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Plenty of opportunities despite new year wobble

Volatility doesn't mean you should sit on your hands when it comes to investing

he New Year has been fairly testing for investors after an initial bout of joy. The first few days were rewarding on the markets until everyone's attention turned to tensions between the US and the Iran, putting stocks into reverse.

Investors were braced for more pulling and shoving between the US and China and their trade war, yet it is fair to say that a deterioration of Middle East risks wasn't among the widespread predictions for the 2020 agenda.

It is a reminder how political issues can have a major influence on asset prices and that investing is often about holding your nerve and staying focused on the long-term value generation potential of your portfolio and not panicking at whatever twists and turns the market takes.

Despite this turbulent start to 2020, all is not lost for anyone owning shares and funds. A well-diversified portfolio should ensure that some of your investments are still maintaining or growing their value even on the darkest days of the market.

There are still plenty of opportunities despite a backdrop of geopolitical tension. For example, **this article** looks at ways to invest in megatrends such as resource scarcity and an ageing population. These trends will still be intact regardless of economic activity and geopolitical tensions and so present investors with a variety of portfolio options.

You can also read about <u>plans for a new</u> <u>farmland-themed investment trust</u> amid rising demand for assets uncorrelated to the market.

Furthermore, we note comments by investment bank Morgan Stanley that UK stocks still look cheap compared to other parts of the global market even after enjoying a rally following the general election result in December.

For those still seeking ways to play the 'Boris bounce', why not look at the UK-focused investment trust laggards which are still trading on large discounts to their net asset value despite the

UK-FOCUSED INVESTMENT TRUSTS STILL TRADING ON WIDE DISCOUNTS TO NAV

Trust	Discount
Strategic Equity Capital	16.4%
Artemis Alpha Trust	15.8%
Henderson Opportunities	15.4%
Keystone	12.7%
Invesco Income Growth	12.7%
Acorn Income	11.8%
Perpetual Income & Growth Source: Winterflood. 6 Jan 2020	10.9%

rally in the domestic market.

This could be good hunting ground for opportunities that the broader market has missed – albeit double check why they are trading on discounts.

For example, **Artemis Alpha Trust (ATS)** is still trading on a 15.8% discount despite its share price having moved higher since the election. This is potentially explained by its portfolio containing growth rather than value stocks; the latter have been more in demand in recent months.

Other UK names still trading on wide discounts include **Henderson Opportunities Trust (HOT)** on a 15.4% discount and **Keystone (KIT)** on 12.7% below NAV.

In contrast, many trusts have seen their discounts narrow considerably since the election result; some have even switched to trading at a premium to NAV such as **Temple Bar (TMPL)** which is now trading at a 0.3% premium versus a 12-month average discount to NAV of 3.1%.

Should you explore this part of the market, just remember that we've got Brexit around the corner which could make share prices a bit choppy.



By Daniel Coatsworth Editor





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What Iran-US tensions mean for markets and investors

A strong start to 2020 for stocks was abruptly ended after the US killing of a top Iranian general



f all the risks investors were weighing for the year ahead, a big escalation of hostilities in the Middle East was not foremost in most people's minds.

However, recent developments in the region have intervened to interrupt a promising start to 2020 for stocks. This remains a fluid and febrile situation and something which could continue to affect markets in both the short and medium term.

WHAT HAPPENED?

On 3 January a US airstrike on Baghdad airport killed top Iranian general Qasem Soleimani. The targeted drone attack was sanctioned by US president Donald Trump on the basis that Soleimani represented an 'imminent threat' to American lives.

Subsequent tweets from Trump suggesting the administration would respond 'disproportionately' to any retaliation from Iran and threats of sanctions if Iraq expels troops from the country further inflamed tensions. There is also concern that Iran will resume its nuclear programme in earnest.

A 1m-strong procession in Tehran revealed the strength of feeling about the incident and on 7

January dozens of attendees of Soleimani's funeral in his hometown of Kerman died in a stampede.

Less than 24 hours later Iran launched missile strikes on US bases in Iraq.

WHAT WAS THE MARKET REACTION?

Markets fell in response to the news, although the FTSE 100 bucked the negative global trend thanks to the boost for index heavyweights BP (BP.) and Royal Dutch Shell (RDSB) as oil prices rose to factor

How global markets responded to the killing of Soleimani

Market	Performance 3 January (%)
DAX (Germany)	-1.3%
S&P 500 (US)	-0.7%
Hang Seng (Hong Kong)	-0.3%
Nikkei 225 (Japan)	0.0%
FTSE 100 (UK)	0.2%

Source: SharePad

in potential disruption to supply from the Middle East.

Brent crude oil prices climbed above \$70 per barrel for the first time September 2019 when there was an attack on Saudi oil facilities which the US blamed on Iran. There has been a warning in the wake of the latest developments that a renewed attack on Saudi infrastructure could be in the offing.

Having fallen back on a period of brief calm, news of the Iranian strikes on US targets in Iraq put upward pressure on crude prices again.

WATCH CURRENCIES AND GOLD

One thing for investors to watch as a measure of how the market is feeling about risk is the exchange rate between the US dollar and Japanese yen.

Strength in the yen against the dollar is typically a sign of weakening sentiment, notably it coincided with a big sell-off in equities in the second half of 2015 and early part of 2016.



The latest tensions between the US and Iran have stoked investor interest in gold, seen as a safe-haven asset. This helped the precious metal extend the rally seen in recent months to hit its highest level since 2013, briefly topping \$1,600 per ounce.



WHY IT MATTERS TO MARKETS

There are multiple reasons why tensions in the



Middle East have an influence on the markets. Oil prices are a big part of it, even if the world's reliance on Middle Eastern crude has been lessened by significant growth in US shale production in recent years.

A significant chunk of the dividends and earnings from UK stocks come from oil majors BP and Shell. The impact of higher oil prices on the economy can't be discounted either. For now there is little sign of the doubling in prices which most observers suggest is required to prompt a global recession.

Conflict also creates plenty of the uncertainty which markets hate, even if the strong performance during other US military excursions is a reminder that there are other factors at play in the performance of equities.

WHAT HAPPENS NEXT?

This is likely to depend on efforts allies of both parties to de-escalate the situation, if there is any further Iranian retaliation after its initial missile strikes and how the US acts next.

As we went to press the US response to the attacks on Iraqi bases was still unclear bar an unusually measured response on Twitter from Donald Trump. There are suggestions in some quarters that Iran's relatively limited action might provide cover for both sides to step away from the precipice of further conflict.

The imbalance between Iran's military capabilities compared with the US makes direct outright warfare between the two countries unlikely.

Iran could respond further through attacks via proxy groups, the most high profile of which is Hezbollah in Lebanon, as well as through cyber warfare. The country has already said it will no longer abide by the key commitment on enrichment under its nuclear deal.

Flagship Lindsell Train funds downgraded on capacity concerns

Morningstar is worried that the UK equity fund is getting too big

und manager Nick Train found an unwelcome gift under his tree on Christmas Eve – a downgrade by ratings agency Morningstar to two of the funds he runs.

The agency cut its rating on the £6.7bn **LF Lindsell Train UK Equity Fund (B18B9X7)** from Gold to Bronze and cut the rating on the £1.8bn **Finsbury Growth & Income Trust (FGT)** from Gold to Silver.

Morningstar analyst Peter Brunt flagged that although the UK Equity Fund benefitted from 'a highly experienced and long-standing manager and a unique, well-structured investment approach', there were concerns over capacity management and 'the strategy's ability to maintain purity of process with such a large asset base' which led Morningstar to lower its conviction level.

While Train's strategy of running a highly concentrated portfolio has produced good returns over the long term, it has also exposed investors to 'higher levels of stock-specific risk than most peers', says Brunt.

Given the growth in assets thanks to strong performance and 'sizeable' cash inflows, and the concentrated nature of the portfolio, Lindsell Train UK Equity owns significant stakes in a number of companies which 'could make the fund far less nimble to respond to adverse circumstances (including a significant liquidity event)' in Brunt's view.

'The large asset base also precludes (Nick) Train



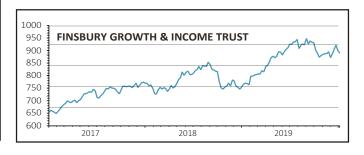
from building sizable positions in opportunities further down the market-cap scale. While this has not had a large impact on performance so far, allowing assets to continue to grow will only further restrict his potential investment opportunities. In light of this, we are concerned that the group has not taken action to manage capacity,' adds the analyst.

In response, Lindsell Train says its capacity for its UK strategy, which includes the two aforementioned funds and other UK equity mandates, is £12.5bn versus the current £9.5bn value.

'We also acknowledge that our investment strategy results in concentrated portfolios, predominantly concentrated on the shares of blue-chip, multi-billion pound companies,' adds the asset manager. 'This concentration certainly brings investment risk, but has also been a key contributor to our competitive long term investment returns.'

Finsbury Growth & Income Trust is 'identically managed' to the UK Equity Fund. The top 10 holdings are exactly the same for both funds, albeit in different weightings. They are: London Stock Exchange (LSE), RELX (REL), Unilever (ULVR), Diageo (DGE), Mondelez, Burberry (BRBY), Hargreaves Lansdown (HL.), Schroders (SDR), Sage (SGE) and Heineken.

These names accounted for more than 80% of Finsbury Growth & Income's assets at the end of October 2019.



Sirius Minerals shareholders may not like takeover price

The potash miner could end up falling into new ownership amid financial troubles

for Sirius

is yet to be

made

hareholders in **Sirius Minerals (SXX)** will have to weigh a potential offer of 5.5p per share after mining giant **Anglo American** (**AAL**) tabled a takeover proposal for the company.

The proposal represents a 34% premium to the previous day's closing price of 4.1p, and values Sirius at £386m. That is a still a fraction of the 37p level seen in 2018.

We note that the target's shares shot up just before the market close on the day before the announcement, rising 12% on the day which suggests someone knew about Anglo's interest before it was made public. Don't rule out an investigation into insider trading.

A firm offer for Sirius has yet to be made, but Anglo American confirmed it is in 'advanced discussions' with Sirius and said it had identified the potash project in North Yorkshire as 'being of potential interest some time ago'.

A firm offer Sirius shareholders may not look favourably on Anglo's proposal of 5.5p per share, but without any bid the company remains in a difficult position financially.

It has been trying to secure a strategic investor to help raise the \$600m it needs to continue the project in its revised two-stage development plan, but the lack of any news on this front would suggest it isn't having much luck and that a

full takeover of the company could be a more plausible outcome.

Anglo American has until 5pm on 5 February to announce a firm intention to make an offer or walk away.

Sirius said it would recommend the offer if the price is the one set out in Anglo American's proposal, and subject to 'satisfactory assurances' around safeguarding jobs and other stakeholder interests.

Grocers' 'golden quarter' falls flat

Early signs from supermarket Christmas updates not that encouraging

EARLY INDICATIONS ARE that Christmas trading for the supermarkets wasn't disastrous but neither was it stellar. 'I don't think people will be popping champagne corks' was one observer's verdict.

Sainsbury's (SBRY) reported a 0.4% like-for-like increase in grocery sales for the 15 weeks to 4 January, slightly ahead of market estimates. However group sales were dragged down by a 3.9% fall in general merchandise, or in other words its Argos business, sending the shares lower.

Morrison's (MRW) didn't divulge its Christmas sales but from the half-year and third-quarter figures it looked as if like-for-likes were down around 2.5%, in line with most estimates. Chief executive David Potts rescued the shares by predicting full-year earnings would

meet expectations.

Aldi initially looked to have stolen the crown with a 7.9% increase in Christmas sales, but sector watchers suggested growth was slowing, removing some of the sparkle.

Total grocery spending for the 12 weeks to 29 December was up just 0.2% according to Kantar, with a 0.7% drop in volumes offset by a 0.9% increase in average prices.

Problems mount up at Hadrian's Wall fund

The secured lender is in a pickle amid problems involving several investments

ollowing news on 9 December that

Hadrian's Wall Secured Investments (HWSL)

may wind up after encountering problems

with some of its holdings, we think now is to time
for shareholders to cut their losses and get out.

Having recently increased its loss provision on two biomass investments from £3.27m to £18.1m, the investment trust said on 17 December that there are likely to be additional costs in efforts to recover some value from these assets.

There is also a risk that Hadrian's Wall may need to provide additional capital to one of its borrowers. Any problems with the latter getting more funds could expose the investment trust to another material loss.

Shares said to buy Hadrian's Wall in October 2018 in the belief that it would provide a decent

"We suspect shareholders
were rightly disappointed that
the security on the investments
appeared to be worthless"

- Winterflood



income stream via secured loans. Subsequent to our article it made higher-risk investments in biomass which haven't played out as expected.

Winterflood says: 'We suspect shareholders were rightly disappointed that the security on the (biomass) investments appeared to be worthless, despite an update in October suggesting that the situation would not result in a material loss.

'We are conscious that the portfolio's realisation may not be a straightforward process given its underlying illiquidity and often complex nature of its loans.'

FTSE 350 MOVERS OVER THE PAST WEEK

BEST PERFORMERS				
STOCK SHARE PRICE RISE REASON				
Premier Oil	22.7%	Agrees to buy BP assets		
Just Group	8.9%	Added to FTSE 250 index		
Senior	6.7%	Recovery from selling pressure linked to Boeing problems		

WORST PERFORMERS				
STOCK	SHARE PRICE FALL	REASON		
Aston Martin Lagonda	-11.2%	Warns on profit as backdrop remains challenging		
Spirent Communications	-10.3%	Negative analyst comment		
Tullow Oil	-7.5%	Mixed drilling results from exploration offshore Guyana		

Source: Shares, SharePad. Data to 7 Jan 2020

Get in quick with this fund to play the e-retail boom

Tritax Eurobox is at a tipping point with plans to capitalise on warehouse demand

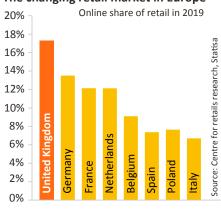
s Christmas trading updates from the retailers begin to dribble in, the continuing shift to online shopping has been very apparent again. This trend, which has led to a boom in the warehousing assets required to process internet-based orders in the UK, is beginning to gather steam in continental Europe.

In our view **Tritax EuroBox** (**EBOX**), which invests in industrial properties across the Channel, represents an excellent way to play a rise in web-based retail and therefore demand for warehouse space.

Customer demand should drive rental growth and support property asset valuations, underpinning an already attractive dividend yield of 4.5% based on forecasts from investment bank Jefferies.

Unlike several investors in logistics real estate in the UK which trade at hefty premiums, FuroBox trades at a modest

The changing retail market in Europe





discount to net asset value.
That's perhaps because mainland
Europe is still playing catch-up
with the shift to online versus
the UK.

Property specialist Savills suggests that once online retail accounts for 10.7% or more of total retail sales in a market then a tipping point has been reached and there is rapid growth in demand for warehouses. As the chart shows, many European countries are at or around that level. For context, online penetration in the UK is pushing 20%.

EuroBox was launched in July 2018 by the people behind **Tritax Big Box REIT (BBOX)** with a plan to rent out high quality logistics assets of 500,000 square foot or more to institutional-grade tenants on long leases.

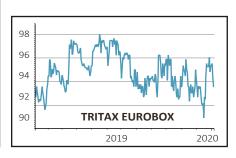
The rate of acquisitions has been a bit slower than expected which is another contributor to the sluggish performance of the share price.

The upside of this disciplined approach is that EuroBox has avoided paying too much

or buying the wrong assets. Inclusion in the FTSE EPRA NAREIT index series at the end of the first quarter of 2020 could act as a catalyst for the shares, improving liquidity in the stock as passive funds tracking the space are forced to buy.

The current portfolio includes five German assets, along with properties in Belgium, Italy and Poland. Another holding is located in Barcelona and leased to Spanish clothing design and manufacturing outfit Mango.

An agreement with Mango to fund an 88,000 square kilometre extension of this facility reflects both the capacity provided by land held within the portfolio to generate growth and the managers' ability to create value by actively managing its existing asset base.



Buy Ricardo as it moves beyond auto

The expanding engineering consultant is now doing so much more than cars

o be an expert engineering consultant to the automotive industry may sound like a poisoned chalice, and a poor investment proposition, but there is more to **Ricardo's (RCDO)** story than meets the eye.

The West Sussex-based business has a 100-year track record in the industry but today it does so much more than just cars, buses and tanks.

Ricardo provides engineering, technical, environmental and strategic consultancy services for transportation original equipment manufacturers and operators, energy companies, financial institutions, and government agencies all over the world. It operates out of more than 50 offices and technical centres around the globe.

This includes providing wind farm life-cycle planning alongside greenhouse gas emissions mitigation, rail infrastructure monitoring and maintenance as well as designing and building high-performance engineered systems for motorsport and defence.

Non-automotive operations have been expanded significantly over recent years, through acquisitions and organically, to the point where auto now represents just 30% of revenue, according to Liberum.

RICARDO 7 BUY

(RCDO) 798p Stop loss: 638p

Market cap: £426m

Yet the market has been slow to pick up on these developments. To address this information gap the company plans to be more transparent, breaking out orders, revenues and profits for six divisions; Automotive & Industrial, Defence, Energy & Environment, Rail, Performance Products and Strategic Consulting & Software.

SHIFTING MARKET PERCEPTIONS

This development should help shift market perception from Ricardo as auto consultancy towards the diversified business that it really is. For example, defence work has grown from £6m in sales in 2016/17 to £40m last year, while highperformance revenues have increased 17% to £103m.

Auto will remain a key market for Ricardo, where it is wellplaced in the electric transition, experts also suggest that the industry's decline may have bottomed out in late 2019.

The company has seen work evaporate from some of the most stretched manufacturers, Jaguar Land Rover, for example.

Even if there is no auto



industry recovery to speak of it is the newer growth markets which promise to prop-up profits and spark real growth through 2020.

Building out its Rail, Energy & Environmental business in places like the US, where it has no presence thus far, is a major growth lever, while software-type businesses offer a particularly exciting prospect.

Net debt of approximately £60m by the end of this year gives plenty of borrowings headroom for expansion.

Liberum sees underlying pretax profit going from £37m last year to nearly £41.7m this year, and on to £44m in 2020/21.

That implies a price-toearnings (PE) multiple of 12.4, a hefty discount to many peers.





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Investment ideas

JOHNSON SERVICE

(JSG:AIM) 212p

Gain to date: 64.3%

Original entry point:

Buy at 129p, 7 March 2019

SHARES IN JOHNSON Service Group (JSG:AIM) started the year strongly, hitting a 10-year high after chief executive Peter Egan raised earnings guidance for 2019 for the third time.

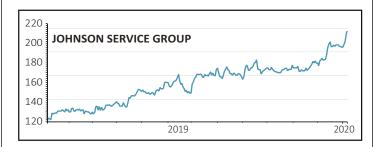
Thanks to strong trading and 'consistent organic growth', results for the year to 31 December are seen 'slightly ahead of market expectations'. Moreover Egan remains optimistic on the business's future prospects.

According to the consensus compiled by Reuters Eikon, revenues for the year to 31 December were seen at £347m, an increase of 8% on the previous year, while pre-tax profits were seen at £47m, an increase of 11%.

In response, analysts at Investec nudged up their pre-tax earnings forecasts for 2019 by 1% to £47.2m and raised their 2020 and 2021 forecasts by between 1% and 2%.

Peel Hunt raised its 2019 pre-tax forecast to £47.1m but was more generous with its 2020 forecast primarily due to the inclusion of Fresh Linen, which was acquired last November and which adds the capacity to process an additional 900,000 items of linen per week.

Together with the new high-volume plant opening in Leeds this spring, this additional capacity gives Johnson Service plenty of room to continue growing.



SHARES SAYS: 7

Despite its strong performance JSG remains an attractive, low-volatility growth stock. Keep buying.

LEARNING TECHNOLOGIES

(LTG:AIM) 136.2p

Gain to date: 81.6%

Original entry point:

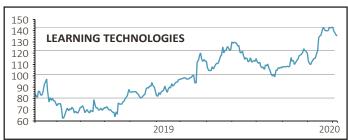
Buy at 75p, 25 April 2019



DOING NUMBER CRUNCHING analysis is something investors can control but getting the timing right on a stock purchase takes a bit of luck, and we admit to enjoying our share of good fortune with Learning Technologies (LTG:AIM).

We explained in our original article that some analysts saw the potential for the share price to possibly double on a 12 to 18-month view, so to have secured an 80% paper profit in less than nine months gives us pause for reflection.

The company is due to issue a trading update later this month, which may make this article appear premature. Yet the calendar 2020 price-to-earnings multiple has inflated to more than 28-times (based on Refinitiv's 4.8p earnings per share forecast), pushing the risk/reward balance potentially out of kilter with the comfort zone of many readers.



SHARES SAYS: 🔰

This is not a judgement on the company but on the valuation. More cautious investors should take the opportunity to bank handsome profits and reassess progress down the line.



If you're a regular reader, you'll know that we often talk about dividends. That's because they can make a big difference to your long-term investments. In this article we go back to basics and explore the role of dividends.

Making dividends work for you

If you're a shareholder in a company, you may receive a dividend from that company's profits - as a reward for entrusting it with your capital. As with all investment trusts, The Scottish's main source of income used to pay dividends to its investors are the dividends received from its portfolio of holdings. You may not be aware that we deliver one of the highest dividend yields in the AIC Global peer group. This is important because, in conjunction with share price movements, dividend income forms a substantial part of an investor's total return.

Compounding occurs as dividends are used to buy more shares which, in turn, earn dividends on their own. These reinvested dividends would then gain or lose in line with the movement of the share price. For example, over 25 years to 31 December 2019, the share price of The Scottish increased by 297%. The share price plus dividends taken as cash would raise this to 431% over the same period and, if those dividends had been reinvested, the total return would have been 612% (all before any dealing expenses). It's important to remember, of course, that markets can be volatile and shares (and the income from them) can go down as well as up.

Why a contrarian approach can pay dividends

As we've demonstrated, dividends can play an integral part in the return on your investments over the long-term. We're pleased to say that we've increased our regular dividend for the last 36 consecutive years which makes us a 'dividend hero' according to the AIC. Though remember that dividends are not guaranteed and they can fall as well as rise.

In this context, how does our contrarian style come into play? It guides us to look for what we call 'ugly ducklings' - unfashionable and unpopular investments. The share price of such investments typically reflects their 'unloved' status, often written off by other investors. By contrast, we research these companies to ascertain if they are ripe for improvement. Has there been a change in their business model, or to senior management? Are there nascent opportunities in the markets in which they operate? If we believe we can see a change, and the company presents a credible plan for recovery, we'll consider investing. However, we also take a 'belt and braces' approach to our investment - which brings us back to dividends.

One of the things we may consider before investing in an 'unloved' company is if it has sufficient cash to pay dividends throughout its turnaround. As our approach is based on long-termism and patience, a sustainable dividend may make it easier for us to hold the stock while the business is recovering. A good example of this is our investment in Dutch telecoms group KPN. Deemed unexciting by many, we view the steadiness of this business as a virtue. It fits our 'unloved' criteria, because shrinking revenues have set investors' expectations low. The company has a credible plan to improve its fortunes. As we wait for positive development, we can enjoy the dividend - the belt to the braces.

dividends can play an integral part in the return on your investments over the long-term ""

What if the company doesn't pay a dividend?

If dividends are so useful, does that mean we'll shun companies that don't pay one? Not necessarily. When a company is putting its house in order, it might choose to stop paying a dividend, conserving its cash to allow it to improve the business (investing in new technology or changing its business model, for example). Indeed, this was the case with Tesco, which suspended its dividend before we invested. Tesco addressed areas of concern, made improvements to its business - then restarted its dividend. We see the reinstatement of a dividend as an important signal that a company's rehabilitation is underway. Another example is Royal Bank of Scotland, which was forced to cease dividends during the financial crisis. Similarly, the company restarted dividends when its financial position improved.

As you can see, dividends can tell us a lot about a company's health – and its future prospects. We always pay close attention to a company's dividends when we're considering investing - both its ability to pay them and its track record of doing so, because dividends can make a tangible difference to long-term investors.

6 January 2020



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Unilever needs to revive growth to reignite its share price

The FTSE 100 consumer goods giant is at a crossroads after a disappointing update

onsumer goods firm **Unilever (ULVR)** has found itself at a crossroads at the start of a new decade having ended 2019 with a whimper. It warned on sales growth in a disappointing trading update on 17 December.

The timing of the update was poor given the company had spent a large part of a recent investor day talking up plans to prioritise growth.

This increases the pressure on chief executive Alan Jope, in post since the beginning of 2019, as he looks to reshape the business. The performance of the shares in the short to medium-term is likely to be dictated by the extent to which this process can revive growth.

At the same time the business may need to mend some fences



with investors bruised by an abortive attempt in 2018 to redomicile the business outside the UK.

Now is not the time to own the shares. Market sentiment is likely

to be weak towards Unilever until it can provide enough evidence that its problems have been fixed.

GROWTH DAMPENED AMID INDIAN MONSOONS

The group focuses on three key divisions: Beauty and Personal Care, Foods and Refreshment, and Homecare. Emerging markets comprise around 60% of total group sales and this exposure contributed to December's revenue warning.

In the brief pre-Christmas update, Unilever said it expected underlying sales growth for 2019 to be slightly below previous guidance of revenue, coming in at the 'lower half of its 3% to 5%

UNILEVER'S SHARES HAVE COME OFF A LOT SINCE LAST SUMMER



BUT THEY HAVE A GOOD LONGER-TERM TRACK RECORD OF **OUTPERFORMANCE**





multi-year range' amid fourth quarter challenges in some of its markets. First half growth in 2020 is also expected to be below 3%.

In mitigation the firm pointed to an economic slowdown in South Asia, notably in the key market of India where monsoons and a sluggish jobs market have impacted consumer spending.

UNILEVER'S ATTRACTIONS

The strength of brands like Lipton tea, Hellman's mayonnaise and Magnum ice cream, backed by heavy marketing spend, makes Unilever a fixture in shoppers' cupboards at home and the company is also entrenched in the supply chains of the retailers which stock its products. It also enjoys real global diversification.

These attributes had helped the FTSE 100 firm achieve consistent sales growth for a long time. More recently this growth has started to soften as the pricing power of some brands has weakened and upstart niche players have emerged, causing the stock to lose some momentum.

The Anglo-Dutch outfit has made a large number of acquisitions in the past five years but the focus has now switched to getting the most out of these acquired assets and selling off stuff which is growing more slowly.

By doing so the hope is the growth rate and level of returns for the overall group can improve.

FOCUS ON THE RIGHT BRANDS

This approach of parting with low-growth brands has already been road-tested, with the £6bn sale of the company's margarine and spreads divisions announced in December 2017.

Unilever is also continuing

to take costs out of the business through the digital transformation of its factories, supply chain, advertising and administrative function. The company made a big effort in this area after successfully rebuffing a takeover attempt by US rival Kraft Heinz in 2017.

This effort has involved using automation, robots and machine learning to operate more efficiently and employing data to target the right products at the right markets. For example, the company has installed webconnected sensors on machines in its factories to help finetune the way they function to achieve optimum results.

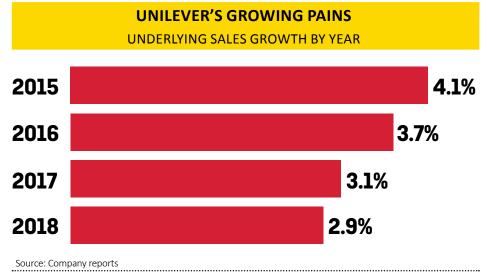
Indications that the company can sustain the current pace of €2bn annual cost savings beyond 2020 could free up money to invest in its operations and brands and help boost profitability.

As well as being forwardthinking on technology, Unilever is out in front on sustainability. This increasingly matters to both consumers and investors.



Its activities include purposeled marketing, linking its brands with social and environmental causes, while looking to source raw materials sustainably and reducing the environmental footprint of its products.

However, Jope will be judged



BEAUTY & PERSONAL CARE

Proportion of group revenue Q3 2019: 42.1%

Key brands: Lynx, Dove, Lux, Rexona, Sunsilk, TRESemmé, Signal, Lifebuoy and Vaseline.

The largest division has been a focus of the company's purposeled marketing, linking its products to environmental and social issues. Unilever is looking to boost its exposure to the premium beauty space given the higher margins these products command.

first and foremost on the hard currency of consistent growth. Investors are likely to be watching the outlook commentary which accompanies full year results on 30 January, to

FOODS AND REFRESHMENT

Proportion of group revenue Q3 2019: 37.6%

Key brands: Knorr, Hellman's, Marmite, Magnum, Lipton and Wall's

The company merged its food and refreshment businesses when it sold its spreads business in 2014. Healthier food categories are being targeted to tap into shifting consumer trends. This part of the group really benefits from entrenched relationships with retailers.

see if there is any guidance on 2020 as a whole.

Until there is more confidence in the company's ability to grow its revenue organically the stock may struggle to perform. A price-

HOMECARE

Proportion of group revenue Q3 2019: 20.3%

Key brands: Persil, Omo and Cif

The smallest unit is also the fastest growing, reflecting its heavy exposure to emerging economies which account for around 80% of its revenue. The company has leading positions in the detergent and cleaning supplies markets.

to-earnings multiple of 18.8 based on consensus forecast earnings for 2020 is relatively undemanding but not compelling given the recent sluggish showing from the group.



By **Tom Sieber** Deputy Editor

BOOK COMPETITION WINNERS NATHE 12 DECEMBER 2019 issue of Shares we asked:

IN THE 12 DECEMBER 2019 issue of *Shares* we asked: 'In what year was retailer-to-technology giant Amazon founded?' The answer was 1994.

Congratulations to the following winners who will each receive a copy of John Lee's *Yummi Yoghurt* book:

- Christopher McGuigan, Cupar
- Cyrus Parvis, Coventry
- Paula Smith, Lincolnshire



How to invest in tomorrow's world By Yoosof Farah Reporter

n the early 1980s, American telecoms giant AT&T asked consultant McKinsey to predict how many people around the world would be using mobile phones by the turn of the millennium.

Noting the problems with devices at the time – too heavy, batteries that kept running out, patchy coverage and exorbitant costs per minute – McKinsey confidently concluded by the year 2000 there would be approximately 900,000 mobile phone users worldwide.

The consultant persuaded AT&T to roll back its investment in mobile phone towers and pull out of the market, arguing demand would be too small. By the time 2000 rolled around, there were actually 109m mobile phone users globally.

The decision cost AT&T massively. A decade after pulling out of mobiles, having lost billions in potential revenue, it had to spend \$12.6bn acquiring mobile phone upstart McCaw Cellular to get back into what was becoming a lucrative and rapidly expanding market.

OUR TOP INVESTMENT IDEAS FOR THE FIVE MEGATRENDS

MEGATREND	BUY THIS FUND OR ETF
Rapid urbanisation	Pictet Digital (Fund)
Climate change & resource scarcity	WHEB Sustainability (Fund)
Climate change & resource scarcity	Lyxor World Water (ETF)
Shift in global economic power	Robeco Global Consumer Trends (Fund)
Demographic & social change	iShares Healthcare Innovation (Fund)
Technological breakthrough	L&G ROBO Global Robotics & Automation (ETF)

WHY IS THIS RELEVANT NOW?

While many people knew portable, handheld phones were inevitably going to thrive in the future, nobody quite predicted just how rapidly and expansively the mobile industry would take off.

Some argue it is the same with megatrends, i.e. big trends which, like mobile phones back in the day, are changing the world.

In the next decade and beyond, most people (though perhaps not some politicians) agree climate change, for example, could fundamentally alter the way we live.

All the while technology is advancing quicker than ever, our population is rapidly growing and as they develop, previously poor countries are getting richer and having a bigger voice on the global stage.

For savvy investors, having exposure in their portfolio to such major events means there's the potential for money to be made.

Under the banner of thematic investing, various investment funds and exchange-traded funds (ETFs) offer access to themes or trends that are happening now and are likely to shape the future, with the biggest of these themes or trends called megatrends. Read on to discover our favourite ways to get exposure.

WHAT ARE THE MEGATRENDS?

According to fund firm Pictet, which specialises in thematic investing, a megatrend can be described as a 'force of change that has gathered its own self-sustaining momentum'.

There are four main megatrends experts seem to agree on – rapid urbanisation, climate change and resource scarcity, a shift in global economic power, and demographic and social change.

And they are all are underpinned by the driving force which has really defined the last three decades – technological breakthrough.

'These themes have always been happening,' says Rob Powell, product strategist at BlackRock's ETF arm iShares. 'But now we're seeing the disruption happening far faster than in the past.'

Powell cites the shift away from fossil fuels and the emergence of wealth in China and India as examples, as well as rapid urbanisation in the former location.

There are now more than 100 cities in China with populations above 1m, and Powell says there are some estimates this could double in the next decade.



INVESTING IN MEGATRENDS IS NOT ALWAYS A SMOOTH RIDE

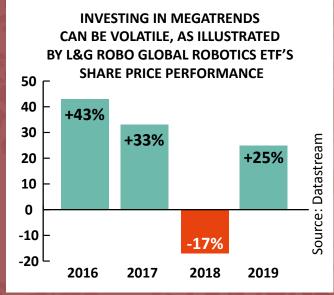
Two of the most popular thematic ETFs, both of which hold companies set firmly to benefit from various megatrends, are **L&G ROBO Global Robotics and Automation (ROBG)** and **iShares Automation & Robotics (RBOD)**.

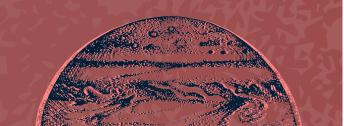
Last year the L&G ETF returned 25.3% while the iShares ETF returned 35.7%.

Robotics as a theme has gained traction for a number of years, but it's worth noting that while performance of many robotics funds was strong in 2019 the previous year was the opposite, a reminder that megatrends can still come with considerable volatility on the stock market.

Following strong gains in 2016 and 2017 as investors took more interest in robotics and artificial intelligence firms, 2018 saw a significant sell-off as the economic environment led some investors to shy away from backing capital-intensive companies as well as become nervous about highly-rated stocks.

Performance has bounced back as the market sees the potential of these firms in a changing world.





WHY IT PAYS TO HAVE A LONG-TERM FOCUS

While the share prices of companies set to benefit from such trends will still be affected in the shortterm by market noise and macroeconomic factors, the long-term expectation among investors is that these share prices will increase markedly over time irrespective of where we are in the economic cycle.

Certainly investment performance in 2019 has strengthened that view over some of these megatrends.

Past performance is no guarantee of future returns, as any investment literature will always tell you, but the performance of several thematic funds and ETFs over the past year has been stellar.

In water for example, an increasingly popular theme, **Lyxor World Water (WATL)** returned 29.8% last year.

While with shifting global spending power, **EMQQ Emerging Market Internet & Ecommerce** (**EMQQ**) returned 30.2% over the same period.

WHEN TO GET INVOLVED

Allianz Global Investors' head of thematic investing Andreas Fruschki says the two best entry points for investors to get involved are at the very beginning and also following a sell-off.

He explains: 'Stocks typically rally in these early years on the back of high expectations, which are then often followed by a sobering sell-off when things turn out to move much more slowly than originally thought.

'This then creates the second entry opportunity into the theme after the initial hype has passed, as the underlying trends which fuelled the theme will remain intact.'

We believe all the five megatrends featured in this article have gone beyond their initial hype stage and that now is a good time to buy.

KNOW WHAT'S UNDER THE BONNET

For some of these themes, it is important when doing research to fully consider what it is you're looking for.

When seeking to gain exposure to climate change and resource scarcity as a trend, for example, some of the options can be very wide-ranging.

Investing in a general sustainability fund casts a wide net and while some of the companies in the portfolio may have strong ESG criteria, they might not be the type of firms that immediately come to mind when tackling climate change. For

example, two of the top five holdings in **Rathbone Global Sustainability Fund (BDZVKD1)** are Visa and Microsoft.

Given how climate change combined with a rising global population has the potential to cause acute water shortages, investing in a water fund could be a more targeted way to approach the broader theme.

Such popularity for these themes is illustrated by Fidelity recently deciding to launch a UK version of its Sustainable Water and Waste fund. Water may not come across as the raciest investment idea, but the fund's Luxembourg-domiciled equivalent has taken in a whopping \$1bn of investors' money in little over a year since it launched.

'The story of water and waste is as old as the story of civilisation,' says the fund's manager Bertrand Lecourt.

'Just as there can be no economy without water, a sustainable economy relies on its approach to waste management. Yet despite this, companies in the sector remain relatively unexplored by investors and there are very few funds dedicated to this unique theme.'

WATER: A LOWER-RISK THEME?

According to Powell at iShares, water could appeal to investors with a lower-risk appetite who want to get on board with megatrends.

Instead of investing in high growth and capital intensive start-ups with dazzlingly innovative technology, money is instead invested into shares of water and sewage firms.

Holdings in exchange-traded fund iShares Global Water (IH2O) include large cap water and waste companies Pennon (PNN) and United Utilities (UU.), and though they may sound

"Climate change is putting challenges on the global water supply, while you also have a rapidly rising global population"

boring their share prices have risen around 50% and 30% respectively in the past year.

Powell explains: 'Water is potentially a lower risk theme as a lot of these funds invest in utilities, which are seen as a more bond-like equity, and can potentially protect on the downside.

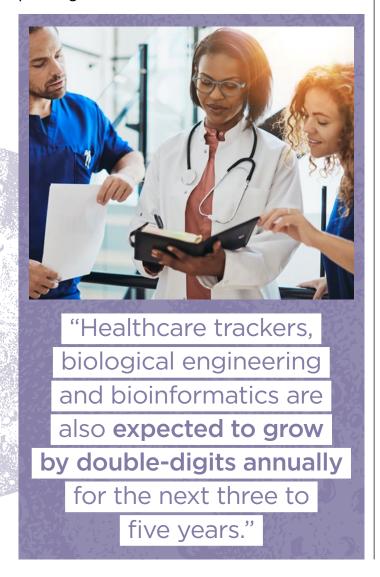
'The rationale behind water as a trend is that climate change is putting challenges on the global water supply, while you also have a rapidly rising global population.

'There's increasing demand while supply is being challenged, and utilities can be a key part of solving the problem.'

HEALTHCARE ATTRACTIONS

Powell also highlights healthcare as a long-term trend with tangible need for investment.

Between 10% and 11% of global GDP is spent on healthcare, a figure which is estimated to double in the next 10 years as rapid urbanisation and a growing and ageing global population place a greater strain on health infrastructure.



It's important not to get carried away with investment stories, but certainly forecasts for various healthcare markets back up the sector's promise.

According to a white paper by ETF provider HANetf, the market for healthcare apps is expected to grow 29.3% a year to reach \$102.35bn by 2023.

Precision healthcare, i.e. customised practices and products tailored to the individual patient, is forecast to grow 11.2% a year out to 2026, while the market for medical robotics is set to grow 20.8% a year to reach \$24.6bn by 2025.

Healthcare trackers, biological engineering and bioinformatics (extracting knowledge from biological data) are also expected to grow by double-digits annually for the next three to five years.

Like a lot of investment themes, most of this growth is likely to come from emerging markets.

Health spending per capita from OECD nations (which excludes countries with rapid growth like China, India, Indonesia and Nigeria) will hit 10.2% of GDP by 2030, up from 8.8% in 2018.

WHICH INVESTMENT ROUTE SHOULD I TAKE?

There are plenty of options for investors to play the megatrends discussed in this article. Going for individual stocks can be an option, particularly if picking lower risk companies like utilities. But most of the opportunities come from sectors where specialist knowledge is needed to pick the winners, like healthcare innovation and robotics and automation.

As such, choosing a fund from an investment company that specialises in thematic investing or tracks a specific thematic index might be a better way to get exposure, as some firms set to benefit most from megatrends can be difficult for retail investors to access directly.

There are a number of broader funds and investment trusts for investors to choose from, but a lot of the thematic selection comes from ETFs.

According to Hector McNeil, co-CEO of HANetf, a key reason behind the wide range of thematic ETFs is index development, which has become 'significantly more creative and scalable'.

And like the ETFs which follow them, some of these indices have had a stellar run over the past year. For example, the MSCI World Information Technology index – followed by several technology and robotics ETFs - returned 41% in the past year.

OUR TOP PICKS FOR PLAYING THE FIVE MEGATRENDS

MEGATREND #1: RAPID URBANISATION

BUY Pictet Digital (B50P236) at £346.34

OUR FUTURE is set to be urban. More than half the population live in urban areas and 1.5m people around the world move to cities every week. This will be driven by three countries in particular - China, India and Nigeria.

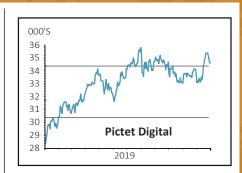
Big growth in people moving to cities poses big challenges,

Examples of other investment products relevant to this megatrend

BlackRock Future of Transport iShares Digital Security ETF Axa Framlington Robotech

with innovation in digital technology often labelled as a way to solve problems that come with urbanisation.

One of the funds that best capture this trend is Pictet Digital (B50P236), which invests in



companies like Chinese internet giants Baidu and Alibaba. It's not cheap with an ongoing cost of 1.2% a year, but has a consistently strong track record and has a five year annualised return of 17.6%.

MEGATREND #2: CLIMATE CHANGE AND RESOURCE SCARCITY

BUY WHEB Sustainability (B8HPRW4) at 233.34p

BUY Lyxor World Water (WATL) at £36.87

AVERAGE TEMPERATURES could rise by over two degrees Celsius, a threshold for potentially irreversible environmental change. While globally, by 2030 a growing population will demand 35% more food, 40% more water and 50% more energy, according to PwC.

Investors should look to back companies which can provide solutions to these challenges. That's where WHEB Sustainability Fund comes in. The well-regarded multi-themed fund has a strong track

Examples of other investment products relevant to this megatrend

> RobecoSAM Sustainable Water

Pictet Clean Energy

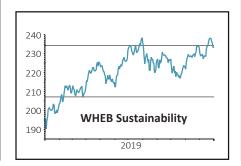
iShares Global Timber & Forestry ETF

iShares Agribusiness ETF

Sarasin Food & Agriculture **Opportunities**

record and delivered a 21% return in 2019 according to Morningstar data.

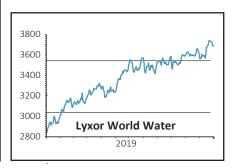
It invests mainly in mid-cap



companies in sectors such as resource efficiency, sustainable transport and water management. The fund has delivered an annualised return of 11% over the past five years.

An alternative investment idea for this megatrend is Lyxor World Water (WATL). Tracking a benchmark which follows the 30 largest water companies in the world, the exchange-traded fund returned 32% in 2019 and has a five-year annualised return of 13.4%.

At a total cost of 0.6% a year, it is considerably cheaper than many other water funds.



MEGATREND #3:SHIFT IN GLOBAL ECONOMIC POWER

BUY Robeco Global Consumer Trends (B1HNV38) at €260.14

DEVELOPING ECONOMIES have been lifted by globalisation and manufacturing shifting to Asia.

Emerging markets (EM) will continue to offer growth; to the extent that India could replace the US as the world's second largest economy by 2050.

EM economies today are predicted to represent six out of the seven largest economies by 2050.

Looking at structural growth trends in consumer spending across the world, both in developed and emerging markets, investment fund Robeco Global Consumer Trends (B1HNV38) has been a consistently strong performer.

The fund is focused on three areas: the digital consumer, growing consumer spending in emerging markets, and the appeal of strong brands.

It has a five-year annualised return of 13.9%, while in 2019 it delivered a total return of 36.8%.

Examples of other investment products relevant to this megatrend

iShares EM Consumer Growth ETF

WisdomTree EM Consumer Growth Fund

EMQQ Emerging Markets Internet & Ecommerce ETF

Fidelity China Consumer

iShares EM Infrastructure ETF

MEGATREND #4: DEMOGRAPHIC AND SOCIAL CHANGE

BUY iShares Healthcare Innovation (HEAL) at \$6.67

BY 2030 the world's population is projected to rise by over 1bn. People are also living longer and having fewer children.

iShares Healthcare Innovation (HEAL) invests in an index of developed and emerging market companies 'pushing the boundaries' in medical treatment and technology.

The ETF has a decent track record with a three year annualised return of 13.8%, and a significantly lower cost than some other relevant funds with a total expense ratio of 0.4% a year.





Examples of other investment products relevant to this megatrend

iShares Ageing Population ETF

L&G Healthcare Breakthrough ETF

BB Healthcare Trust

HANS-GINS Indxx Healthcare Innovation ETF

Assura

MEGATREND #5: TECHNOLOGICAL BREAKTHROUGH

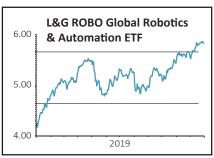
BUY L&G ROBO Global Robotics & Automation ETF (ROBG) at £12.72

BREAKTHROUGH
INNOVATION IS necessary to
address large-scale challenges
(such as ageing economies and
climate change), while new
solutions are also targeting
other challenges such as
payments.

As part of this megatrend, robotics and automation are crucial to improving corporate productivity. They can often perform many tasks more efficiently and to a higher and more consistent level of quality than humans.

A good way to play this theme is via L&G ROBO Global Robotics & Automation ETF (ROBG).





Why technology is not a bubble waiting to burst

Cloud computing, digital commerce and clever components are among the themes exciting tech experts

echnology fund managers are hopeful that 2020 will hammer the final nail in the coffin of the cycle of venture capital-backed 'unicorns' – billion dollar companies that have dominated headlines in the tech space in recent years, but largely failed to create any value for stock market investors.

This could ignite a welcome return of focus for business and investment fundamentals following multiple high profile IPO disasters.

Companies such as ride hailing firms Uber and Lyft, messaging companies Snap and Slack, exercise bikes firm Peloton and dentistry company SmileDirect have all seen their share price fall following initial hype, while there was the IPO 'that never was' with flexible office space provider WeWork.

This should spark renewed appetite for well-run, disciplined technology companies in spaces with genuine, long-term growth

TECHNOLOGY HAS SIGNIFICANTLY OUTPERFORMED THE GLOBAL STOCK MARKET MSCI WORLD IT (TECHNOLOGY) MSCI WORLD 150 2010 2012 2014 2016 2018

potential.

Some of the favourite subsectors with technology fund managers include the ongoing expansion of cloud computing and software-as-a-service (SaaS) business models, digital commerce, cyber security, nascent artificial intelligence (AI) applications, increasingly complex microprocessors and further adoption of robotics and automation into industrial and consumer sectors.

'Businesses do need to go public, but many cannot justify their valuations,' says William de Gale, the former BlackRock manager who is now running BlueBox Global Technology Fund.

'Companies just need to grow up,' de Gale says, before

'It seems very
likely that the
technology
industry will
continue to eat
the other sectors
alive.'

OUR TOP PICKS FOR INVESTING IN THE TECHNOLOGY SECTOR:

Allianz Technology Trust (ATT). Holdings include Microsoft, Facebook, Paycom Software and Teradyne

Liontrust Global Technology Fund (BYXZ5N7). Holdings include Microsoft, Fortinet, Amazon and RingCentral

Polar Technology Trust (PCT). Holdings include Alphabet, Alibaba, Tencent and TSMC



admitting that the failure of WeWork's IPO was 'one of my happiest moments'.

Walter Price, who runs the Morningstar five-star rated Allianz Technology Trust (ATT), confesses his own relief that the unicorn era is seemingly winding down, returning to a focus on 'fundamentals and making profit from growth'.

GROUNDED IN REAL RETURNS WORLD

It is easy to be seduced by visions of possible technology-infused futures. We've all seen the sci-fi films, where people travel in self-driving vehicles between super connected homes and workplaces while armies of domesticated robots are there to serve our every whim.

But while mining minerals on Mars might be the 'moon shots' that fire the imaginations of people like Elon Musk, Ray Kurzweil and other visionaries, most technology fund managers keep their feet rooted on firmly on solid ground.

'One of the hard things we do is concentrate on profit and growth,' says Allianz's Price, and with good reason.

'Without technology [companies], there has been no earnings progress for 10 years,' says Polar's Ben Rogoff. BlueBox Global's de Gale makes a similar point: 'All the operating profit growth from the S&P 500 over the last eight years is tech, there's been zero progress from anywhere else.'

WHAT'S EXCITING TECH INVESTORS?

De Gale favours semiconductors, saying they are 'at the bridge of digital and analogue worlds'.

The fund manager, who last year published his book *The Successful Technology Investor*, is a long-term shareholder in semiconductor manufacturer Texas Instruments. It makes power management integrated circuits to help devices that use batteries have a longer charging life and charge faster.

He says it is just the sort of 'dull but increasingly useful' technology that throws off huge amounts of cash over years for the company.

The semiconductor space is also popular with Allianz's Walter Price, as well as Ben Rogoff, who runs the Polar Capital Global Technology Fund (B42W4J8), the Polar Capital Automation & Artificial Intelligence Fund (BF0GL54) and the Polar Capital Technology Trust (PCT).

Companies like Taiwan Semiconductor, Advanced Micro Devices, Qualcomm and Samsung feature in their portfolios.

CLOUD COMPUTING ATTRACTIONS

Last year William Geffen, son of Neptune founder Robin Geffen, took over the **Liontrust Global Technology Fund (BYXZ5N7)** and he has found himself looking at Disney, certainly no traditional technology name, but the



company importantly owns its intellectual property and data.

'I believe this will allow Disney to go from a looselyconnected collection of film/ TV studios, merchandise shops and amusement parks into a fully cohesive, constructive and collaborative media company for the modern world,' he says.

Getting the most from its IP and data will mean leveraging cloud technology, its new TV streaming service Disney+ being a great example.

Netflix, the streaming market leader, would never have got off the ground without the cloud and superfast connectivity yet it emerged as a real threat to the entire traditional broadcast industry, now valued at £144bn and having created huge wealth for shareholders.

Jeremy Gleeson, who runs the AXA Framlington Global Technology Fund (B4W52V5), rejects the notion that Disney+ and Netflix cannot prosper sideby-side, believing that the market for streaming TV is large enough and diverse enough for both.

'A young family may well get Disney+, or those that want specific content like the Marvel or Star Wars franchises, but teens and younger millennials are likely to favour Netflix still,' says Gleeson.

But this is just scratching the surface of the cloud computing opportunity.

'20% of the world's computing today is in the cloud... it's going to 80% or 90%,' says Ben Rogoff. Polar's data sources suggest that by 2021, 44% of application workloads are expected to run in the cloud, while SaaS could be a \$325bn opportunity by 2022,



representing 25% of IT spending. UBS analysts see usage-based pricing disrupting a \$150bn IT maintenance market.

'The cost of computing is collapsing,' says Rogoff, as suppliers with huge investment firepower bring scale and processing power. This includes Amazon's hugely successful AWS, Microsoft's Azure AI and analytics muscle, and the fast growing cloud services being offered by Google parent Alphabet.

DISRUPTIVE TECHNOLOGY

'Artificial intelligence technologies will be the most disruptive class of technologies over the next 10 years due to radical computational power, near-endless amounts of data, and unprecedented advances in deep neural networks,' predicts research group Gartner.

If truly self-driving cars are to ever get on the road (probably still years away) they will require the combination of cloud-delivered AI and clever hardware. But the direction of travel is clear. 'Humans must be legislated off the road,' says Rogoff.

This brings additional opportunities for investors in

increased M&A as sub-sectors consolidate and thanks to security tailwinds from potential data breaches, regulation, digitalisation and cyber warfare.

'11% of our portfolio is in IT security,' says Allianz's Walter Price.

Rogoff says he looks first for excellent companies, then worries about the valuation. He comments that stocks can often look expensive but says some aren't when considered on a long-term view.

The impact of the underlying change involving technology is massive. It has only just got started and will continue for many years to come, concludes de Gale.

'It seems very likely that the technology industry will continue to eat the other sectors alive.'

Investors should therefore ensure they have some exposure to tech in their portfolio, otherwise they could miss out on significant money-making opportunities.



By **Steven Frazer** News Editor



Is there a liquidity problem in UK small cap?

James Henderson, Co-Fund Manager of Henderson Opportunities Trust, explains in this article why liquidity concerns around UK smaller companies may be exaggerated; and why a rally could be around the corner.

The smaller company investor faces a new problem following the fall out over Woodford's funds; this is the focus on liquidity. How long would it take to liquidate a position at the quoted price?

This is the question portfolio managers are being asked by their risk departments and business managers. The usual answer is to say if you do 20% of the average daily volume of a stock and divide that into the number of shares held we get an idea of how many days it should take to sell.

The problem with this answer is it does not necessarily reflect how the market for smaller companies works. The daily volume number is taken direct from figures published by the London Stock Exchange (LSE).

A trend in recent years has been for there to be more trades happening 'off market', in the so-called dark pools. It is estimated across the market as much as 40% of trades by value happen this way. Therefore, using just LSE volumes over-exaggerates the liquidity problem.

"Smaller companies are often tied more closely to the fortunes of the UK economy"



TOP HOLDINGS

Company	%
RWS Holdings	4.10
Tracsis	3.10
Blue Prism Group	3.00
Learning Technologies Group	2.80
Serica Energy	2.80
Oxford Instruments	2.70
Springfield Properties	2.40
Zoo Digital Group	2.40
Sigmaroc	2.30
HSBC Holdings	2.20

Currently, small cap trading volumes have been low as investors sit and watch macro-economic developments. Activity will pick up as confidence returns and the current problems with small cap investment will partially recede.

ADVANTAGE INVESTMENT TRUSTS

Mid-cap companies are not suffering the same problem, so takeover activity by larger established companies is likely to be a feature of 2020. However, the current concerns over liquidity are an opportunity for funds with a mandate to invest in genuine small companies.

It is closed-ended funds that are best suited to these mandates because they do not have to meet redemptions in the same way that open-ended funds do, meaning a trust will not





become a forced seller in times of stress. This is why the Henderson Opportunities Trust portfolio has more than 60% invested in AIM (alternative investment market) stocks.

The premium investors are paying for liquidity has expanded significantly. However, the earnings and dividend growth of large companies in comparison to the small companies is unlikely to justify this premium valuation.

Smaller companies are often tied more closely to the fortunes of the UK economy. The UK has been subdued as a result of the consumer drawing back and corporates putting spending plans on hold. These plans cannot be deferred indefinitely and a replacement cycle will start up with capital investment injecting momentum into economic growth.

Many UK small domestic companies have been focusing on cost-savings, so when sales growth increases on this disciplined low cost-base; operating profit margins will expand. The drop through of increased sales to profits usually surprises as an economy grows. The analyst upgrades will follow and this is the catalyst that will prompt investors to move money into UK shares in an unloved sector.



JAMES HENDERSON,
CO-FUND MANAGER OF
HENDERSON OPPORTUNITIES TRUST

GLOSSARY

Liquidity: The ability to buy or sell a particular security or asset in the market. Assets that can be easily traded in the market (without causing a major price move) are referred to as 'liquid'.

Mid-cap: A term used to describe medium-sized companies based on their market capitalisation.

Small-cap: A term used to describe companies with small market capitalisations.

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Five dangers to watch in 2020

Examining what could knock the market off course in the months ahead

ne of this column's favourite aphorisms from master investor Warren Buffett (and there are admittedly quite a few of those) is: 'speculation is most dangerous when it looks easiest'.

The strong returns offered by most asset classes in 2019 could tempt some investors to think making money is easy and yet American foreign policy in the Middle East means that equities are already off to a bumpy start this year.

Even if gold and oil are proving to be useful ports in the storm, it may just be worth considering what could derail stock markets in 2020, since portfolio construction should focus on risk and downside protection as much as it does reward.

FIVE AGAINST THE FIELD

Investors can doubtless think of others things that worry them but in this column's opinion any one of the following five developments would constitute a potentially nasty shock for stock markets after 2019's substantial gains:

1. US-China trade talks break down

One of the biggest sources of volatility has been the trade dispute between America and China. Hopes for a resolution – and a rolling back of tariffs - have grown, thanks to president Donald Trump's tweets that a 'phase one' deal will be struck by 15 January.

This leaves markets exposed to any delay or any moves by China to carry on regardless, especially on the vexed issue of its treatment of Western intellectual property. Data from the CPB in the Netherlands shows how global trade flows are slowing and industrial transportation equity indices are lagging (which is not normally a good sign), so an elongated disagreement between Washington and Beijing could be bad news.

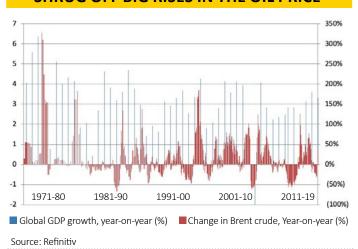


2. Oil prices spike

This one does not seem guite so fanciful after America's move to attack an Iranian general on Iraqi soil, as Brent crude is already nudging the \$70-a-barrel mark amid heightened tensions in the Middle East.

History shows that if oil jumps by more than 50% year-on-year the global economy tends to slow and if it doubles then a recession is rarely far away, because of the hit to consumer spending power and corporations' cost bases. The good news is that oil is basically flat on where it was a year ago and it would need to exceed \$90 to rise by 50% so markets still have some leeway.

THE GLOBAL ECONOMY FINDS IT HARD TO SHRUG OFF BIG RISES IN THE OIL PRICE



3. Corporate earnings disappoint

One oddity of the equity bull run has been how profit growth has been modest, even as share prices have surged.

America's S&P 500 may have advanced by more



than 20% last year but corporate earnings rose by just 4%, according to data from the Federal Reserve, whose numbers also suggest US private sector profits are not much higher than they were in 2012. The implication is that share buybacks and financial engineering have therefore done a lot to goose earnings per share numbers.

Aggregate earnings for the FTSE 100 were no lower in 2019 than they were in 2011, according to analysts' estimates. This means valuations (the 'P' in price-to-earnings or PE calculations) have risen faster than the 'E' and that could leave share prices looking exposed if earnings start to disappoint – because of something like a slump in trade or spike in oil.

EARNINGS GROWTH HAS BEEN SLUGGISH SO STOCK VALUATIONS HAVE HUGELY **RE-RATED AS INDICES HAVE RISEN**



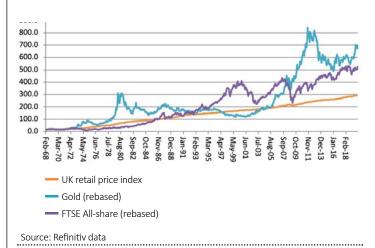
Source: Sharecast, company accounts, FRED - St. Louis Federal Reserve database, Standard & Poor's, consensus analysts' forecasts

4. Inflation

A low-growth, low-inflation, low-interest rate world has left investors scrabbling for yield and for returns better than cash for a decade, with equities a big winner as a result. Recent performance from bonds and equities alike suggests investors expect the next decade to offer more of the same so a spike in inflation could be big surprise.

Inflation would work against so many of the best strategies of the last 10 or even 30 years – bonds, long-duration assets such as tech stocks - and force investors to reassess. The last real inflationary period was the 1970s when gold protected investors' wealth in real terms and equities did not.

INFLATION LEFT INVESTORS WITH NEGATIVE REAL-TERM RETURNS FROM EQUITIES IN THE 1970S



5. Tighter monetary policy

Since falling rates helped to persuade investors to look beyond cash in 2019 this would perhaps be the biggest surprise of all (and it would probably be preceded by an unexpected surge in inflation, which could perhaps result from ultra-loose monetary policy combined with a relaxation of fiscal policy). The Fed turned on the taps again in 2019 and it seems to have helped so it will be interesting to see what happens when the US central bank stops intervening in the overnight repo market.

CONCLUSION

This is not to say that all, or any, of these dangers will come to pass but if any of them do then portfolios may need to be calibrated accordingly. At the very least, assuming what has worked for the last 10 years will provide a repeat performance in the 2020s could be dangerous and investors might like to ensure they have balanced, diversified portfolios which can protect them, and profit, from a range of scenarios and not just one.



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Getting to grips with the pensions lifetime allowance

How to get the most out of your retirement savings by understanding the tax rules



By Tom Selby AJ Bell Senior Analyst

he pensions lifetime allowance is becoming a concern for an increasing number of the UK population. Between 2010/11 and 2017/18 - the most recent data available the number of times savers were hit with charges for exceeding the lifetime allowance increased four-fold.

The total value of these charges, compiled by HMRC via accounting for tax returns, has risen from £37m at the start of the decade to £185m in 2017/18. The overall figure is likely to be higher as HMRC's published data doesn't include figures for those who pay the charge a different way, for example through self-assessment tax returns.

Government cuts to the lifetime allowance over the last 10 years have been partly responsible for this trend. Back in 2010/11, the lifetime allowance

stood at £1.8m. Roll forward to 2019/20 and that figure has been slashed to £1,055,000 – although it at least now rises annually in line with **Consumer Prices** Index (CPI) measure of inflation.

While a pension of just over £1m is clearly significant, a rising number of people - particularly those who started saving early, enjoy strong investment growth and/or have generous defined



benefit (DB) entitlements – are at risk of breaching the limit.

Understanding how the lifetime allowance works - and the various rules in place to help protect the value of your pot – is therefore more crucial than ever. This article will go through all the main points so you can get the most out of your retirement savings and understand the tax rules.

VALUING YOUR PENSIONS FOR THE LIFETIME ALLOWANCE

To begin, you need to figure out what your pension

or pensions are worth. If you have a defined

The lifetime allowance is the limit the Government has set for the value of funds that you can have across all your pension pots in total.

The current lifetime allowance is £1,055,000 and this figure will increase each tax year in line with consumer price inflation (CPI).

WHAT IS THE LIFETIME ALLOWANCE?

If you exceed the lifetime allowance, you can take the excess as a lump sum less tax of 55% or you can keep the excess within the pension fund and pay a tax charge of 25%. If you keep the excess in the fund you will pay income tax on it as normal when you withdraw it. If you have obtained some form of protection you will be able to protect more of your fund from these charges.

contribution (DC) pension, such as a workplace pension or a SIPP, valuing your pension for lifetime allowance purposes is straightforward – it's simply the amount held within your fund.

However, you should note that the amount of lifetime allowance you use will only be calculated when a 'benefit crystallisation event' occurs. We will cover these off in the next section.

If you have a

defined benefit (DB) pension which provides a guaranteed income for life, HMRC multiplies your guaranteed income entitlement by 20 to calculate how much lifetime allowance you have used up.

Any tax-free cash that is paid separate to the pension also has to be added in. Again this is only tested when a benefit crystallisation event occurs, but you can work out your potential lifetime allowance usage from the figures on your annual pension statements.

If you have both DB and DC pensions then you will need to add these together to determine whether you're at risk of hitting your lifetime limit.

TURNING YOUR PENSION INTO A RETIREMENT INCOME

HMRC will test how much lifetime allowance you have used when a benefit crystallisation event occurs. There are a number of such events you should familiarise yourself with.

- If you have a DC pension such as a SIPP, a lifetime allowance test will be applied when you turn your fund into an income.
- If you buy an annuity with a pot worth £100,000, for example, this amount will be tested against the lifetime allowance. The same applies if you commit the money to drawdown, take tax-free cash or an ad-hoc lump sum.
 - Any DB entitlement you have needs to be



multiplied by 20 to determine how much lifetime allowance you have used up. Any separate tax-free cash entitlement also needs to be added in.

To help illustrate the latter point, let's say your DB pension is worth £20,000 a year when you start receiving it. For the purposes of the lifetime allowance, you'd have used up £400,000 in 2019/20. If you don't have any other pensions and don't take any tax free cash, you can have a DB pension of just over £50,000 a year in 2019/20 without breaching the lifetime allowance.

An important point to remember is that whenever a lifetime allowance test is applied, you actually use up a percentage of the available allowance in that tax year, rather than a pounds and pence amount.

So in the above DB example you would have used up 37.91% of your lifetime allowance, whereas if in 2019/20 you committed £100,000 to drawdown, this would use up 9.47% of your lifetime allowance (i.e. £100,000/£1,055,000).

This is important because, as the value of the lifetime allowance changes with inflation, you always measure the remaining percentage of your own lifetime allowance against that value to work out what you have left available in pounds and pence.

REACHING AGE 75 IN DRAWDOWN

For those who enter drawdown, there will usually be two benefit crystallisation events: one when you put the money into drawdown, and again when you reach age 75. It's probably easiest to explain how this works with an example.

Take someone aged 64 with a £1m fund who decides to crystallise everything and enter drawdown, taking 25% as tax-free cash (£250,000) and using the remaining £750,000 to provide a retirement income. This would use 94.78% of their total lifetime allowance in 2019/20 (£1,000,000/£1,055,000).

If they take no more withdrawals but their remaining pot grows to £1.3m by their 75th birthday, the growth in the drawdown fund – £550,000 – would be tested against the lifetime allowance (£1.3m minus the £750,000 that was originally put into drawdown).

Assuming CPI inflation has increased at 2.5% a year, the lifetime allowance could be £1,385,000

by the time our saver reaches age 75. However, because they have already used some of their lifetime allowance, the remaining allowance is worth £72,297 (5.22% of £1,385,000) - this is an example of the point mentioned above about using the remaining percentage of your lifetime allowance when calculating the value of what you have left.

This shows how, even if your fund is worth less than the lifetime allowance at the first test, it could become subject to a charge when you reach age 75.

WHAT LEVEL OF LIFETIME ALLOWANCE **CHARGE WILL YOU PAY?**

If you breach the lifetime allowance, the level of charge you pay depends on what happens to the excess.

If you take the excess as a lump sum before age 75 it will be taxed at 55%. If you take the excess as income, or at the age 75 lifetime allowance test, it will be taxed at 25%.

So in the above example the excess at 75 is £477,703 (£550,000 minus £72,297) and the tax charge is £119,426 (25% multiplied by £477,703). The excess less the tax charge remains in the drawdown fund.

INDIVIDUAL PROTECTION 2016 AND FIXED PROTECTION 2016

Unfortunately, there aren't any tricks you can use to dodge the lifetime allowance – the age 75 test

> in particular ensures those who crystallise a pot just below the lifetime allowance and then enjoy strong investment growth are still at risk of paying a charge.

> > However, there are various protections that have been introduced since April 2006 which could mean your lifetime allowance is higher than £1,055,000.

There are only two types of protection you can still apply for: 'individual protection 2016' and 'fixed protection 2016'.

Individual protection 2016 was introduced when the lifetime allowance was lowered from £1.25m to £1m in 2016 and was designed to protect those who'd already built up a pension pot worth more than £1m.

• If you had pensions worth over £1m on 5 April 2016 you can apply to HMRC for individual protection 2016, giving you a personal lifetime allowance at that value, up to a maximum of £1.25m. So if you had pensions worth £1.2m on 5 April 2016, that's your protected lifetime allowance.

If you successfully apply for individual protection 2016 you can continue to make contributions to your pension or pensions, although as those contributions are likely to increase the excess over your protected lifetime allowance, you'll likely have to pay a tax charge in due course.

One reason you might want to keep paying into a pension when you're already above the lifetime allowance is if you're in a workplace scheme offering matched contributions. Even with the tax from a lifetime allowance charge, the 100% bonus of an employer match still represents a great return on your investment.

• Fixed protection 2016 allows you to lock into a lifetime allowance of £1.25m. Unlike individual protection 2016, the value of your pensions at 5 April 2016 didn't need to have been over £1m to qualify.

To keep fixed protection 2016 you are not allowed make any contributions or set up new pensions after 5 April 2016. You must also not have any other forms of protection other than individual protection 2014 (we'll cover this off in a moment).

It is possible to apply for both fixed protection 2016 and individual protection 2016 at the same time. This could act as a useful insurance policy if your fund falls in value below £1m, allowing you to revoke fixed protection 2016, retain individual protection 2016 and continue contributing.

HISTORIC PROTECTIONS AND HOW **THEY WORK**

The lifetime allowance has changed several times since April 2006 (sometimes referred to as 'A Day'), with each change creating a new protection regime.



If you have one of these protections it's important to understand how the rules governing them work, as a false step could leave you with a tax bill of hundreds of thousands of pounds. Note that you can no longer apply for these protections.

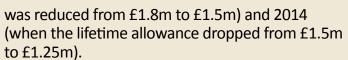
Back in April 2006 the first two types of protection were created: enhanced protection and primary protection.

- Enhanced protection (2006): If you have enhanced protection you will not be subject to a lifetime allowance charge when you come to take benefits from your pension no matter what they're worth. However, you must have stopped being an active member of all pension schemes – both DB and DC - no later than 5 April 2006.
- Primary protection (2006): Primary protection was available to individuals who had total pension savings – including any pensions in payment – worth over £1.5m at 5 April 2006. If you have primary protection you will be entitled to your own personal lifetime allowance determined by a 'lifetime allowance factor'. This should be shown on your lifetime allowance protection certificate (if you don't have this to hand speak to your adviser or contact HMRC).

To work out your personal lifetime allowance, multiply the higher of the standard lifetime allowance (i.e. £1,055,000 in 2019/20) and £1.8m by your lifetime allowance factor, then add this to £1.8m.

A key difference between primary protection and enhanced protection is that primary protection allows you to continue contributing to a pension or pensions.

• Fixed protection 2012 and 2014: There are two other types of fixed protection which you may have, created in 2012 (when the lifetime allowance



These worked in the same way as fixed protection 2016, with the key difference being that they allowed the individual to lock into a higher lifetime allowance (£1.8m for fixed protection 2012; £1.5m for fixed protection 2014).

• Individual protection 2014: To complete the protections picture, individual protection 2014 was created alongside fixed protection when the lifetime allowance was lowered from £1.5m to £1.25m.

Individual protection 2014 works in the same way as individual protection 2016, but instead gives you a protected lifetime allowance equal to the value of your pension savings at 5 April 2014.

BEWARE ACCIDENTAL PENSION CONTRIBUTIONS



If you have enhanced protection or any of the three forms of fixed

protection then you need to be careful of accidentally building up new pension rights. If you do this, your protection will be lost and you could face big tax charges on any excess.

Perhaps the biggest risk here lies in relation to automatic enrolment, the reform programme that means most people in employment are now enrolled into a workplace pension scheme.

If you have one of these forms of protection you will need to opt-out if you want to avoid losing it. Even if you do opt-out you'll need to be on your toes, as employers typically re-enrol eligible employees every three years.

Navigating the lifetime allowance is one of the most complicated areas of pensions, with all sorts of pitfalls which risk catching you out.

If you're at all unsure of how the rules work or simply don't have time to monitor your pension or pensions, it's worth considering paying a financial adviser who can provide personal recommendations based on your individual circumstances, or you could speak with Government-backed guidance service Pension Wise.







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SHARES

New fund offers way to invest in global farmland

The asset class has outperformed other areas in recent years

ebruary 2020 should see the stock market debut of the UK's first fund dedicated to agricultural assets around the world.

The Global Sustainable Farmland Income Trust aims to raise up to \$300m to buy and lease farmland in the US, Europe, Australia, New Zealand and Latin America.

While investing in farmland is an established market in other parts of the world, the lack of available land to buy in the UK where only 0.5% of farming assets change hands every year - has kept it out of the public eye and away from public exchanges, until now.

DEPTH OF EXPERIENCE

The managers of Global Sustainable Farmland Income Trust have several decades of experience of buying and leasing farming assets as well as insight into the latest agricultural technology or 'agri-tech' in order to manage the assets.

Farmland is traditionally familyowned, but there has always been strong demand for 'uncorrelated' assets like agricultural land from wealthy family offices, pension funds and sovereign wealth funds. Uncorrelated assets are those that do not perform in line with stock or bond markets (see here for our feature on alternative assets).

The investment trust will focus on buying farms valued



at between \$10m and \$50m. The market for agricultural land below \$10m tends to be driven by families wanting to expand their own holdings, meaning there is often stiff competition to buy, while the market for farming assets above \$50m is led by big investors like pension funds with deep pockets.

RISING YIELD AND ASSET VALUES

The fund managers of Global Sustainable Farmland Income Trust will concentrate on 'best-inclass' assets and work with 'bestin-class' farm managers who will run the day-to-day operations. The trust itself will take income in the form of base rents, which will increase annually on a fixed or index-linked basis and be passed on to shareholders as quarterly dividends.

The aim is to generate an initial dividend yield of 2.5% a year rising to 4.25% a year once all of the proceeds from the listing are deployed. In addition the trust may pay a special dividend from time to time linked to any cropshare income that it has received during the year.

Over the long term, total returns including increases in land values are expected to be in the range of 7% to 8%. However the trust will not buy farmland which is not productive just on the offchance that it will gain in value.

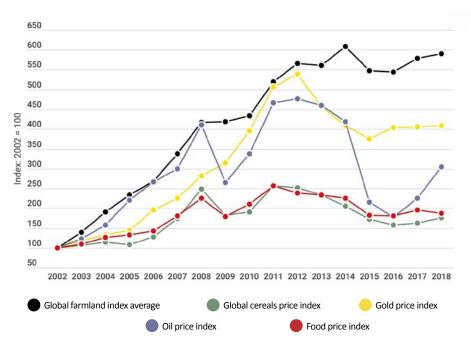
SUSTAINABILITY IS HIGH ON THE AGENDA

As Sven Miserey, co-manager of the fund explains, all of the farms acquired will already be producing



New farmland trust targeting income and capital gains

GLOBAL FARMLAND VALUES HAVE OUTPERFORMED OTHER ASSETS OVER TIME



 $Source: USDA, Eurostat, WTO, Kitco, OPEC, FAO \ and \ various \ other \ data \ sources/estimates \ \& \ Savills \ Research$

crops and will be fully let by the time they are acquired.

The majority will produce annual crops like fruit and vegetables while other land will be planted with trees or vines which do not need annual replanting.

The trust will deliberately avoid 'commoditised' land used for growing wheat or cereal crops where competition is high and prices tend to be low.

The farms will be run under the LEAF (Linking Environment and Farming) 'Integrated Farm Management' system or using equivalent sustainable farming aims and will be independently reviewed each year to ensure they 'reflect best practice and concern for the environment'.

This is not merely a nod to a the fashionable sustainability theme. If managers don't look after the topsoil using sustainable methods, the farmland won't be able to produce crops reliably in the future and its

value as an asset will diminish.

Meanwhile some of the target assets offer the potential to increase their value through better irrigation, planting new and higher-value crops or using new technologies to increase yields while still conforming to sustainability standards.

DIVERSIFICATION IS ALSO KEY

The trust aims to spread its investments geographically and by crop type so that it reduces the risk of major weather events affecting production.

As the majority of the assets are

Land could be turned over to solar or wind energy to maximise returns expected to be overseas, the trust will be priced in US dollars. Up to 75% of assets may be invested in the US, while up to 50% may be invested in Europe. The maximum UK exposure is set at 20%, although in reality it is likely to be significantly lower due to the lack of good land at reasonable prices.

The trust has already identified a pipeline of roughly \$1bn of assets which meet its criteria and expects to have invested most of the net proceeds of the flotation within 18 months. It aims to join the UK stock market on 28 February.

RISK FACTORS TO CONSIDER

The investment trust structure, with a fixed number of shares, suits the farmland space better than mutual funds as assets do not need to be sold to meet redemptions when investors want to withdraw their money. However, there are still risks associated with investing in farmland.

While the trust is designed to be diversified by geography and by crop type, there is still a risk that climate change brings more severe weather and more frequent storms, damaging crop production.

There is also a risk that the tenants, who manage the farms, are unsuccessful in growing crops and don't cover their base rent. In that event the trust has a claim on the managers' other assets, but failing all else the land could be turned over to solar or wind energy to maximise returns.



By lan Conway Senior Reporter

The UK funds and trusts which have soared after the general election

We reveal the names which have rallied as investors regain their appetite for UKfocused investments

entiment towards UK stocks has dramatically improved since the December general election vote result, as evidenced by widespread gains among UKfocused funds and investment trusts.

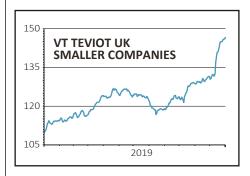
FE Fundinfo data mined by Shares shows the most obvious open-ended fund beneficiaries of the 'Boris Bounce' from across the IA UK Equity Income, IA UK All Companies and IA UK Smaller Companies sectors have been the constituents of the latter cohort.

Bestriding the performance leader board like a colossus is a fund that may not be familiar to our readers, namely VT



Teviot UK Smaller Companies (BF6X212), up 10.2% on a total return basis in the weeks since polling day. Managed by Scotland-based Valu-Trac, this diversified portfolio puts money to work with companies that

reside in the bottom 10% of the UK market by market value.



Our research highlights positive total returns have been generated by a slew of other dedicated small cap funds, among them M&G Smaller Companies (B75DFL8) and JPM UK Smaller Companies (3183500), while another flourishing fund is **Premier UK** Growth (3163922).

At last count, the Premier fund's biggest positions

UK-FOCUSED OPEN-ENDED FUNDS

Fund	Performance
VT Teviot UK Smaller Companies	10.2%
SVM UK Opportunities	10.1%
M&G Smaller Companies	9.7%
JPM UK Smaller Companies	9.3%
Premier UK Growth	9.3%
TB Saracen UK Alpha	9.2%
Merian UK Smaller Companies Focus	9.2%
Artemis UK Smaller Companies	9.1%
Threadneedle UK Smaller Companies	9.1%
BlackRock UK Smaller Companies	9.0%
Source: FE fundinfo. Data 12 Dec 2019 to 2 Jan 2020.	

11.0%

10.8%

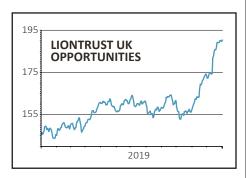
9.9%

9.9%

include Jet2 airline owner Dart (DTG:AIM), online fashion seller Boohoo (BOO:AIM) and German property investor Sirius Real Estate (SRE). It also has a stake in cash-rich Redrow (RDW), part of the housebuilding sector where investors have started to debate the potential for improved prospects amid more clarity on Brexit.

ROARING AHEAD

One fund that has enjoyed an 8.8% post-polls gain is **Liontrust** UK Opportunities (B8L76S5), a concentrated book of 30 holdings. Formerly Neptune UK Opportunities, this collective enables investors to access the small and mid-cap acumen of Mark Martin, who also manages Liontrust UK Mid Cap (B909H08).



Liontrust UK Opportunities' top 10 holdings include British engineer Bodycote (BOY), chemicals giant Elementis (ELM) and Consort Medical (CSRT), a contract development and manufacturing firm in the process of being taken over by Swedish outfit Recipharm.

DOMESTIC TRUSTS IN DEMAND

Many domestically-focused investment trusts had languished on stubbornly wide discounts to net asset values ahead of the

OK-FOCOSED INVESTIVIENT TRUSTS				
Trust	Performance			
JPMorgan Smaller Companies	18.5%			
Schroder UK Mid Cap	16.2%			
Standard Life UK Smaller Companies Trust	13.7%			
SVM UK Emerging Fund	13.5%			
Henderson Opportunities Trust	12.2%			
Henderson Smaller Companies	11.5%			

LIV EACHGED INVESTMENT TOLICT

Source: FE fundinfo. Data 12 Dec 2019 to 2 Jan 2020.

Montanaro UK Smaller Companies

British & American Investment Trust

Odyssean Investment Trust

Downing Strategic Micro-Cap

general election. That situation is now changing with many of them rallying strongly in recent weeks, delivering tasty returns for investors as well as closing the aforementioned NAV discounts.

Shareholders in trusts including the Harry Nimmomanaged Standard Life UK Smaller Companies (SLS), the Neil Hermon-steered **Henderson Smaller Companies**

(HSL), Montanaro UK Smaller Companies (MTU) and Downing Strategic Micro-Cap (DSM) have all benefited as the shares in these vehicles have shot higher as a result of investors bidding up UK stocks.

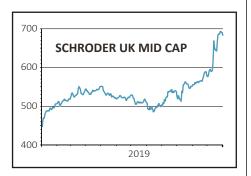
The top UK-focused investment trust performer since 12 December is JPMorgan Smaller Companies (JMI) with an 18.5% total return. Managers



FUNDS

Georgina Brittain and Katen Patel seek to own companies with a competitive edge, frequently operating in niche growth markets, which rather than being dependent on GDP, are forging their own growth. Porfolio holdings include fantasy miniatures maker Games Workshop (GAW), specialist media group Future (FUTR) and the scientific instruments maker Judges Scientific (JDG:AIM).

Hot on its heels since the election with a 16.2% gain is Schroder UK Mid Cap (SCP), with sentiment turning positive as the FTSE 250 index is perceived as a proxy for the UK's domestic economy.



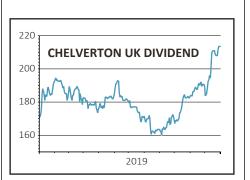
Managed by Andrew Brough and Jean Roche, this trust aims to provide a total return in excess of the FTSE 250 index and is invested in the likes of alternative asset manager Intermediate Capital (ICP), home repairs play HomeServe (HSV) and homewares market leader Dunelm (DNLM).

Another notable gainer since Boris Johnson bagged his comfortable working majority is the **SVM UK Emerging Fund** (SVM), a growth companies investor managed by Margaret Lawson and Colin McLean with a sectoral bias towards consumer services, financials and industrials.



EVEN INCOME FUNDS HAVE RALLIED

Income funds have been in vogue as well as value and growth-focused collectives. For example, Chelverton UK Dividend Trust (SDV) has been a strong performer on the market since the general election. This closed-ended fund had previously endured a prolonged period of poor sentiment towards the small cap dividend payers, regarded as 'value' stocks, in which it invests.



Managers David Horner and David Taylor say the election result should for the first time since the Brexit referendum enable the companies in the fund's portfolio 'to do what they do best – i.e. invest for the future as there is no doubt that Brexit uncertainty has held back corporate spending'.

Moreover, with the attraction of UK equities increasing, Horner and Taylor believe that we could see more takeover interest in UK companies from both overseas competitors and private equity. They also believe more companies will now list on the UK stock market, ending a long dry spell for London-listed IPOs.

DISCLAIMER: SVM UK Emerging Fund referenced in this article has a stake in AJ Bell, the owner and publisher of Shares. The author James Crux and editor Daniel Coatsworth own shares in AJ Bell.



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

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The seven major changes that could impact your wallet in 2020

From tax changes to bank charges, this article explains the key developments that could make you richer or poorer

new year brings with it a raft of changes to your personal finances, so what has 2020 got in store for your money and will it make you richer or poorer?

1. INHERITANCE TAX BREAKS **GET MORE GENEROUS**

From April 2020 everyone will be able to leave more money as part of their estate before they have to pay inheritance tax. New rules in April 2017 saw anyone with residential property given an extra inheritance tax-free allowance, called the residence nil rate band, and the limit has gradually been increasing each year. From April 2020 it will go up one final time to £175,000 per person.

This means that including the standard nil rate band of £325,000 per person, a couple can leave a property worth £1m entirely inheritance tax free. The property must be left to a child, grandchild, or step versions. Those with very large estates won't get the full amount, as anyone with an estate valued at more than £2m will lose the allowance by £1 for every £2 they are over this limit.



2. RAIL FARES INCREASE **BY 2.7% IN JANUARY**

Commuters have already seen another hike in their train costs. as rail fares went up by 2.7% at the start of January 2020. The increase is far ahead of the current CPI measure of inflation. which was 1.5% in November. Someone commuting from Tunbridge Wells to London including tube travel will now pay £5,664 a year while a season ticket from St Albans to London, with a travelcard, will rise to

You could make use of your employer's season ticket loan scheme to cut the cost. Alternatively, put the season ticket on a 0% interest credit

card to spread the cost across 12 months, meaning you don't have to start the new year by forking out thousands of pounds in one go.

3. BROADBAND PRICES **GET CHEAPER**

Ofcom has intervened to get a better deal for those who don't shop around for broadband. Providers have pledged to cap rates for those out of contract and stop preferential rates being offered to just new customers.

What you'll be offered depends on your provider, but will all be in place by March 2020. After February, providers will also have to warn customers if they are out of contract. While

these changes will save you money, you'll still save more by switching to a better deal once your contract ends. Or if that's too much hassle then call your current provider and haggle over the cost.

4. OVERDRAFT FEES WILL BE EASIER TO UNDERSTAND

From April banks won't be able to charge more for unauthorised overdrafts than for arranged ones, which is good news for anyone who accidentally slips into the red.

The regulator has brought in the changes after discovering that in some cases overdraft fees can be 10 times higher than payday loans.

Banks will have to make their fees clearer, putting them in one annual interest rate, and won't be able to charge fixed fees, per day or month, for going into your overdraft. The Financial Conduct Authority thinks the move will mean that someone with £100 in an unarranged overdraft will go from paying £5 a day to just 20p a day.

If you are in your overdraft you should check how much you're being charged and see if there is cheaper credit available.

5. LANDLORDS FACE MORE TAX HIKES

Landlords will see another hike in taxes from April 2020, as tax breaks are ratcheted down again. The Government has gradually been reducing the amount of mortgage interest landlords can use to offset against their income over a four-year period, and this year is the final year.

It was cut in 2019 so that only 25% of their mortgage costs could be set again profits, but that falls again in April so that none of the costs can be offset. Instead buyto-let investors will get a basic rate tax relief reduction at 20%.

The move only affects higher or additional-rate taxpayers, although the move itself will push some landlords from the basic-rate tax bracket into the higher-rate bracket. As an example, a higher-rate taxpayer landlord who gets £1,000 a month in rent and has mortgage costs of £600 a month would have paid £1,920 in tax pre-2017, but will now pay £3,360 in tax from April.

6. STUDENT LOAN REPAYMENTS FALL

Graduates will get a small boost from April, as the amount you can earn before starting to repay your student loan will increase from £25,725 to £26,575, a rise of 3.3%.

For those over this limit, you repay your loan at a rate of 9% above this figure. Meanwhile those on a Plan 1 loan – so those who went to university between 1998 and 2011 – will see their threshold rise from £18,935 a year to £19,390.

7. SECOND HOMEOWNERS FACE HIGHER TAXES

Anyone who has rented out their home after moving out, rather than selling it immediately, will face a higher tax hit next year. The Government has made three big changes to how the tax works when you come to sell this property.

Firstly, many sellers will lose the 'lettings relief' tax break, affecting how much capital gains tax you pay when you sell the property. Currently you get capital gains tax relief up to £40,000 per person (so £80,000 per couple) if you let out a property that was your home, but from April 2020 this relief will only apply to landlords who are actually living in the property with their tenants.

The next big change is to private residence relief, which currently means that any increase in the property's value during the final 18 months that you own a property is not counted for capital gains tax purposes. However, from April that will be limited to nine months.

The third change is that you will have to pay up for any capital gains tax you owe much more rapidly. Currently you just have to pay this bill by the end of the January in the following tax year, but from April you have just 30 days to pay the tax due on any gains from the sale of UK residential property.

There's little landlords can do about these changes, other than be aware of them. The changes apply to sales after April 2020, so if you're currently selling your property or planning to early next year, you might want to think about completing before the deadline.



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

KEY

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15 January: Knights Group. 16 January: TheWorks.co.uk.

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10 January: JD Sports, Robert Walters. 13 January: XP Power. 14 January: Boohoo, Taylor Wimpey. 15 January: Persimmon, Revolution Bars, Ten Entertainment. 16 January: Whitbread.

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