towards more lowly-valued stocks at the moment, where we can still find equities that are not priced for perfection.

It is not certain that the UK general election on 12 December will help break the Brexit stalemate. But in any event, as a stock picker I embrace mispriced opportunities which arise during such periods of uncertainty (for details, see Why as an investor I'm looking through Brexit fears).

Private equity (PE) and PE-backed buyers are finding a disproportionate amount of opportunities in the UK. There has also been an ongoing stream of bids from overseas businesses for UK-quoted companies. For a detailed explanation of these trends see: Who's buying UK shares and what does it tell us?).

At a time when the majority of the market is uninterested in UK equities, we share the opinion of these other large and experienced long-term investors and recognise the valuation opportunities.

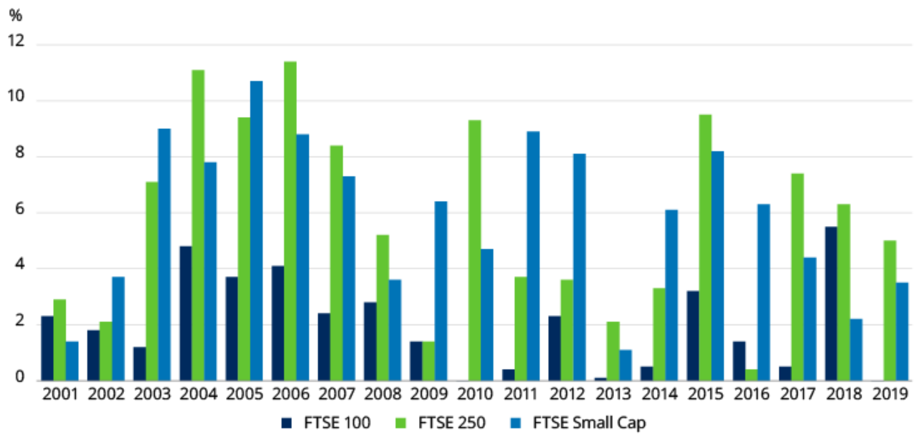
UK small and mid-cap (SMID) shares have outperformed other areas of the stock market over the long term. We expect this trend to continue.

The recent pick-up in UK mergers and acquisitions (M&A, the buying, selling or combining of companies) is particularly focussed on SMID companies. In the past they have attracted a relatively greater part of the M&A pie, a trend that shows little signs of changing (see chart on next page).

In a rapidly-evolving world, SMID companies are generally better able to capitalise on new opportunities as they tend to be more dynamic, and

SMIDS ARE MORE LIKELY TO BE ACQUIRED THAN LARGE CAPS

VALUE OF COMPLETED ACQUISITIONS AS PERCENTAGE OF INDEX STARTING MARKET CAPITALISATION



Source: Liberum, early November 2019. Stocks mentioned are for illustrative purposes only and should not be viewed as a recommendation to buy or sell. CS1822

have a smaller base than their large counterparts have from which to achieve growth. M&A activity helps make room for the next tranche of exciting small company shares to emerge.

This dynamism is perhaps best underlined by the ever-changing constituent list of the FTSE 250, which we refer to internally as the "Heineken index" given its potential to "refresh" a portfolio in a way large cap companies struggle to do.

Overlooked and misunderstood

Often referred to as the market's "second tier", the FTSE 250 is the next most established group of shares quoted on the London Stock Exchange outside of the FTSE 100. It has returned 520% over the past 20 years versus 136% from the FTSE 100 (total returns 31/10/1999 – 31/10/2019, source: Thomson Reuters Datastream).

The FTSE Small Cap index, home to some of the smallest companies, has returned an equivalent 253%.

The pick-up in M&A this year is also telling on another level. A number of SMID companies on the receiving end of bids have been domestically focussed. These include UK pub operators Greene King and EI Group plus smaller peer Fuller Smith & Turner, which sold its brewery (of London Pride acclaim) to Asahi of Japan.

Other examples include Dairy Crest (snapped up by a Canadian peer), Telford Homes (bought by American real estate firm CBRE) and Hull broadband provider KCOM, acquired by Australian investment business Macquarie.

This suggests that the value which can be found in spurned UK domestic quoted stocks relative to an equity market which has reached historic highs has not gone unnoticed by all market participants.

Resilient UK economy

October's "Brexit bounce" gave a taste of what might happen should sentiment improve – the share price recoveries of investment trusts invested in UK SMID companies were particularly pronounced. Such trusts tend to have a greater exposure to UK domestically focussed shares than their large cap equivalents do.

During periods of market stress, sentiment towards UK domestically focussed shares is prone to becoming excessively negative. Backers of shares such as petcare specialist Pets At Home, homewares retailer Dunelm and athleisure leader JD Sports (since promoted to the FTSE 100) have done well in 2019.

We take comfort that the UK economy is not in dire shape. Recently released data from the Office for National Statistics show that growth in household spend (three quarters of all spending in the economy) has continued in 2019. It would also appear to us this growth is reasonably sustainable, underpinned by a strong jobs market, real wage growth and lower taxes.

What were the key themes for small caps in 2019?

We look at what's been driving growth company shares in the last 12 months

Smaller companies are often at the sharp end of positive and negative trends in the market and wider economy.

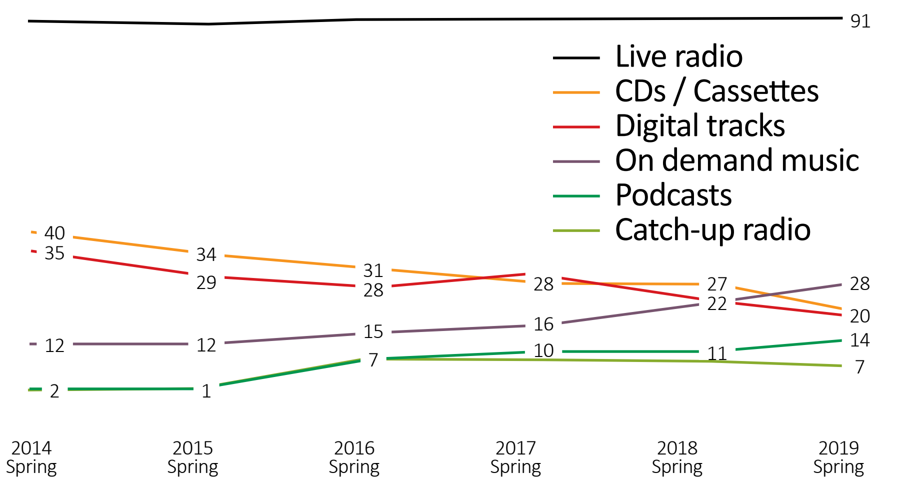
A spirit of entrepreneurship and innovation can help small caps be at the forefront of change. At the same time more modest balance sheets and less diversified revenue can leave them exposed if the backdrop turns against them.

In this article we look at some of the key themes which have emerged in the small cap space in 2019.

INNOVATION IN THE MEDIA SECTOR

Two of the standout small cap performers in the past 12 months are closely linked to the evolution of the media sector. According to a report from regulator Ofcom in September 2019, around 7.1m people in the UK listen to a podcast each week, an increase of 24% year-on-year.

LISTENING TRENDS OVER THE LAST FIVE YEARS
ALL ADULTS 15+ WEEKLY REACH%



Source: RAJAR

Shares in podcasting platform **Audioboom (BOOM:AIM)** have more than doubled year-to-date to 215p. The company helps content creators host, distribute and make money out of their podcasts. On 7 October the company reported record quarterly revenue for the third quarter of $5.7m, up 86% year-on-year, though it remains loss-making for now.

Another small cap media play which has performed well is **Bidstack (BIDS:AIM)**, up 166% since the beginning of 2019 to 13.2p despite some weakness in recent weeks. The company sells advertising within computer games such as the advertising hoardings on match simulations in popular soccer management title *Football Manager*.

The company has been focused on expanding its

Analysts forecast a profit breakthrough for Sosandar

platform and team at the expense of revenue which was negligible in the six-month period to 30 September. The company agreed a strategic partnership with Japanese advertising agency Dentsu in September 2019.

Bidstack offered a reminder of the sometimes precarious nature of small caps, falling 30% as it warned it would not hit revenue targets for 2019 due to delays (18 Dec).

QUALITY SHINES THROUGH

In a year filled with economic gloom and political turmoil, investors haven't had the appetite of previous years to take on risk.

But with bond yields at record lows and some of the larger cap companies giving returns normally received from bonds, stock pickers have had to look further down the scale to try to make some decent money.

That could be why high quality small companies have done well this year, with investors not willing to take on huge risk but happy to pay a premium for dependable companies that still have room to grow.

For example, the likes of soft drinks maker **Nichols (NICL:AIM)**, pottery manufacturer **Churchill China (CHH:AIM)** and veterinary services firm **CVS Group (CVSG:AIM)** have all performed strongly this year on the back of solid growth, and have been favoured by investors due to their strong balance sheets and stable cash flows.

Small caps in general may have been somewhat out of favour with investors given the UK economy has been sluggish this year and Brexit uncertainty has taken its toll on some companies.

But the higher quality ones have proved popular, as investors are attracted to their pricing power, ability to take market share and cash generative nature which means they can fund their own expansion.

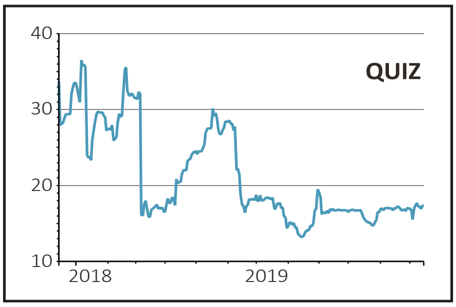
FASHION RETAIL POLARISATION

Pure-play online retailers **Boohoo (BOO:AIM)** and **ASOS (ASC:AIM)** enjoyed contrasting fortunes in 2019, a stellar period for the former, a horrible year for the latter.

Polarisation in performance also played out among clothing retailers lower down the market cap spectrum. Although the shares ended the year in a downtrend due to more subdued first half sales growth, British premium lifestyle brand **Joules (JOUL:AIM)**, famed for its bright wellies, continued to gain share in the high-growth premium lifestyle sector during the period in review.

Another head-turner in terms of top line momentum was online women's fashion brand **Sosandar (SOS:AIM)**, whose celebrity fans include Spice Girl Mel B and TV personalities Amanda Holden and Kelly Brook.

Having raised £6.9m in an oversubscribed summer placing, Sosandar's accelerated marketing spend boosted brand awareness and analysts forecast a profit breakthrough in the year to March 2021.



It wasn't a good year for **Quiz (QUIZ:AIM)**, whose share price followed profits lower in 2019. The fast-fashion retailer has proved a flop since floating just two and a half years ago, hurt by the structural headwinds buffeting UK retail, cut-throat competition and the fact it has simply too many company-owned stores and loss-making department store concessions.

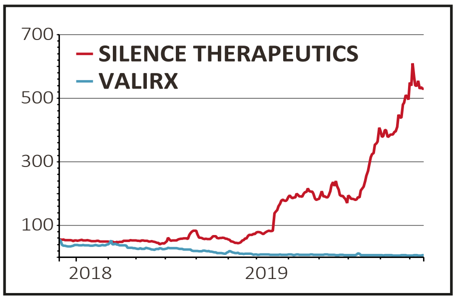
Capping off a mixed year for small cap apparel was the collapse into administration of Indian online fashion site **Koovs (KOOV:AIM)**, while the difficulties endured by online international retailer **MySale (MYSL:AIM)** saw its shares crater in the period under review.

BINARY OUTCOMES IN BIOTECH

There has been an even more pronounced polarisation of performance in the biotechnology sector.

If you were lucky enough to find and invest in **Silence Therapeutics (SLN:AIM)**, a firm that specialises in treatments which harness the body's natural mechanisms within cells to target serious diseases, you would be feeling very smug.

The shares have rocketed up 662% this year after the company announced a tie-up with US biotechnology firm Mallinckrodt to commercialise its key compound called SLN500. But having the confidence to get involved in such specialised companies requires specific medical and scientific knowledge that few investors possess.



Even armed with the requisite skills, it can be tough to make the rights calls. Take cancer

drug and diagnostics firm **ValiRx (VAL:AIM)**, whose shares have lost 90% of their value this year.

The binary nature of small-cap biotechnology companies means that the sensible approach to getting exposure is to participate through a managed fund or investment trust.

Not only does the investor get access to expertise in the form of trained doctors and scientists, most funds spread their risk across many aspects of biotechnology, mitigating the impact of failures.

SMALL CAP PUNISHMENT BEATINGS

This year was also a period in which small caps in general were heavily marked down on any missteps, such as the punishment given to sneakers seller Footasylum in January after it coughed up another profit warning.

Not long after, Footasylum was put out of its misery by branded sports and casual wear giant **JD Sports Fashion (JD.)** in a deal that is still being pored over by the competition authorities. Elsewhere in retail, profit warnings from **TheWorks.co.uk (WRKS)** saw shares in the value retailer savagely sold down.

Shoe Zone (SHOE:AIM) and **Eve Sleep (EVE:AIM)** were other examples of severe share price declines on bad news.

RESOURCES EXPLORATION SHUNNED BY INVESTORS

Increasingly investors seem to be shunning the resources exploration space. This is the result of several factors including volatile commodity prices, examples of poor corporate governance and dwindling funding options.

Another issue is resource nationalism where countries look to take a greater control of their hydrocarbons and minerals assets.

Perhaps the biggest reason is a poor track record for successful exploration among listed companies. There have been very few discoveries in recent years to act as a catalyst for the outsized returns investors expect from drilling success.

Even **Eco Atlantic Oil & Gas (ECO:AIM)**, which enjoyed initial success with its partners offshore Guyana, thereby providing a potential advert for oil and gas exploration, looks set to end the year up only modestly on its levels at the start of 2019 as the oil discovered was found to be heavier and lower quality than expected.

By **The Shares Team**

TOP PERFORMING FUNDS OF 2019

We review the collectives which did best over the past year

By **The Shares Team**

With just a few trading days left to go, 2019 has been good for the markets. As we write the MSCI World index is up more than 20% since the start of January.

Despite this positive backdrop there has still been considerable market volatility, making life difficult for stock pickers including fund managers.

The funds industry has also been hit by various star fund managers disappointing investors, as well as concerns about liquidity.

Readers may therefore be eager to discover which managers rose above the market issues and delivered strong returns for investors. We now look at the best performers from 2019.

THE OUTRIGHT WINNERS IN 2019

TOP 10 BEST PERFORMING FUNDS IN 2019

FUNDS	PERFORMANCE (%)
Allianz China A-Shares	44.8
Wellington FinTech	40.7
Smith & Williamson Artificial Intelligence	36.5
L&G Global Technology Index Trust	35.8
ASI UK Smaller Companies	35.7
MFS Meridian US Concentrated Growth	35.2
Kames Global Sustainable Equity	35.0
Allianz All China Equity	34.4
ASI UK Real Estate Share	34.4
LF Ruffer Gold	33.7

Source: FE Fundinfo. Min £100m size. Investment Association universe

Bestriding the list of best performers like a colossus was **Allianz China A-Shares (BKFW2B5)**. The Anthony Wong-managed fund racked up a 44.8% gain according to FE Fundinfo data.

Adam Gent, Allianz Global Investors' head of retail for Northern Europe, comments: 'The Allianz GI China A share strategy has delivered against its investment objective and produced considerable amounts of alpha (excess return) by taking a fundamentally driven, high active share, risk-aware approach via our portfolio management team based in Hong Kong.

'Given the large divergences in performance that occur in specific sectors it's a market where a sensible active management approach can deliver handsomely for clients. We have seen increasing amounts of demand from UK clients who are looking to gain equity exposure in one of the world's largest economies via the domestic market.'

Hot on its heels in terms of 2019 returns was a pair of portfolios plugged into two of today's most compelling investment themes, namely **Wellington FinTech** and the capital growth-focused **Smith & Williamson Artificial Intelligence (BYPF2Z6)**.

Managed by Bruce Glazer, Wellington FinTech invests in companies that leverage technology to enhance or disrupt traditional financial services. The likes of Global Payments, Fleetcor Technologies, Paypal, Equifax and Mastercard are leading portfolio positions.

Smith & Williamson Artificial Intelligence has a concentrated portfolio of 39 names. It takes big positions in major US tech names including Google parent Alphabet, which is developing its capabilities in AI and machine learning, chipmaker Nvidia and online grocer-turned-tech platform **Ocado (OCDO)**.

Elsewhere in the top 10 best performing funds, **LF Ruffer Gold (B8510Q9)** enjoyed a fruitful 2019 as the yellow metal had its time to shine amid trade and political uncertainties and the return of market volatility. The mining industry investor generated a gain of 33.7% during the period under review.

TOP 10 BEST PERFORMING INVESTMENT TRUSTS IN 2019

TRUST	PERFORMANCE (%)
Golden Prospect Precious Metals	49.3
Gresham House Strategic	46.8
UIL	46.5
BlackRock Throgmorton	46.0
JP Morgan Russian Securities	45.1
Aberdeen Smaller Companies Income	44.2
Hg Capital	44.0
The Mercantile Investment Trust	43.5
RDP Global Resources	43.1
Menhaden	40.8

Source: FE Fundinfo. Data to 10 Dec 2019

Some of the top performing investment trusts this year reflect wider market trends. Russia has been one of the top performing equity markets in 2019 so it is little surprise to see **JP Morgan Russian Securities (JRS)** perform strongly.

A rally in gold also provided **Golden Prospect Precious Metals (GPM)** with a boost.

Others did well thanks to shrewd stock picking. Notably **BlackRock Throgmorton's (THRG)** portfolio of small and mid-caps and well positioned short positions underpinned a strong showing.

Its top holding, promotional products firm **4imprint (FOUR)**, was a strong contributor to performance as it moved up to the FTSE 250. An apparent shift back towards value investing seems to have helped **The Mercantile Investment Trust (MRC)**.

BEST PERFORMING UK ALL COMPANIES FUNDS

FUNDS	PERFORMANCE (%)
Franklin UK Mid Cap	33.6
MI Chelverton UK Equity Growth	30.7
Slater Growth	28.6

Source: FE Fundinfo. Min £100m size. Data to 10 Dec 2019

UK equity funds with a mid-cap bias seem to have hit a sweet spot this year, with investors lured by the room to grow from mid-sized companies but reassured by their bigger size than small caps. **Franklin UK Mid Cap (B7BXT54)** has been the best performer in the UK All Companies funds sector this year.

Fund manager Paul Spencer invests in FTSE 250 companies which he thinks are well-run and have strong growth potential. He has high conviction with only 36 companies in the portfolio, making it a high-risk approach, but the 33.6% return suggests it's also been a high reward approach this year.

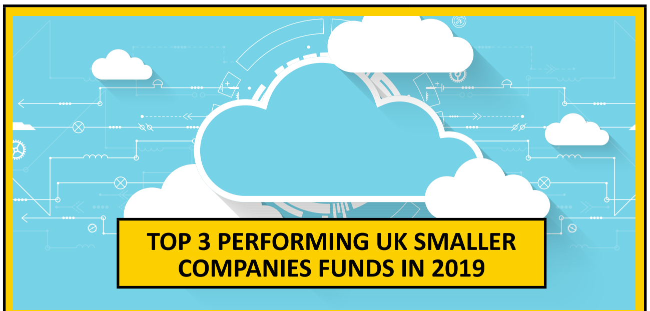
Other funds to have done well in this category include **MI Chelverton UK Equity Growth (BP855B7)** and **Slater Growth (B7T0G90)**, returning 30.7% and 28.6% respectively this year. Both are full of FTSE 250 and AIM stocks which the managers feel are undervalued and have significant potential for a re-rating.

BEST PERFORMING UK SMALLER COMPANIES FUNDS

The best performing UK small cap fund in 2019 was **ASI UK Smaller Companies (B7FBH94)** which has been run by industry veteran Harry Nimmo for more than 20 years.

His strategy is to buy high quality growth companies and keep the winners. This means there are some fairly big companies in the portfolio such as media stocks **Global Data (DATA:AIM)** and magazines firm **Future (FUTR)** which are really mid-caps. They've both been strong contributors to performance in 2019.

This is true for some of the other top performing smaller company collectives, with **Invesco UK Smaller Companies (BJ04KT3)** also holding Future along with fellow FTSE 250 constituent and infrastructure play **Hill & Smith (HILS)**. Manager Jonathan Brown has a focus on cash generative businesses which can fund their own growth rather than 'blue-sky' companies.



FUNDS	PERFORMANCE (%)
ASI UK Smaller Companies	35.7
JPM UK Smaller Companies	28.6
Invesco UK Smaller Companies Equity	27.2

Source: FE Fundinfo. Min £100m size. Data to 10 Dec 2019

BEST PERFORMING GLOBAL FUNDS

The list of best performing funds in the Global category is dominated by those seeking to tap into specific themes, not least sustainability.

The ethical and socially responsible end of the investment universe has mushroomed in recent years as investors embrace the wider ethos and, crucially, have begun to recognise this does not mean poorer performance.

The outright top performer in this sector is **Kames Global Sustainable Equity (BYZJ377)**. Steered by Craig Bonthron and Neil Goddin, the aim is to invest in innovative growth companies which have a positive impact on the world.

Many of the names in the portfolio will be unfamiliar to investors, with the notable exception of US electric vehicle manufacturer Tesla.

Pictet Global Environmental Opportunities (B4YWL06) is another ESG-focused fund which has fared well in 2019, while other thematic funds like **Polar Capital Automation & Artificial Intelligence (BF0GL54)** and **GS Global Millennials Equity Portfolio (B99B998)** have done well.

FUNDS	PERFORMANCE (%)
Kames Global Sustainable Equity	35.0
Polar Capital Automation & Artificial Intelligence	30.8
Pictet Global Environmental Opportunities	30.6

Source: FE Fundinfo. Min £100m size. Data to 10 Dec 2019

BEST PERFORMING NORTH AMERICAN FUNDS

FUNDS	PERFORMANCE (%)
MFS Meridian US Concentrated Growth	35.2
AB Concentrated US Equity Portfolio	31.9
Brown Advisory US Equity Growth	31.4

Source: FE Fundinfo. Min £100m size. Data to 10 Dec 2019

With just 23 of the 106 North American-focused funds beating the S&P 500's 25%-odd performance in 2019, it shows just how difficult it is for active funds to outperform their benchmark.

Of those that did, investors will find a mixture of styles, including sustainability, flexibility and those with a mid-cap focus.

With technology stocks still largely leading performance through 2019 it is no surprise that funds sprinkled with names such as Microsoft, Alphabet and Facebook led the way.

Top performer **MFS Meridian US Concentrated Fund (B08N6C4)** sticks to a focused 30 to 40 stock portfolio but eschews higher-rated stocks like Amazon, Adobe and Salesforce in favour of lower-rated Microsoft, Texas Instruments and Visa, among others. Successful stock selection in healthcare, consumer cyclicals, financial services and industrials led the fund to the top ranking in its category.

BEST PERFORMING STERLING STRATEGIC BOND FUNDS

FUNDS	PERFORMANCE (%)
Tideway GBP Hybrid Capital Bond	14.7
Quilter Investors Diversified Bond	14.3
Nomura Global Dynamic Bond	14.0

Source: FE Fundinfo. Min £100m size. Data to 10 Dec 2019

Bond funds positioned at the longer dated end of the maturity spectrum or those taking more risk had the wind at their backs in 2019, helped by the Federal Reserve's policy change to lower rates.

Tideway GBP Hybrid Capital Bond (BZ6VKP6) topped the Investment Association's strategic bond fund league table, having delivered 14.7% for the year.

Another top performer has been the **Quilter Investors Diversified Bond (BD9MP57)** fund, up 14.3% as it also benefited from its longer duration exposure, with around 45% of its portfolio invested in bonds that mature in over seven years.

Nomura Global Dynamic Bond Fund (BTL1GV7) is the third best performing fund in the sector, up 14%. Manager Dickie Hodges has a mandate to 'go-anywhere' and combines 'top-down' and 'bottom-up' analysis. Nearly a third of the fund is exposed to maturities over 20 years.

All change: an unusual period for FTSE 100 CEOs

Is it normal to see so many leadership changes among the largest companies on the UK stock market?

13 FTSE 100 CEOs ALREADY CHANGED IN 2019

ALAN JOPE	PETER DUFFY (INTERIM)	PHILIP JANSEN	MAURICE TULLOCH	JACK BOWLES	BRENDAN HORGAN	PENNY JAMES
UNILEVER	JUST EAT	BT	AVIVA	BRITISH AMERICAN TOBACCO	ASHTEAD	DIRECT LINE
PAUL POLMAN	PETER PLUMB	GAVIN PATTERSON	ANDREW MONTAGUE	NICANDRO DURANTE	GEOFF DRABBLE	PAUL GEDDES

LAXMAN NARASIMHAN	NOEL QUINN (INTERIM)	THIERRY GARNIER	ROLAND DIGGELMANN	ALISON ROSE	KEVIN MURPHY
RECKITT BENCKISER	HSBC	KINGFISHER	SMITH & NEPHEW	ROYAL BANK OF SCOTLAND	FERGUSON
RAKESH KAPOOR	JOHN FLINT	VERONIQUE LAURY	NAMAL NAWANA	ROSS MCEWAN	JOHN MARTIN

More than a fifth (22) of FTSE 100 companies have either changed their chief executive this year or announced plans to do so next year.

So what's causing this turmoil at the top? 'The FTSE 100 has not really gone anywhere for two years excluding dividends so individual CEOs have been under more pressure from investors,' says Patrick Thomas, an investment director at Canaccord Genuity Wealth Management.

'This has attracted the attention of activist investors particularly from the US who have been turning the screw. Changing the management is usually part of the package in their strategy for turning a company around.'

Despite the lack of growth from the UK's benchmark index, Thomas rejects the notion that the number of CEO exits is reflective of a wider economic malaise.

He points out there are plenty of 'non-bad reasons' why a CEO has left a company, such as retirement or being a short-term appointment to execute a turnaround strategy.

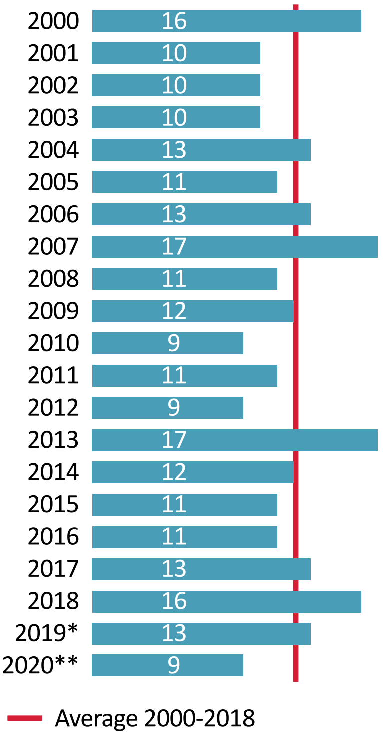
In addition, it's not worth investors getting too hung up on the identity of the person in the hot seat.

Often the success or failure of a business isn't hugely reliant on a particular individual.

For example, a major pressure on banking profits is the downward trend in global interest rates, but there's nothing much the permanent successor to John Flint at **HSBC (HSBA)** will be able to do about that.

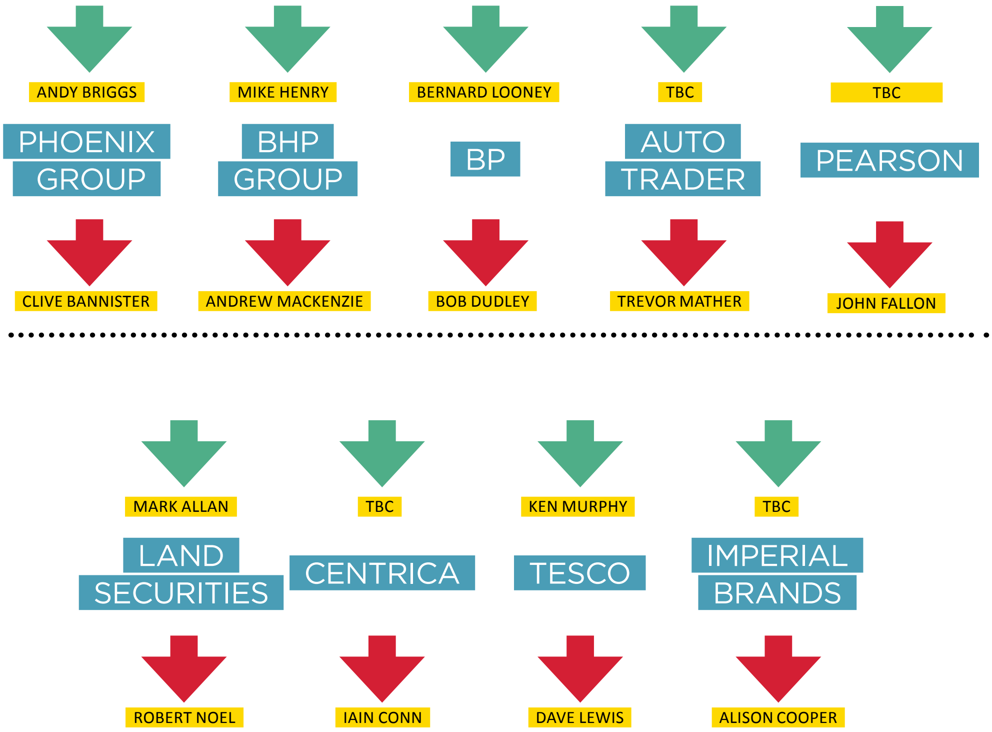
Looking at the list of FTSE 100 bosses to have left their posts this year, Canaccord Genuity Wealth Management senior equity analyst Simon McGarry

NUMBER OF FTSE 100 CEO CHANGES



Source: Company accounts, AJ Bell
*2019 changes already happened.
** changes already announced.

9 FTSE 100 CEOs CHANGING IN 2020



says there have been examples of companies in need of a shake-up – specifically **Aviva (AV.)**, **British American Tobacco (BATS)**, **Imperial Brands (IMB)** and **Land Securities (LAND)**.

But he adds that CEO exits from others like **Unilever (ULVR)**, **Ferguson (FERG)**, **Phoenix (PHNX)** and **BHP (BHP)** were orderly departures and simply down to long-term succession planning.

Then there is **Smith & Nephew (SN.)**, whose boss decided to step down after a row over pay.

McGarry says that very large pay packages are now increasingly hard to justify.

While there are a number of reasons why a boss might quit a company, historically there has been a spike in CEO exits before recessionary years, the idea being that they bail out before things get messy.

'There may be instances where the executive feels now is a good time to go, to ensure their legacy looks like a good one,' says Russ Mould, investment director at AJ Bell.

The acceleration of boardroom changes has been viewed by investors as a sign of pessimism about the future. Conversely, if the rate of exits began to slow, the economic picture would undoubtedly look a lot brighter again.

TOP 10 LONGEST SERVING FTSE 100 CEOS

Company	CEO	Years
Hiscox	Bronek Masojada	20.0
Next	Simon Wolfson	18.6
Ocado	Tim Steiner	18.0
International Consolidated Airlines	Willie Walsh	15.0
Halma	Andrew Williams	14.8
Associated British Foods	George Weston	14.7
Taylor Wimpey	Peter Redfern	13.5
British Land	Chris Grigg	11.0
Berkeley	Rob Perrins	10.3
RELX	Erik Engstrom	10.1

Source: AJ Bell. Data as of 17 Dec 2019.

By **Yoosof Farah**
Reporter

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KEY

- Main Market
- AIM
- Investment trust
- Fund
- Exchange-Traded Fund

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

20 December: Benchmark, Jersey Electricity.
7 January: C4X Discovery, Safestore.

Trading statements

3 January: Next. **7 January:** WM Morrison Supermarkets. **8 January:** J Sainsbury. **9 January:** Card Factory, Dunelm.

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SHARES SPOTLIGHT

Mining, oil and gas

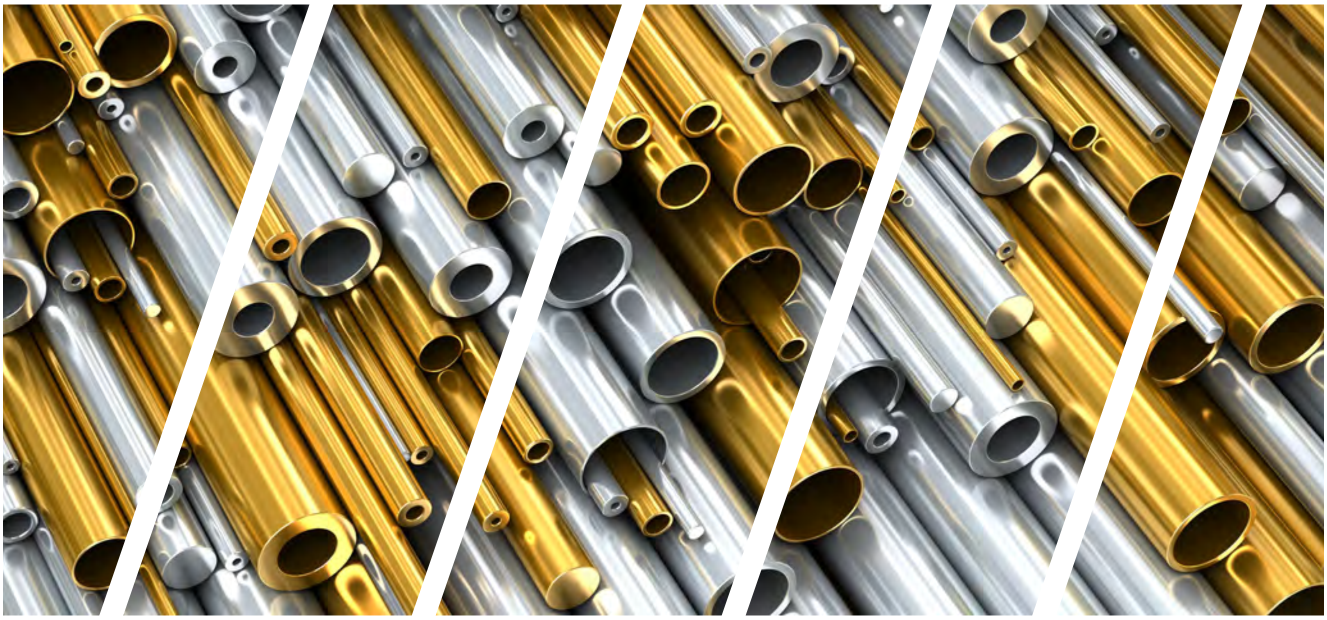
MKANGO

NQ MINERALS

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

DECEMBER 2019

ISSN 2632-5748



Introduction

Welcome to *Spotlight*, a bonus magazine which is distributed eight times a year alongside your digital copy of *Shares*.

It provides small caps with a platform to tell their stories in their own words and this edition is dedicated to the natural resources space.

The company profiles are written by the businesses themselves rather than by *Shares* journalists.

They pay a fee to get their message across to both existing shareholders and prospective investors.

These profiles are paid-for promotions and are not independent comment. As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

Some of the firms profiled in *Spotlight* will appear at our investor evenings in London and other cities where you get to hear from management first hand.

Previous issues of Spotlight are available on our website.

[Click here for details of upcoming events and how to register for free tickets.](link)

DISCLAIMER

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Understanding the iron ore market

Interruptions to Vale's Brazilian operations, after the collapse of a tailings dam in January 2019 caused the death of more than 200 people and took more than 30m tonnes of annual iron ore production out of the market, are partly to blame for iron ore price increases earlier this year. Vale subsequently received authorisation to restart its Brucutu mine, but at the same time Rio Tinto, one of the world's largest iron ore extractors, cut its production estimates, not for the first time this year.

This comes after Cyclone Veronica and fires in the Pilbara region in Western Australia combined to disrupt output in the world's largest iron ore-producing region. All in all, three of the big four iron ore producers cut their production forecasts for 2019.

The disruptions in supply were not alleviated by a decrease in demand, as steel production in China (which imports c 70% of the world's seaborne iron ore) rose to record levels, driven by consumption in the infrastructure sector and notwithstanding new environmental regulations being imposed on the steel mills.

The price of iron ore reached a five-year peak in June 2019, driven by supply disruptions and increased demand.

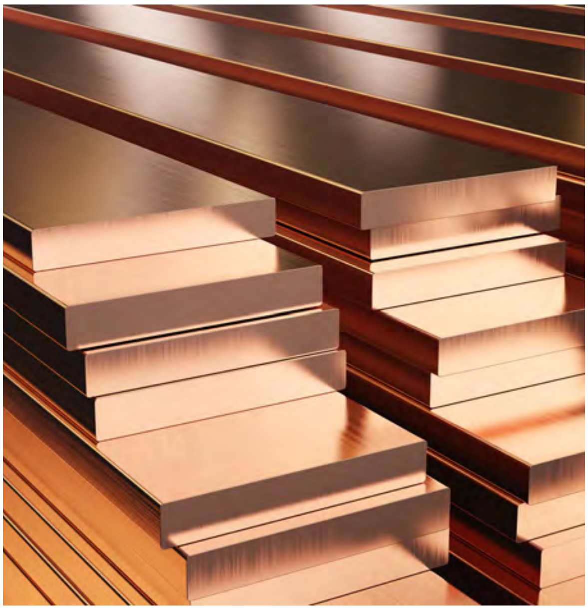
HOW DO WE EXTRACT AND CONCENTRATE IRON ORE?

Iron ore extraction uses traditional surface, or open pit, mines. Pit crushing machines then pulverise the ore and separate impurities like sand and clay.

The crushed ore must then be purified/concentrated to increase the proportion of iron in a process of beneficiation. Various methods are used in beneficiation, most notably, gravity separation and flotation (for haematite – see below) and magnetic separation (for magnetite).

A number of beneficiation techniques fall under the banner of gravity separation, ranging from shaking surfaces, not unlike a complex version of panning for gold, to gravity-assisted centrifuges, pinched spirals and jigs.

In jigging, pulverised ore is suspended in water and pulses of pressure are used to push the ore upwards. The lighter, unwanted minerals fall more slowly, while the heavier iron settles more quickly, separating products in the ore according to density.



So far, iron beneficiation appears to be a mostly mechanical process, but with flotation it becomes a chemical one. In flotation, chemicals are mixed with water and crushed ore. The chemicals make minerals hydrophobic (unable to adhere to water), but allow them to attach to bubbles formed by a (chemical) frother.

Depressants can then be added to cause some minerals to repel the bubbles. Flotation of iron ore can thereby be achieved either by floating the iron onto the froth, where it is concentrated, or leaving it in the liquid and floating off unwanted minerals. Another common method of iron ore concentration, magnetic separation, uses magnets to shift and concentrate magnetic particles like iron, most commonly through a drum or cross belt separator.

The processed ore is then graded into 'fines' and 'lumps'. Lump iron is between six and 30mm in size, while anything below six millimetres is considered fines, with lump commanding a premium price in the market, since its particle size allows oxygen or air to circulate around it and melt it more efficiently in a blast furnace.

Concentrate typically contains 63–69% iron and can be used directly in blast furnaces. However, fines can also be reprocessed to make pellets that mimic the characteristics of lump in a blast furnace. Pellets are spheres, typically 6–16mm in diameter, which have iron contents ranging from 56% to 66%.

WHERE DO WE EXTRACT IRON ORE FROM?

We predominantly mine two types of rock for iron ore: haematite (iron III oxide) and magnetite (iron II, III oxide). In general, both are found as sedimentary deposits in rocks that are at least 1.8bn years old and thought to be the product of iron-rich waters at a time when oxygen was rare in oceans and rivers. The current predominant scientific theory is that when living organisms began to excrete oxygen into the seas, the oxygen bound itself to the dissolved iron in the water, which then precipitated to create rich banded iron formation (BIF) deposits.

Today, iron ore is mined from these deposits in a few countries, the top five of which produce 85% of the world's iron ore and account for 73% of its reserves, according to The US Geological Survey. Of these, Australia is by far the largest iron ore-producing nation, outstripping its nearest rival, Brazil, in terms of production volume by nearly two to one. In 2018, Australia produced 900m metric tons (Mt) of iron ore to Brazil's 490Mt.

China (340Mt) and India (200Mt) are also major producers. However, despite its large production base, China remains a net importer of iron ore, importing much of its requirements from India.

WHICH COMPANIES DOMINATE IRON ORE EXTRACTION?

Four mining companies control around 70% of iron ore exports, namely **BHP (BHP)**, **Rio Tinto (RIO)**, Vale and Fortescue Metals. This is not to say that there isn't an active extraction and exploration market outside the big four, which is mostly centred in Australia.

This article is based on a report produced by Edison Investment Research other Edison Explains research is available ***here***.

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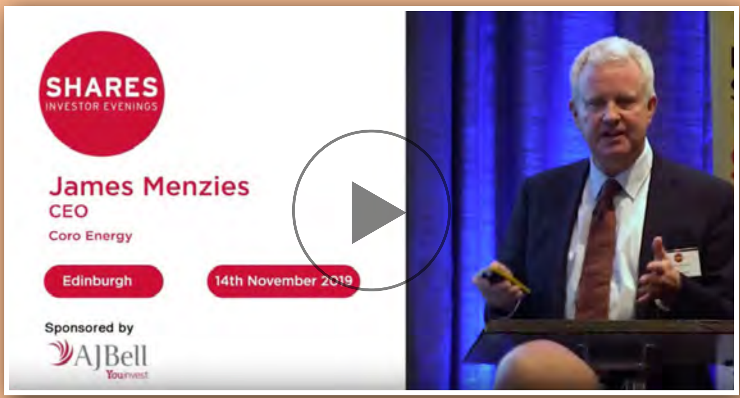


James Menzies, CEO
Coro Energy (CORO)

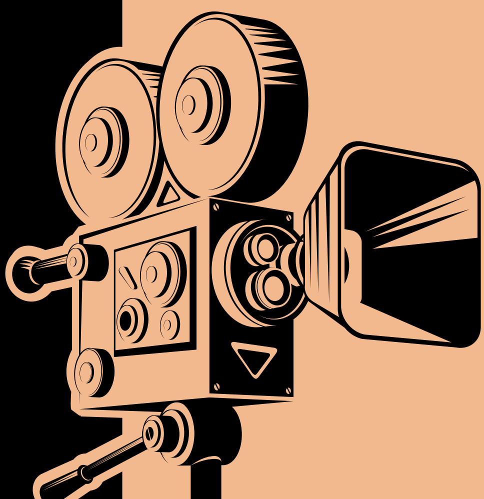
Coro Energy is a London-listed E&P Co building a portfolio in SE Asia. Winner of 2019 Energy Council, Asia Pacific New Entrant of The Year. Currently drilling in Duyung PSC, West Natuna basin, offshore Indonesia.

David Lenigas, Chairman
NQ Minerals (NQMI)

NQ Minerals is an expanding base and precious metals production and exploration company with its operations centred around its Hellyer Operations in Tasmania, Australia.

Richard Gray, CEO
Scotgold Resources (SGZ)

Scotgold Resources is primarily focused on the development of its high grade Cononish Gold and Silver Project in the Scottish highlands, together with the exploration of highly prospective tenements in the Grampian region of Scotland.



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SHARES SPOTLIGHT

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www.sharesmagazine.co.uk/videos

Mkango rare earths and technology for the cleantech revolution

Website: www.mkango.ca

The ongoing US–China trade war has highlighted the critical nature of rare earths for the ubiquitous consumer electronics and other technologies that we take for granted, but more importantly for those rapidly growing green technologies, such as electric vehicles, which will prove essential to combat climate change.

Both mined and recycled sources of rare earths have a key role to play in this structural transformation of the rare earths market and **Mkango Resources (MKA:AIM/TSXV)** is rapidly establishing a foothold as a future supplier in both these segments of the rare earths supply chain.

HI-TECH GROWTH UNDERPINNED BY SUSTAINABLY SOURCED RARE EARTHS FROM MALAWI

Mkango's future growth is underpinned by the development of the Songwe Hill Rare Earths project in Malawi, one of the very few advanced stage rare earths projects outside China and a future, long life, sustainable source of neodymium and praseodymium (NdPr), critical raw materials to fuel accelerating growth in cleantech markets, such as electric vehicles and wind power. This resource underpins the company's parallel strategy of investing in innovative rare earth related technologies including those within the circular economy.

INTRODUCING... MKANGO RESOURCES

UNIQUELY POSITIONED FOR THE RARE EARTHS RENAISSANCE

Malawi is known as the 'Warm Heart of Africa' – English speaking and a former British Protectorate, it is a rare earths mineral province that was the first country in Africa where carbonatites, the host rock for most major rare earth deposits, were identified.

The Songwe project was first documented in 1937 by the Geological Survey Department (Nyasaland). It was first explored by the Japanese Government organisations, JICA and MMAJ, in the late 1980s at which time it was subject to a limited drilling programme, which established a small historical resource.

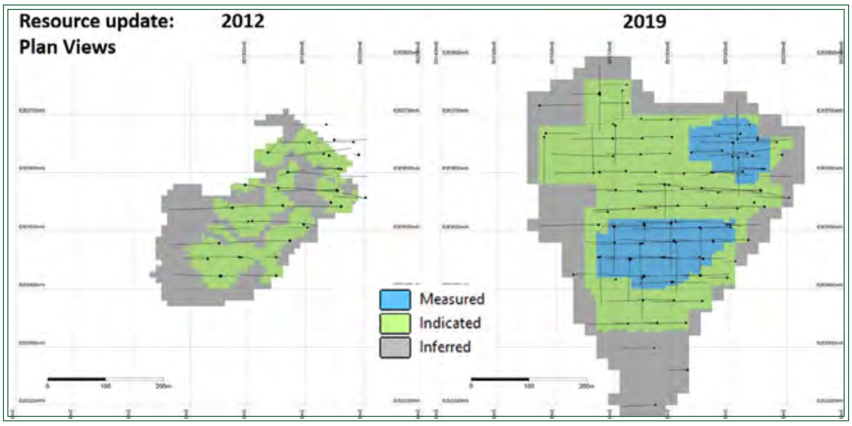
Clearly, a lot has changed since the 1980s, both in Malawi, with new infrastructure developments unlocking the mineral potential, as well as accelerating growth in cleantech applications for rare earths – it was against the backdrop of these emerging trends that Mkango was awarded the exploration licence for Songwe in 2010.

Following listing on the TSX-V in 2011, Mkango completed two drill programmes, culminating in a Maiden Mineral Resource Estimate in 2012 which formed the basis for a pre-feasibility study in 2015.

Mkango completed a further major drilling programe in 2018, which resulted in a substantial resource upgrade and the 60% increase in Measured and Indicated Resources announced in 2019 and forms the basis for the ongoing bankable feasibility study.

VALUE ADDED DEVELOPMENT STRATEGY IN MALAWI, FOCUSED ON SUSTAINABLE DEVELOPMENT, RESOURCE EFFICIENCY AND MINIMISING THE CARBON FOOTPRINT

Malawi benefits from major infrastructure developments including rail, road and power,



which facilitates Mkango's value added development strategy in the country, encompassing flotation and hydrometallurgical processing to produce a value added, high grade, purified mixed rare earth carbonate as opposed to an unpurifed mineral concentrate.

The development includes a sulphuric acid plant, which will also co-generate power, the latter to be supplemented with a solar and energy storage facility as well as grid power. Malawi benefits from hydroelectric power so there is a major opportunity to minimise as much as possible the project's carbon footprint. The company will complete a life cycle assessment in parallel with the feasibility study.

Based on a technology that Mkango has licenced from McGill University, now patented in the United States, Canada and Australia, sulphuric acid will be used to regenerate hydrochloric acid enabling a more efficient operation. Product export and reagent imports will be via the excellent road and rail network. Malawi's major commercial centre, Blantyre, is located just two hours from Songwe and has a rail head and international airport. Mkango will recycle reagents and other raw materials as much as possible and is evaluating potential by products such as gypsum and heavy rare earth enriched apatite, to maximise value as much as possible and to promote resource efficiency.

Mkango is targeting first production from Songwe in 2022.

EVALUATING POTENTIAL LOCATIONS FOR A NEW RARE EARTH SEPARATION PLANT

As part of the bankable feasibility study, Mkango is also evaluating potential sites for a separation plant. This will process the purified mixed rare earth carbonate originating from the Songwe Hill rare earths project in Malawi and separate out the valuable rare earths, most significantly neodymium and praseodymium. The company is evaluating more than five sites in the UK and Europe, in addition to reviewing other options in the Middle East and Asia.

This will enhance security of supply and marketing flexibility in order to better service Asian, European and North American markets, and further promote an independent, sustainable and stable rare earth supply chain to catalyse growth in existing rare earth applications, new research and development initiatives and long term market growth.

INVESTMENT IN RARE EARTH MAGNET RECYCLER HYPROMAG

The Songwe development and separation plant is complemented by Mkango's recently announced proposed investment in HyProMag Limited.

HyProMag has licenced a patented process for extracting and demagnetising neodymium iron boron (NdFeB) alloy powders from magnets embedded in scrap and redundant equipment known as HPMS (Hydrogen Processing of Magnet Scrap), which was originally developed within the Magnetic Materials Group at the University of Birmingham.

The founding directors of HyProMag, comprising professor emeritus Rex Harris, professor Allan Walton and two honorary fellows, Dr John Speight and David Kennedy, are leading world experts in the field of rare earth magnetic materials, alloys and hydrogen technology, and have significant industry experience.

HyProMag initially aims to establish a pilot rare earth magnet recycling facility at Tyseley Energy Park, Birmingham. The transaction is subject to completion of definitive agreements.

The rationale for the proposed investment includes potential synergies, such as blending of primary production originating from Songwe with recycled production from HyProMag, as well as enhanced marketing flexibility and access to downstream markets for rare earth permanent magnets.

The investment in HyProMag is via Mkango subsidiary, Maginito, established to invest in downstream opportunities relating to

the rare earths supply chain, in particular neodymium alloy powders, magnet and other technologies geared to accelerating growth in the electric vehicle market.

TALAXIS – A STRONG STRATEGIC PARTNER, WELL CONNECTED IN THE LARGEST RARE EARTH MARKETS

Mkango benefits from the support of a strong strategic and financial partner, Talaxis Limited, a subsidiary of Noble Group, which has an extensive market network throughout Asia and beyond. This is reflected in Talaxis' recent announcement that it has entered into a memorandum of understanding with Chinalco Guangxi Nonferrous Rare Earth Development Co, one of China's major rare earth companies, to further their cooperation in sourcing, development and production of rare earths.

The agreement underscores Noble's broader commitment to rare earths and its support for Asia's transition to a low-carbon future, coupled with its strong relationships with leading customers in the region.

Mkango's partnership with Talaxis enables the company to leverage off those relationships, broadening access to Asian markets, diversifying its global footprint and enhancing its access to capital.

At the time of the announcement of Talaxis' MoU with Chinalco, Daniel Mamadou, executive director of Talaxis, said

'This agreement with Chinalco represents the potential for a significant offtake contract in the growing rare earths sector. Our strategic long-term collaboration with one of Asia's leading metals companies will help to further strengthen Talaxis' position as the supply partner of choice in the technology metals industry.

'Through this partnership Talaxis has the capability to support the ongoing security of supply globally while leveraging Noble's logistics management expertise to transport the commodities that will support the transition to a low-carbon future.'

Talaxis is fully funding a bankable feasibility study (BFS) for Songwe and has invested £12m in the project to date for a 49% interest.

A pre-feasibility study (PFS) for Songwe was completed in 2015, resulting in an NPV of $345m and an IRR of 37%, with capital expenditure of $216m including an integrated processing facility in Malawi. Following completion of the bankable feasibility study, Talaxis has an option to finance project development, which would leave Mkango with a 25% carried interest in the project, funded all the way through to production by Talaxis.

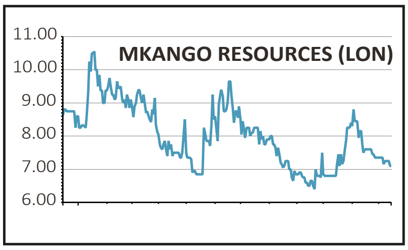
This stepwise financing arrangement significantly de-risks the project from a financing perspective and minimises dilution at the public company level.

Talaxis also invested £1m for a 24.5% interest in Maginito. Mkango had a consolidated cash position of $10m as at 30 September 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) - A LEADER IN SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY IN MALAWI

Mkango leads the way in Malawi in terms of corporate social responsibility (CSR) and is held up as an example of best practice in the Malawi mining sector by both Government and NGOs. CSR is integral to the vision of Mkango and will continue to be a major focus for the company.

CSR programmes have included the running of training programmes, educational and sporting equipment donations, syllabus painting on classrooms, in collaboration with local NGO Bongo Worldwide, an extensive scholarship programme, construction and refurbishment of water boreholes, bridges and roads, wheelchair donation, and construction of two kitchens and four dining rooms at local Primary Schools in partnership with Zero Hunger with Langar, a Birmingham based charity, which is currently providing one meal a day for approximately 2,500 children.



Rising profit on horizon from NQ's flagship Hellyer mine

WEBSITE: www.nqminerals.com

The Hellyer Gold Mine operations, located in Tasmania, Australia, is a flagship asset owned by London and US quoted **NQ Minerals (NQMI:NEX)**.

Hellyer's principal assets consists of an 11.24m tonne mine tailings project containing gold, silver, lead and zinc and a fully operational 1.6m tonnes per year processing plant.

A HIGH GRADE RESOURCE

The current 9.25m tonnes of resource include;

- **764,300 ounces of gold**
- **27.3m ounces of silver**
- **276,600 tonnes of lead metal**
- **217,400 tonnes of zinc metal**

At today's metal prices, the in-ground value of this deposit is substantial and Hellyer has a mine life of more than 10 years.

LOCKED-IN SALES

The company has fortuitously signed major off-take agreements with global trading house Traxys – to sell 100% of Hellyer's lead, zinc and pyrite concentrate production through to 2024, a key ingredient for the long-term success and profitability of Hellyer.

RECORD PRODUCTION RATES AND METAL RECOVERIES

Record production rates of lead and zinc concentrates are now being achieved as a result of gradual increases in plant throughput to around 1m tonnes a year and much better lead and zinc recoveries that are now exceeding 'life of mine' estimates.

November 2019's performance saw record production of 2,800 tonnes of lead (plus gold and silver credits) concentrates and 1,400 tonnes of zinc (plus silver credits) concentrates.

RECORD NET PROFITS

Provisional mine unaudited net profits for NQ's Hellyer Gold Mines Pty Ltd (before tax) for November were reported at a record A$2.44m on revenues of A$5.64m.

PLANT CAPACITY TO GROW – PLUS A STRATEGY TO EXPAND RESOURCES

The processing plant is currently operating at 62.5% of its capacity of 1.6m tonne per year and exploration around the Hellyer mine commences in earnest, in 2020, to add much higher-grade underground and open

INTRODUCING... NQ MINERALS - A MINER WHOSE FLAGSHIP ASSET IS THE HELLYER MINE IN TASMANIA pit tonnage to the mining plan.

BRIGHT OUTLOOK FOR 2020

Improvements being seen with plant recoveries, plant availability and expected increases in plant tonnage treatment rates should see production of metal concentrates and profitability grow through 2020.

SECOND MINE IN TASMANIA ON THE DRAWING BOARD

The acquisition of the Barnes Hill - Nickel Cobalt project translates into a strategic entry into the electric vehicle (EV) revolution with nickel & cobalt being the next metals planned for NQ, through the Barnes Hill project.

Barnes Hill is an ideal synergy with existing operations that will allow NQ to convert its current high volume / lower value pyrite (sulphur) concentrate into sulphuric acid for the treatment of the nickel laterites, plus enable NQ to recover a substantial amount of Hellyer's locked-in gold and silver reserves, which adds further to Hellyer & NQ's future profitability.

With 14m tonnes of nickel laterites now drilled up at Barnes Hill, a new 20-year operation is the plan. The Pre-Feasibility Study is due to be completed before June 2020.

WHAT'S COMING UP?

The company says you can look forward to hearing more about;

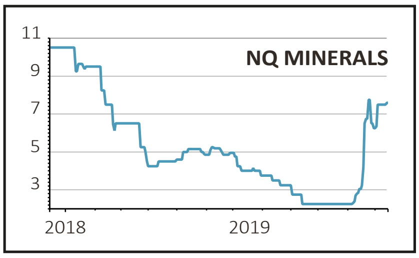
- The profitable cash flow from tailings reprocessing at Hellyer, as well as expanding capacity,
- The planned exploration program, using latest technologies, on the many high-grade targets identified by previous drilling in the near mine envelope at Hellyer, and
- The Nickel Cobalt project, at Barnes Hill, which could add further to increasing shareholder value.

NQ's main trading platform is the NEX Exchange. Liquidity on NEX is not as high as the other London exchanges. If more brokers actively engage with NEX then liquidity would be expected to rise. NQ's trading liquidity is seen as one of the best for NEX traded companies and liquidity has improved considerably over the past two months.

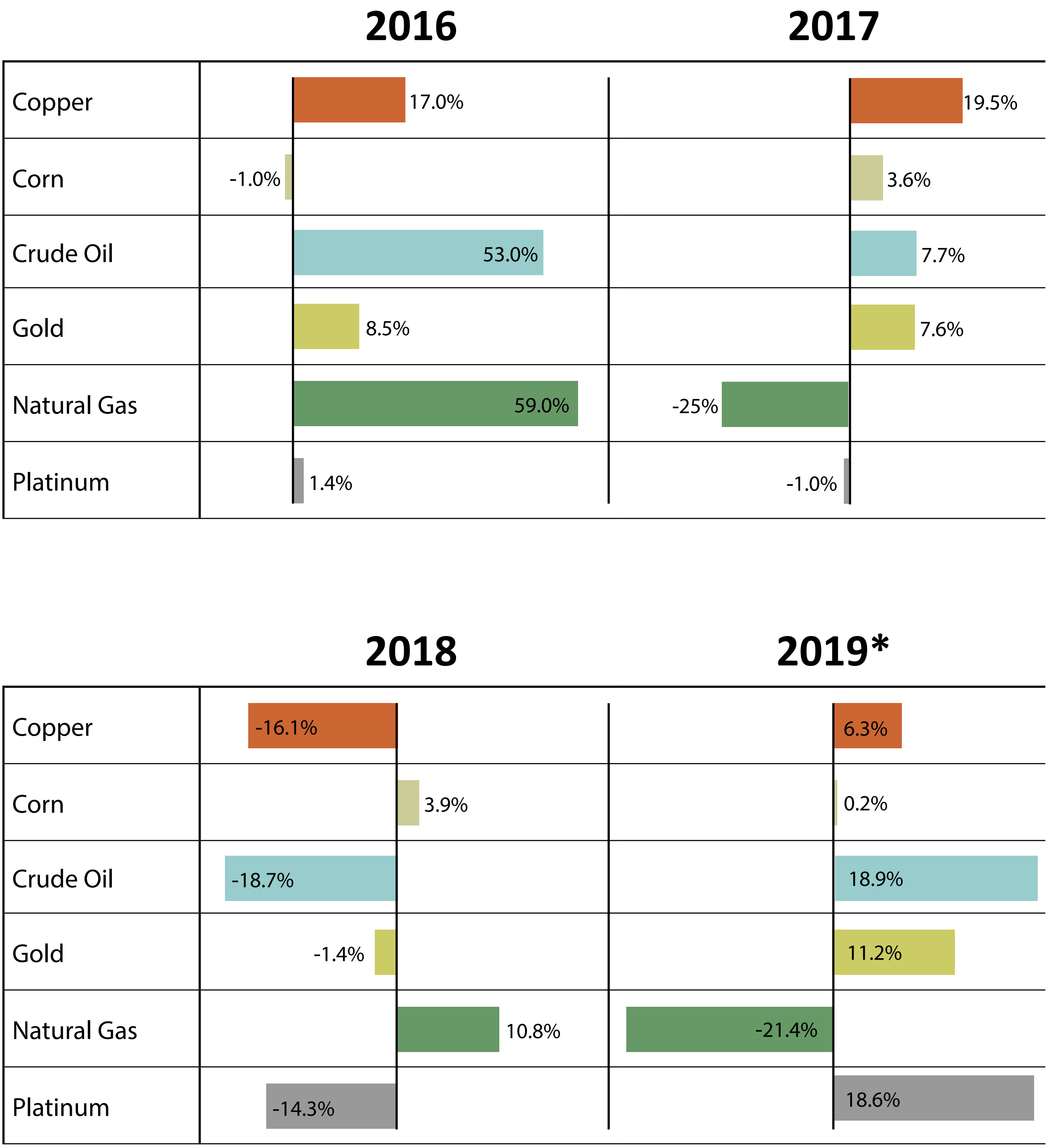
The company says that historic heavy quarterly losses at the corporatelevel, mainly associated with the establishment of operations in Tasmania over the past two years, can be reversed as profits at the Hellyer Gold Mine level continue to improve.

The company has stated categorically that it is in advanced discussions with potential lenders to fully replace the debt (raised in order to start operations at Hellyer) on more favourable terms. This refinancing event would be a milestone event for NQ.

A move of the listing of NQ Minerals to a Tier 1 global rated stock exchange will be investigated with the company's bankers and advisors once the start-up debt is restructured.

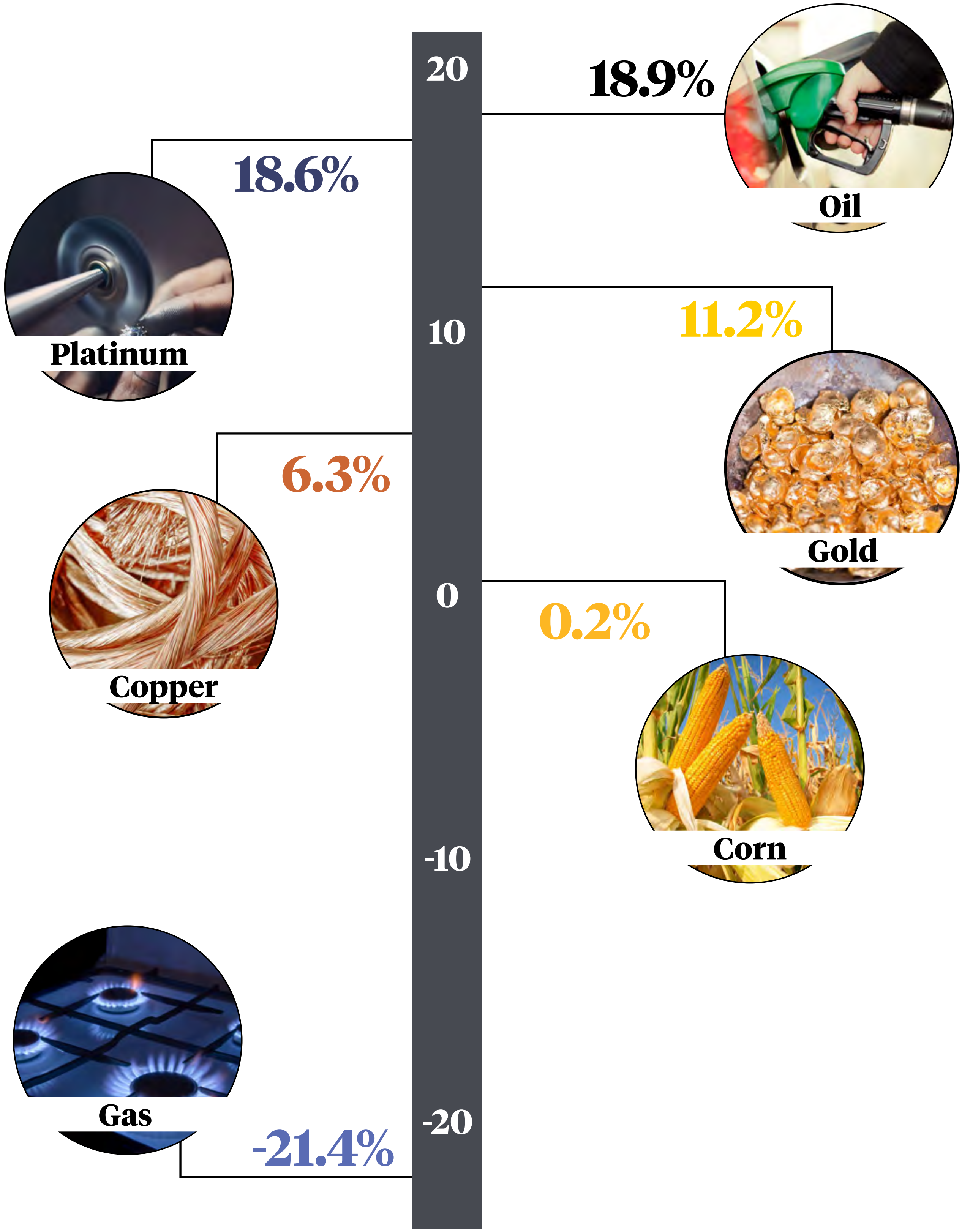


Databank – Commodity price performance 2016-2019



Source: Thomson Reuters Datastream. *Data to 16 December 2019

Databank – Gain / loss so far in 2019



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