STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

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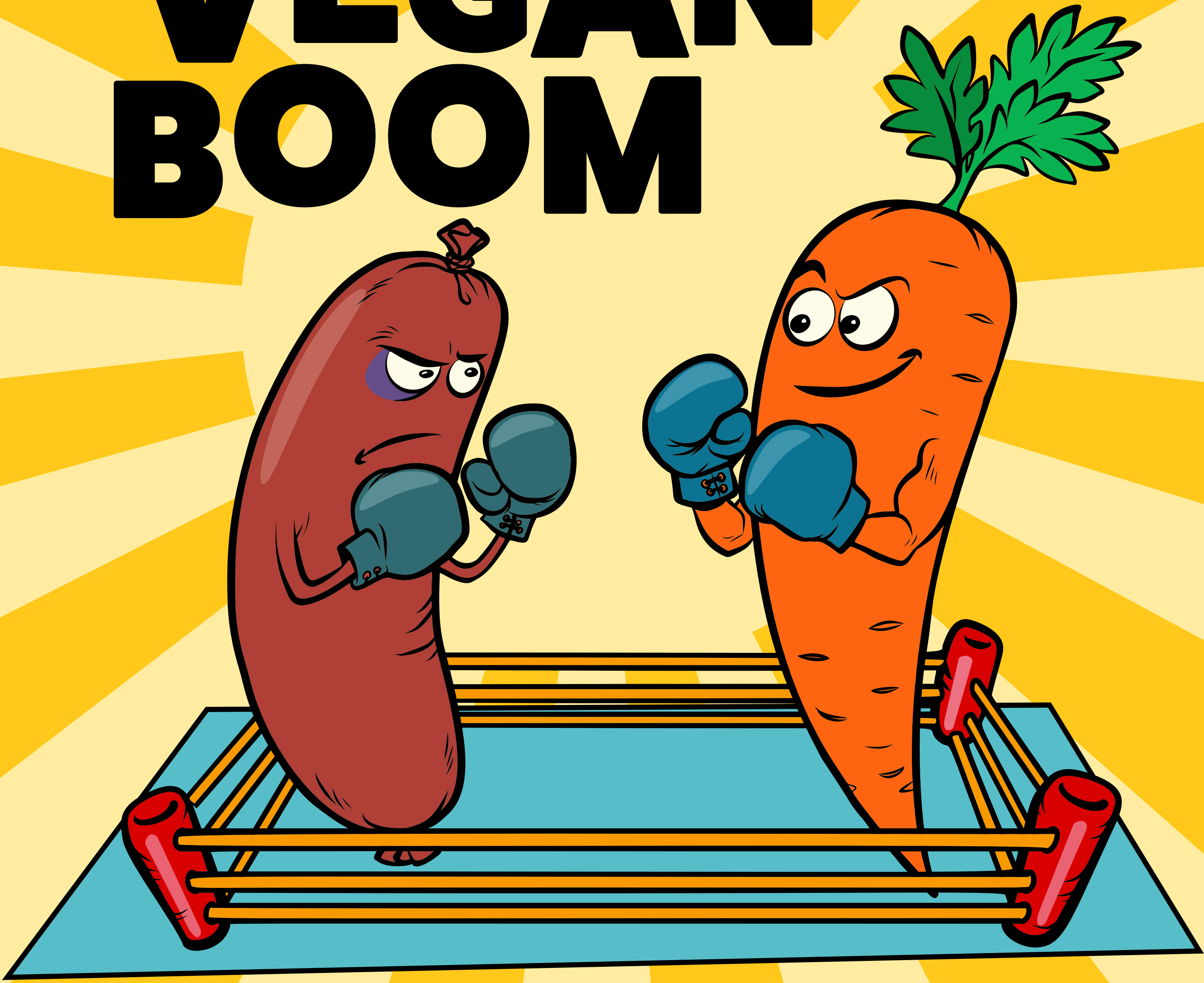
VEGAN BOOM



4 stocks with the right ingredients

PLUS

HOW MUCH MONEY WILL YOU **NEED IN RETIREMENT?**

WHY THE 'LOWEST COST' ETFS **AREN'T ALWAYS THE CHEAPEST**

RETAIL SECTOR CHRISTMAS **WINNERS AND LOSERS**

Good news on the horizon for your cash savings

Why finding a better deal for your money may become a lot more straightforward

Proposals from the Financial Conduct Authority (FCA), a regulator, to simplify the easy access cash savings market are important on many levels.

The need to find the best deal on cash is often forgotten by investors, despite many people putting so much work into researching the best stock, fund or bond opportunities. It is just as important to get the best returns from cash as it is from other assets.

Cash should be a major part of your wealth strategy. Even though investments may dominate ISAs and SIPPs, particularly for people not yet in retirement, cash is still a major part of the wealth puzzle in that you need it for emergencies and also to take advantage of opportunities in the market.

You shouldn't let cash sit in accounts paying a pittance, particularly as inflation can eat away at your real returns. That means looking around for the best deals which could become a lot easier in the future if the FCA's proposal is actioned.

The FCA has proposed that banks and building societies have a single rate for easy access cash savings accounts after an initial 12-month period. It means that long-standing customers will have the same rate as those coming off an introductory rate. In essence, it will mean that savings providers won't be able to gradually reduce interest rates over time.

This should make it easier for savers to compare their current deal with the rest of the market.

Ahead of an update from the FCA later this year it is worth pointing out some developments in the market which involve financial services companies offering cash switching accounts.

For example, asset manager Octopus has a service whereby you deposit cash and it will find some of the best savings rates on the market. At the end of the savings term you'll automatically be offered its best available rate from a range of partners. We expect more companies to launch similar services in 2020.

At the time of writing the pound had started to fall in value as the market weighs up the prospect of the Bank of England potentially cutting interest rates to help stimulate the UK economy. Such action makes it even more important to shop around now to find the best possible deal for your cash before savings rates are cut further to the bone.

Higher rates can be found if you're happy to lock up your cash for longer periods. Just remember that a wise wealth strategy involves keeping some cash ready for immediate access to deal with emergencies like a broken boiler, so don't put everything in a one-year or longer fixed-term savings account when the cash cannot be accessed before the end of the term.

As for anyone investing in the banking sector, it doesn't seem like you need to be too worried about the FCA's proposal creating substantial extra costs for the industry. Broker Shore Capital believes the impact will be 'relatively small' in the context of banks' revenue bases and therefore it is a marginal rather than a material headwind.

By **Daniel Coatsworth** Editor

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Can the Christmas retail losers' problems be fixed?

We look at how the listed retailers fared over the festive period

The kindest description you could give the post-Christmas trading updates from the retail sector would be 'mixed'.

Some companies excelled, such as **Next (NXT)** maintaining its recent sales growth momentum, but others had a much harder time.

Next's strong online sales and the robust sales growth at purely web-faced fashion firm **Boohoo (BOO:AIM)** suggests the internet continues to take business from the traditional high street, where the general trend was a fairly disappointing build-up to Christmas with lots of price cuts to draw in shoppers.

High street fashion brand **Superdry (SDRY)**, which reported its festive trading on 10 January, appears to have been a victim of chief executive Julian Dunkerton's decision to avoid price cutting. The result of a poor Christmas trading period was that profit for the current financial year could be wiped out entirely.

A company shouldn't be judged on one trading period but Dunkerton is now around nine months into his comeback at the company and he will be under increasing pressure to demonstrate his attempts to boost margins and restore brand integrity are gaining traction.

Either, as Dunkerton argues, the brand has suffered thanks to too much discounting and/or some poor recent collections or its faux-Japanese products have lost their cachet with shoppers. The answer to this question will determine if its recent struggles are a short-term blip or signs of a longer-term decline.

BEST PERFORMERS

	Stock	Share price rise year-to-date
	Safestyle	20.0%
	Boohoo	12.4%
	Frasers	10.5%

Source: AJ Bell, SharePad. Data 1 Jan to 14 Jan 2020.

HOME COMFORTS

Sales of homewares appeared to be a bright spot this Christmas – specialist **Dunelm (DNLM)** posted a 5% increase in like-for-like sales supported by strong online growth. While in an otherwise mixed update from discount chain **B&M (BME)** 'continued strength and outperformance across our Home Departments' was flagged.

LOST IN THE POST

Card Factory's (CARD) struggles look far from short term. On 9 January it reported a poor update with sales growth seemingly coming from new store openings rather than organically.

The real damage to the share price came from the decision not to pay a special dividend. The company arguably painted itself into a corner by paying special dividends in the past so regularly

WORST PERFORMERS

	Stock	Share price rise year-to-date
	Card Factory	-32.9%
	Joules	-23.5%
	Superdry	-18.9%

Source: AJ Bell, SharePad. Data 1 Jan to 14 Jan 2020.

that investors got used to them.

If sales continue to falter then the ordinary dividend could eventually hit the chopping block.

Selling gift cards and wrapping paper cheaply has been a lucrative business but there seems a real risk that people just aren't sending as many cards as they used to and/or are resorting to online greeting cards.

RADICAL CHANGES NEEDED?

Another high street outfit struggling to stay relevant is **Marks & Spencer (MKS)**. The story told by its latest trading statement is not a new one. Food is doing fine but the clothing and home business is not. There have been several attempts to fix this part of the business going back more than a decade but to date nothing seems to have worked.

Liberum suggests a possible, more radical solution: 'In our opinion, Clothing & Home needs help from third party brands if it is to grow again. Introducing third party brands, and therefore offering increased choice to the customer, has proven to be an excellent growth driver to competitors such as Next.

'Since November 2015, the number of brands listed on Next's website has increased 68% to 737. Over a similar period, revenue from these third party brands has increased 106% while profits from them have increased 186% (margins have increased from 12% to 17%).'

HOW DIFFERENT PARTS OF THE RETAIL SECTOR FARED

CLOTHING – BDO's high street sales tracker shows the two week build-up to Christmas was very disappointing for fashion sellers

HOME – the strongest category of growth according to BDO (fourth quarter +6.5%) supported by upbeat commentary from Dunelm and B&M

ELECTRICALS – Wasn't great at both John Lewis and Argos, with gaming in particular suffering. Mike Coupe, Sainsbury's CEO, said: 'The gaming market was down more than 35%, impacted by an absence of new product launches'

CARDS – Card Factory's like-for-like sales declined by high single digits in November and December, with the company blaming weak consumer sentiment. This resulted in a lowered profit outlook

TOYS – Weakness was flagged at both B&M and Sainsbury's which called the category down by double digits for a second year in a row

DIY – Q4 is a seasonally small quarter. Weakness at SIG looked company-specific while Topps Tiles noted an improved exit trend to the quarter

Source: Numis, Shares, BDO

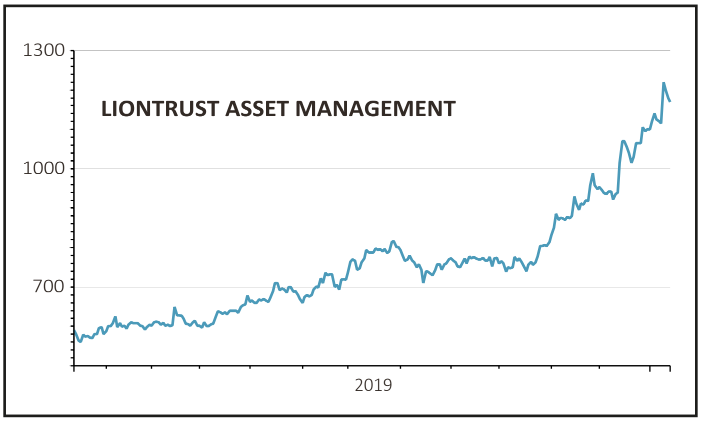
With the pressures on the rest of the business, the launch of a food delivery service with **Ocado (OCDO)** later in 2019 really needs to go smoothly for Marks.

Liontrust roars ahead on sustainable fund flows

Shares in the asset manager have hit a new all-time high

Shares in **Liontrust Asset Management (LIO)** jumped over 9% to a new all-time high of £12.20 last week after it revealed that net fund inflows had almost doubled in the nine months to 31 December compared with the same period a year ago.

Assets under management at the end of 2019 were £19.1bn compared with £11.2bn in 2018. Part of the increase was due to the acquisition of Neptune Asset Management in October, which brought in £2.7bn of assets, while the rest was due to the strong performance of its funds and a surge of new money.



Between April and December net inflows reached £2.2bn, almost twice as much as in the same period the previous year. Although the firm didn't specify which funds attracted the most cash, it did reveal that its Sustainable Investment team is now managing over £5bn of customer funds.

Chief executive John Ions says: 'While the retail market has primarily driven these sales, there is growing interest from institutional investors and we are optimistic about increasing flows from non-UK investors. As we enter a new decade, we anticipate the strong momentum behind sustainable investment at the end of the last year will accelerate.'

Debate over rate cut after weak GDP data

Policymakers are waiting to see if there was a post-election bounce before deciding whether to cut interest rates

A DEBATE HAS emerged over whether or not the Bank of England should cut interest rates after the economy grew by just 0.1% in the three months to November.

While this figure was slightly better than forecast, the economy shrank 0.3% month-on-month in November, below the flat rate predicted.

Bank of England officials are debating whether to cut the base rate of borrowing from 0.75% to 0.5% to boost spending and get the economy back on track, though data following the election will be key to any decision.

Five monetary policy committee members have hinted they would consider voting for a near-term rate cut. This includes external member Gertjan Vlieghe who told the *Financial Times* he would vote for a cut if data released later this month shows there was no economic bounce after the election.

Investors will therefore be keeping a close eye on manufacturing and services purchasing managers' index data on 24 January, as these could indicate where the economy headed in December.

John Hawksworth, chief economist at PwC, said it's 'too early to say for sure' if economic momentum will pick up in the New Year now the political situation is clearer.

But he added that PwC's latest financial services sector survey 'does suggest some boost to optimism' since the election.

Selling by insiders raises new questions for NMC Health

It's hard to marry the actions of major share sales and long-term support for the business

United Arab Emirates-based private healthcare provider **NMC Health (NMC)** faces mounting pressure amid short selling and as major shareholders ditch hundreds of millions of pounds worth of stock.

The business first came under fire from short seller Muddy Waters on 17 December when it published a dossier which accused the firm of overstating its asset values, cash and reported debt levels. The shares plunged as much as 42% at one point before recovering to close 27% down on the day.

One would normally expect a strong rebuttal of the claims and a management team expressing 'confidence' in the business by committing to buying shares at depressed levels.

However, in a dramatic turn of events the company's largest shareholder Saeed Mohamed Al Qebaisi has off loaded £375m worth of shares, while relative Khalifa Butti Al Muhairi sold shares worth £55.8m.

The company released a statement saying both shareholders remained supportive and long-term investors in the business.

However, the wording used, which explains that the motivation of the sale 'pertains only to the means of financing the investors' shareholdings' suggests that they had pledged their NMC shares against loans as a means of 'cashing-out' without formally selling shares.

This is supported by the announcement on 7 January that investment bank Credit Suisse had conducted an accelerated book-build to place $490m shares in NMC, owned by Saeed Mohamed Al Qebaisi and Khalifa Butti Al Muhairi, in order to reduce their indebtedness.

Institutional shareholders Capital Group and Goldman Sachs were two institutions that participated in the placing, increasing their shareholdings in NMC.

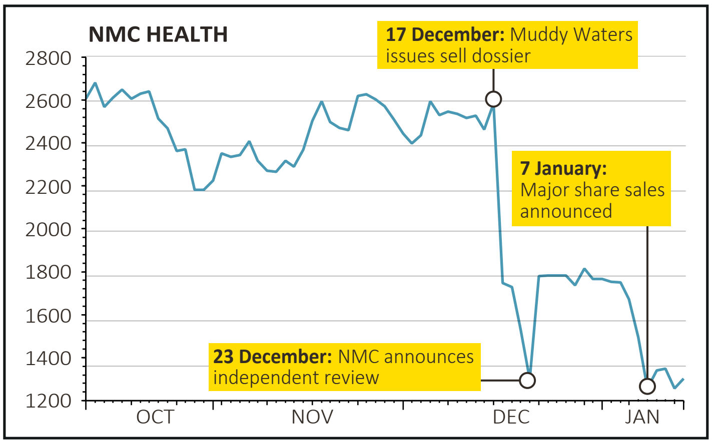
These recent events do not make for happy reading and raise more questions than answers for shareholders and onlookers alike.

It was all very different back in 2012 when the company floated in London at 210p per share. Spurred on by acquisitive growth, the shares quickly became one of the darlings of the market, reaching £40 in 2018, generating an 18-fold return for early investors.

Doubts first started to be raised by analysts and investors at the start of 2019 regarding the use of funding which wasn't recorded in the company's accounts. This is called off-balance sheet debt and while the company claimed that it made 'limited use' of this type of funding, investors took a less sanguine view.

However the current situation plays out, there are already a few lessons for investors to learn from this debacle. Extra scrutiny is required of companies operating in foreign lands, but quoted on the London market, especially if growth is driven by acquisitions funded by large amounts of debt.

And high and/or increasing executive pay combined with inadequate corporate governance should be treated as a significant red flag.



The value of takeovers on the AIM market increased by a third in 2019

Fintech and tech firms in demand as AIM takeover numbers outstrip Main Market

Accountant UHY Hacker Young reports that the value of takeovers of AIM-quoted companies jumped by 32% last year with appetite for fast-growing fintech, technology and financial services targets driving the increase.

It found that a large number of AIM takeovers in 2019 were driven by overseas acquirers snapping up valuable strategic acquisitions.

Last year saw the value of AIM takeovers increase from £2.18bn to £2.88bn. These included payment services play Earthport being picked off by Visa for £205m while mobile advertising provider RhythmOne was bought by rival Taptica, now known as **Tremor International (TRMR:AIM)**, for £225m.

However, the numbers were also boosted by a rebound in the value of oil and gas company M&A, which topped £1bn in 2019.

UHY Hacker Young's Laurence Sacker says the figures show AIM works well as an incubator of tech and fintech companies. 'Tech companies listed on AIM do attract supportive shareholders and allow founders and shareholders to exit at attractive valuations. There is no need for tech companies to stay private for them to achieve that.

'Acquisitive businesses worldwide are now much more aware of AIM's reputation as a growth platform for quality tech and fintech companies.'

In terms of takeover numbers, AIM actually outperformed London's Main Market. While the volume of M&A deals on the latter fell 18% to 18 transactions in 2019, AIM takeovers held steady at 27 in both 2019 and 2018.

FTSE 350 MOVERS OVER THE PAST WEEK

BEST PERFORMERS		
STOCK	**SHARE PRICE RISE**	**REASON**
Wizz Air	**13.0%**	Positive read-across from Ryanair update, analyst upgrades
Aston Martin Lagonda	**12.6%**	Reports of new funding/bid interest
Galliford Try	**10.3%**	Positive trading update following sale of housebuilding arm

WORST PERFORMERS		
STOCK	**SHARE PRICE FALL**	**REASON**
SIG	**-21.7%**	Reports lower than expected profit and slashes guidance
Elementis	**-13.6%**	Profit warning and stalled progress on debt reduction
Marks & Spencer	**-13.3%**	Worse than expected Christmas trading in Clothing & Home

Source: Shares, SharePad. Data to 14 Jan 2020

The signs are improving for Travis Perkins so buy now

There is positive read-across from a sector rival and from activity in the property market

Shares in builders' merchant and tool-hire firm **Travis Perkins (TPK)** had a bumpy ride last quarter thanks to negative sentiment in its sector caused by profit warnings from building supplies firm **SIG (SHI)** and a drop in UK housebuilding activity amid uncertainty over Brexit and the general election.

With the election out of the way and Brexit due to be formalised later this month, the housing market already seems to have recovered some of its poise.

Large sales that had been on hold have gone through and estate agent **Savills (SVS)** reported that improved buyer sentiment had led to a 'strong' finish to the year, which should lead to improved sentiment across the sector.

Rival builders' merchant **Grafton (GFTU)** also said trading at the end of 2019 was better than expected. All this activity suggests that Travis Perkins is well worth a look at the current price.

In the three months to the end of September, Travis reported like-for-like sales up 3.4% with notable contributions from the Toolstation equipment hire business and the Wickes retail business.

However the core direct-to-trade merchanting business reported flat like-for-like sales after accounting for a difference in trading days due to the tough market backdrop.

TRAVIS PERKINS
BUY
(TPK) £15.96
Stop loss: £11.17
Market value: £3.9bn

What growth there was, mainly in 'heavyside' categories, was down to price increases rather than higher volumes.

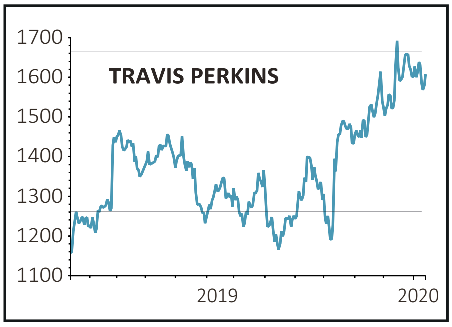
In December 2018, management announced a plan to cut costs, simplify the group and focus on its strengths in the direct-to-trade business by selling both the Wickes consumer-facing division and the wholesale plumbing and heating division. A buyer has now been found for the latter with Travis getting £46m in cash before working capital movements.

The cost-cutting programme is already bearing fruit and is expected to save between £20m and £30m of operating expenses by mid-2020.

Last month, new chief executive Nick Roberts confirmed that the Wickes demerger was on track for the second quarter of this year.

To say that the investment community is undecided on Travis is an understatement. Of the 20 analysts who cover the stock, 15 are firmly on the fence with a 'hold' recommendation according to Reuters. At the same time the consensus price target is £14.60 or more than 8% below the current share price.

With the fourth quarter trading update still to come there may be another wobble in the share price, but our feeling is that the firm is through the worst of the slowdown and is right-sizing itself to improve returns once construction spending and the housing market pick up.



Allianz Technology Trust is a must-have investment

Access the some of the world's most transformative and profitable companies with this London-listed trust

The world's turned a few times since Walter Price first started picking technology stocks and few fund managers know the changes, challenges and implications of the vast technological transition that is taking place across the globe than the senior fund manager of the **Allianz Technology Trust (ATT)**.

That makes this investment trust an excellent solution for retail investors who want a way in to the exciting profit potential that tech offers, but are scared off by the complexity and high ratings of many tech companies.

The trust has beaten its benchmark in both net asset value (NAV) and share price terms over one, three and five years, and the stock has increased nearly 250% in price since 2014.

Price and his team like to be close to the action which allows the trust to take a bottom-up, hands-on approach to stock selection, able to visit foundries or research and development sites, and speak directly to senior management frequently. That's a big help since retail investors simply don't get access to the top brass of the biggest and best tech companies in Silicon Valley, China or elsewhere.

Today innovation in technology is transforming virtually every industry. From electric cars loaded with

ALLIANZ TECHNOLOGY TRUST BUY
(ATT) £17.89
Stop loss: £14.31

Total assets: £629m

electronics to online shopping, how we consume entertainment using cloud computing to providing solutions to keep us safe from crooks and other internet threats.

WHY THIS TRUST STANDS OUT

One of the ways Allianz Technology Trust stands apart from other tech funds is that it has scope to drift further beyond its benchmark index than most. This means it can combine larger or smaller positions in some of the world's largest technology companies with outsized stakes in faster growing names, although it could also make the share price more volatile.

There are plenty of familiar tech names in the portfolio (Microsoft is its largest position right now), including Facebook, Apple, Tesla and Mastercard, while the likes of online payroll and human resources supplier Paycom Software, advanced testing business Teradyne and Ring Central, the digital communications firm may be less known in the UK.

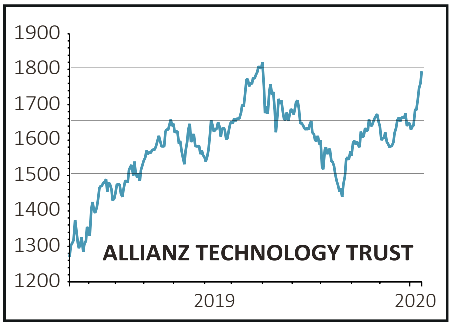
The discount to NAV has

Tesla Gigafactory

narrowed in 2020 reflecting the market's current appetite for technology investment options.

The average 3.4% discount tends to reflect the sometimes volatile nature of tech stocks, which is typically penalised by investors. But we believe there is scope for this trend to change as investors switch to companies most capable of delivering sustainable growth through any economic slowdown.

That could see the share price attain a decent premium to NAV over the next 12 to 18 months. The stock has previously traded close to a 6% premium to NAV. With very reasonable fees (ongoing charges are 0.48%), the Allianz Technology Trust is a very attractive option for UK investors looking for well-run tech exposure.



GAMES WORKSHOP
(GAW) £69.70

Gain to date: 21.6%
Original entry point:
Buy at £57.30, 21 November 2019

OUR POSITIVE CALL on fantasy miniatures firm **Games Workshop (GAW)** is off to a cracking start, with first half results (14 Jan) taking the shares to fresh highs.

For the six months to 1 December 2019, pre-tax profit rose 44% to £58.6m year-on-year as sales advanced 19% to £148.4m.

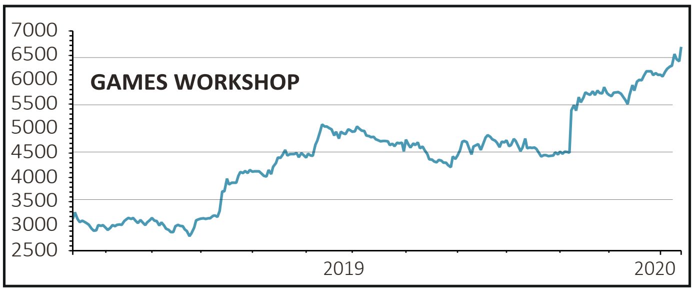
On a constant currency basis, sales were up by 16% to £145.6m. Trade, or sales through independent stockists, generated £76.1m, up from £61.4m; retail £45.3m, up from £42.6m; and online £24.2m, up from £21.2m.

Pre-Christmas trading was also flagged as being in line with expectations and, in a show of confidence, the dividend was hiked from 65p to 100p.

One of the reasons we are excited about Games Workshop is the licensing opportunity associated with its intellectual property. Encouragingly royalties increased by £5.2m to £10.7m during the period, although we are mindful that this income stream can be unpredictable.

The company continues to develop a TV series based on the Eisenhorn novels which are set in its Warhammer universe. We are pleased to see the company approaching this carefully.

SHARES SAYS: ↗
We still see significant potential, so keep buying.



REACH

(RCH) 143p

Gain to date: 45.8%

Original entry point:

Buy at 98.1p, 5 December 2019

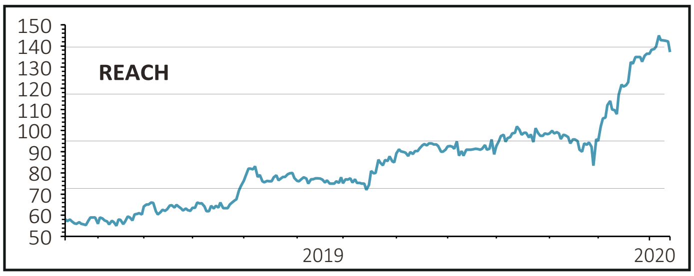
WE IDENTIFIED THE old Trinity Mirror Group, now called **Reach (RCH)**, as an outstanding value opportunity on 5 December 2019. Negative investor sentiment had resulted in the shares trading at a valuation that looked too pessimistic, especially with the improving balance between digital and print revenues.

Given the difficult industry backdrop we were prepared to be very patient for the fledgling signs of revenue stabilisation to have an impact on the share price. In rare cases, but less rare than we might suppose, value can in itself be a 'catalyst' and propel once nervous buyers and enriched sellers to revise their expectations.

There has been no news since our article on 5 December to justify the strong share price performance – up nearly 50% – but even after such an impressive move the stock remains one of the cheapest on the UK market.

Shares can understand why long-term investors may wish to stay the course in anticipation of more gains, but that will require the fundamentals to continue to improve.

Reach will announce its full-year results on 24 February. At the same time the senior management team will present their strategic plans for value creation.



SHARES SAYS:

A near-50% gain in such a short space of time is fantastic. However, we're going to lock in those profits while the going is good and sell out now.

JOULES

(JOUL:AIM) 178.5p

Stopped out

Original entry point:

Buy at 258p, 31 January 2019

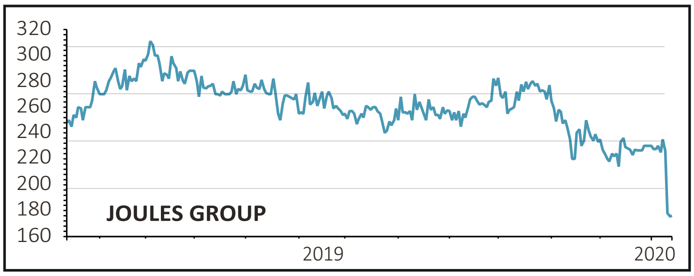
UNFORTUNATELY OUR BULLISH call on premium British lifestyle brand **Joules (JOUL:AIM)** hasn't worked out. A slump in the share price has triggered our 200p stop loss following a poor Christmas trading update.

The shares are now in the recovery ward following a warning that full year underlying pre-tax profit will be 'significantly below market expectations'.

While Joules delivered strong Black Friday sales, retail sales over the seven week festive period as a whole were 'significantly' behind expectations. Joules was unable to fully satisfy strong online demand during the Christmas sales due to 'an internally generated stock availability issue'.

A poor Christmas, plus new tariffs impacting the US business and added supply chain costs means full year profit will disappoint.

Liberum downgraded its year to May 2020 and 2021 pre-tax profit estimates by 37% and 20%, to £10.1m and £14.4m respectively.



SHARES SAYS:

Joules' profit warning appears self-inflicted rather than reflecting fundamental impairment of the brand. But we're very disappointed that this promising trade has turned sour. We want to see evidence that problems have been fixed before suggesting to buy the shares as a recovery trade.

Asset Value Investors (AVI) has managed the c. £1 bn AVI Global Trust since 1985. The strategy over that period has been to buy quality companies held through unconventional structures and trading at a discount; the strategy is global in scope and we believe that attractive risk-adjusted returns can be earned through detailed research with a long-term mind-set.

The companies we invest in include family-controlled holding companies, property companies, closed-end funds and, most recently, cash-rich Japanese companies. The approach is benchmark-agnostic, with no preference for a particular geography or sector.
AVI has a well-defined, robust investment philosophy in place to guide investment decisions. An emphasis is placed on three key factors: (1) companies with attractive assets, where there is potential for growth in value over time; (2) a sum-of-the-parts discount to a fair net asset value; and (3) an identifiable catalyst for value realisation. A concentrated portfolio of c. 25* investments allows for detailed, in-depth research which forms the cornerstone of our active approach.

Once an investment has been made, we seek to establish a good relationship with the managers, directors and, often, families behind the company. Our aim is to be a constructive, stable partner and to bring our expertise – garnered over three decades of investing in asset-backed companies–for the benefit of all.
AGT's long-term track record bears witness to the success of this approach, with a NAV total return well in excess of its benchmark. We believe that this strategy remains as appealing as ever, and continue to find plenty of exciting opportunities in which to deploy the trust's capital.

DISCOVER AGT AT WWW.AVIGLOBAL.CO.UK

*One investment is the Japan Special Situations basket of 15 Japanese stocks as at 31 December 2019.

Past performance should not be seen as an indication of future performance. The value of your investment may go down as well as up and you may not get back the full amount invested. Issued by Asset Value Investors Ltd who are authorised and regulated by the Financial Conduct Authority.

AVI
Asset Value Investors

Why growth could be a hard slog for Morrisons

The supermarket group faces a highly competitive market backdrop

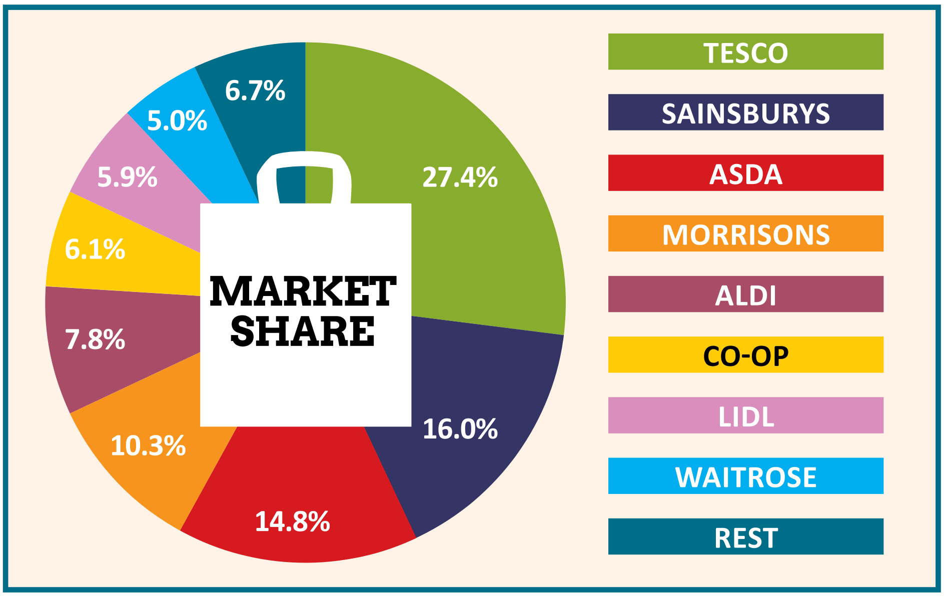
The UK's fourth-largest supermarket chain can proudly trace its roots back to 1899 when William Morrison first set up his stall trading eggs and butter in Bradford Market.

Today the business operates from almost 500 stores across the country, most of which it owns freehold, and turns over more than £17bn a year.

On 7 January **Morrisons (MRW)** reported like-for-like sales for the 22 weeks to 5 January 2020 down 1.7%.

As well as the retail business, which sells groceries and petrol and makes up the vast majority of sales, the group also has a wholesale business providing products to other retail and wholesale customers.

It is unique among the Big Four supermarkets in being 'vertically integrated', with half of the fresh food it sells either prepared at its own manufacturing sites or in-store. Morrisons even has its own abattoir so that it can manage the whole meat-producing process 'from field to fork'.



Source: Kantar Worldpanel. Market share by sales. 12 weeks to 29 Dec 2019.

RETAIL CHALLENGES

The tough conditions facing UK supermarkets are well known, and the rapid expansion of limited-assortment retailers such as Aldi and Lidl has only made life harder for smaller chains like Morrisons.

According to data from market research firm Kantar, in the last year Morrisons' UK grocery market share has shrunk from 10.6% to 10.3% while Aldi and Lidl's combined market share has gone from 12.4% to over 14%.

Four years ago the discount duo's combined share wasn't even 10%, but their relentless store-opening campaign has starved other retailers of growth.

If there is one saving grace for the supermarkets over the last year it's that prices have been rising steadily which has largely offset flat-to-falling volumes. As a result, total UK grocery sales in pounds have only shrunk in absolute terms once in the last 12 months so the 'pie' has remained fairly stable.

WHOLESALE OPPORTUNITIES

The wholesale business, which sells Morrison's products via Amazon and through petrol station forecourts thanks to deals with Harvest and Rontec, turned over more than £700m last year.

Given that group turnover was £17.7bn it is clearly a fledgling business but more deals with the forecourt firms and the nationwide roll-out of Amazon's Prime Now delivery service are driving growth, as is a deal with convenience store operator **McColl's (MCLS)**. At the half-year stage the firm said it was 'on track' for £1bn of annual wholesale revenues.

Whereas like-for-like sales at the core retail business rose just 1.5% in 2018/19, and growth was actually negative in the first half of the current financial year (-1.1%), wholesale like-for-likes were up by 3.3% last year and 1.3% in the first half of this year.

Sales at McColl's were below expectations in the most recent quarter but trial stores which have been converted to Morrisons Daily performed strongly and there are plans to extend the scheme to another 20 or more stores during January and February.

LOW GROWTH OUTLOOK

Selling groceries isn't a growth business, unless like the discounters you can keep rolling out new stores every month and taking market share from your rivals.

Nor is it a high-margin activity. Morrisons' operating margin has been 2.6% for the last couple of years although analysts have pencilled in an increase to 2.9% for the year to 31 January 2020 and 3% for the year after.

Even **Tesco (TESCO)**, the market leader with almost three times Morrisons' share, had sub-3% margins a couple of years ago but last year it managed to lift them to 3.5% and this year analysts are forecasting they will hit 4.5%.

	2018	2019	2020E	2021E
Sales	£17,262m	£17,735m	£17,744m	£18,079m
Operating Profits	£445m	£465m	£516m	£537m
Operating Margin	2.6%	2.6%	2.9%	3.0%
ROCE	5.5%	7.6%	8.6%	10.2%

ROCE = Return on Capital Employed. Note: Morrison's financial year ends in January. Source: Reuters, Shares magazine

LITTLE CHANCE OF A RE-RATING

At the current price of 192p the shares are trading on 14.5 times earnings for the current financial year and 13.8 times earnings for the year to January 2021.

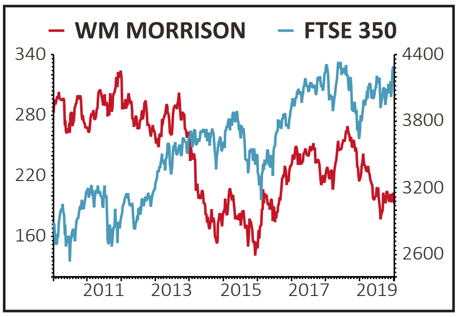
Shore Capital forecasts 7.34p normal dividend and 6p special dividend next financial year, equating to a 6.9% yield. While the normal dividend is covered less than one and a half times by earnings, the firm generates significant cash flow meaning there is little chance of the pay-out being cut.

However you get very little growth in revenue or earnings. According to Reuters, the consensus sees revenue for the year to January 2021 growing by 1.8% and for the year to January 2022 by 1.9%.

Reported earnings per share are seen growing by 4.8% and 7.9% respectively, but a lot of the profit increase depends on margin gains and cost savings. In such a competitive market the likelihood is that margin gains get reinvested in (lower) prices to keep customers coming through the doors instead of defecting to the discounters.

The balance sheet is solid enough, with net debt of around £2.3bn, while the property estate is predominantly freehold and the pension fund is in surplus to the tune of more than £750m. Capital expenditure is half what it was at its peak and is sustainable at current levels so there isn't much danger of a drain on capital.

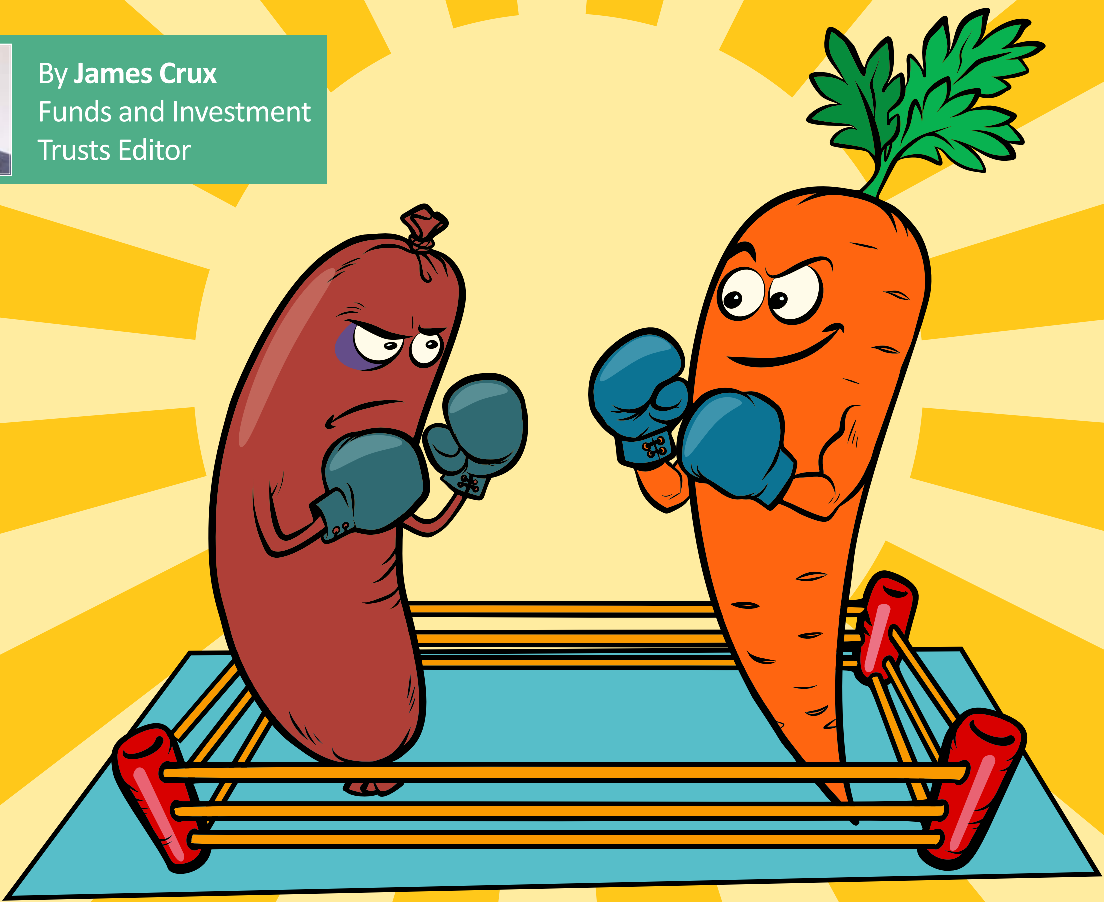
Our feeling is that Morrisons is the kind of stock that is best suited to investors who are looking for income as earnings are unlikely to explode upwards in the near future and therefore neither is the valuation.



By **Ian Conway**
Senior Reporter

VEGAN BOOM

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



4 stocks with the right ingredients

Although vegan diets have existed for thousands of years, practiced by many societies for religious and health reasons, veganism is now one of the fastest growing trends in the food industry.

Hundreds of thousands of people in the UK are taking part in this month's 'Veganuary' challenge in a bid to benefit health and well-being while simultaneously combating climate change.

Veganism's meteoric rise is also somewhat validated by the publicity surrounding **Greggs' (GRG)** vegan sausage roll, which proved nothing short of a marketing phenomenon and has kept the bakery retailer relevant in the minds of UK consumers.

The increasing numbers of people becoming vegetarians or adopting 'flexitarianism' – limiting animal-meat intake but not eschewing it completely – is driving demand for more plant-based food and drink.

The health benefits of eating more plant-based protein are becoming more widely known, as is the impact that practices such as mass factory farming have on the environment.

All these factors mean investors should take note of the companies capitalising on the vegan trend. However, the huge popularity of the movement means lots of businesses are trying to jump on the bandwagon so there is a lot of competition.

MEAT-FREE FRENZY

January is the traditional month of the year when gyms experience a boom in memberships or boozers attempt a 'Dry January', but increasingly it is the time of year when people try to stick to a vegan diet; avoiding all animal products including dairy, as well as products which are cooked with meat.

WHAT IS PLANT-BASED MEAT?

THE COMMERCIAL SUCCESS of plant-based meat takes aim at a $1.2trn global addressable animal meat industry. You might be familiar with the veggie burger, a meatless burger patty made from tofu, mushrooms, beans or other vegetables, but the term 'alternative meat' is a new phenomenon driven by two food technologies: plant-based meat and cell culture technology.

Through a processing technology known as extrusion, plant-based meat replicates the core structure of meat on a molecular level using proteins from plants – including peas, beans, lentils or other protein-rich plant substances – instead of animals.

Often processed in a way to taste like animal-based meat, plant-based meat products are already commercially available.

Cell culture technology is a process through which meat is grown from a small sample size of animal cells, similar to the technology used in regenerative medicine. While the first cultured burger was demonstrated in 2013, as yet no cell cultured meat products are commercially available.

The 'Veganuary' trend has entered the mainstream with the uptick in demand for vegan and vegetarian products being boosted by health-conscious and environmentally-aware millennials. Consumers are thinking more carefully about what they eat, where it comes from and how sustainable it is, and supermarkets are seeing demand for their meat-free and vegan ranges.

Fast-food outlets are getting in on the act too. KFC has launched a vegan burger in the UK, Caffe Nero has a 'veganero' menu featuring new products including vegan croissants and vegan sausage rolls, while The Co-op has launched a new vegan brand called Gro.

Burger King has launched 'The Rebel Whopper' made from soy and aimed at flexitarians, although it is not suitable for vegetarians because it is cooked on the same grill as the restaurant's beef burgers, and even McDonald's offers vegan options on the menus under its golden arches.

MEAT-ING THE CHALLENGE

Plant-based meat is often described as better for the environment than animal-based meat because its production uses fewer greenhouse gases. It also helps meet the challenge of resource scarcity because it requires less land and water to produce relative to animal-based meat.

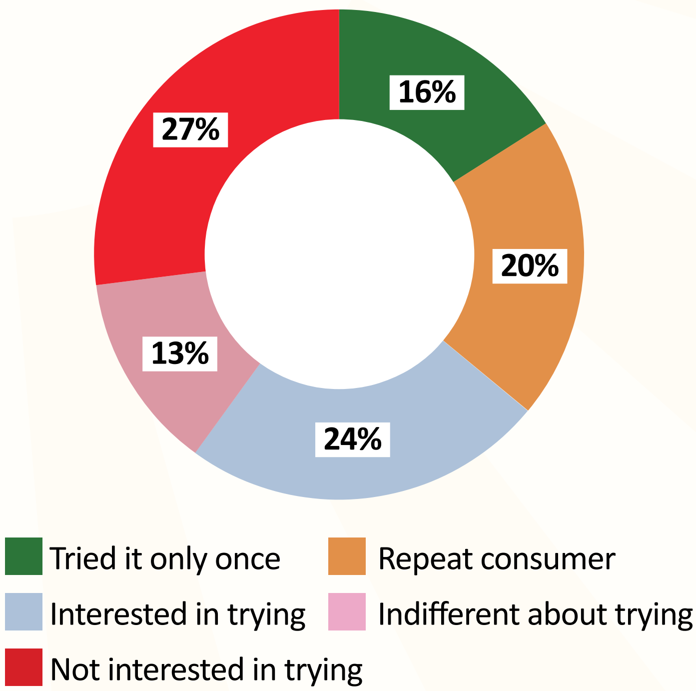
Then there are the health benefits of plant-based products, which have lower cholesterol than their animal-based meat counterparts.

According to the American Heart Association, consuming a primarily plant-based diet reduces your risk of heart failure by 42%, although plant-based meat products are sold at a premium to comparable animal-meat products in both the grocery retail and foodservice channels.

PLANTING THE FLAG

Investment bank UBS forecasts the global plant-based meat market will grow rapidly to roughly $50bn by 2025 for 2.5% penetration of total meat consumption volume, up from less than 1% today. And over the next five years, eating habits are expected to undergo profound change with implications for food producers, restaurants and retailers.

PLANT-BASED MEAT COULD REACH 3/4 OF THE POPULATION

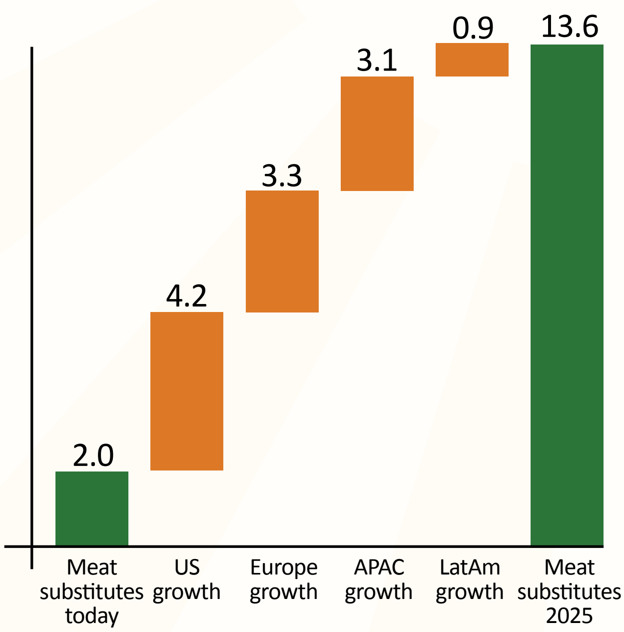


Source: UBS Evidence Lab

Growing awareness of plant-based meat among investors owes much to the stunningly successful stock market debut of **Beyond Meat** on the US NASDAQ market in May 2019. Famed for its 'Beyond Burger' that mimics the traditional ground beef burger, Beyond Meat was (at one point) one of 2019's biggest stock market success stories.

There was a feeding frenzy when it floated on the stock market with the stock initially jumping from its $25 IPO offer price by an incredible 163% to $65.75 and then topping $250 in July. Beyond Meat has lost sizzle since, settling back at $90.25 at the time of writing.

CONSUMPTION OF GLOBAL MEAT SUBSTITUTES (BILLION LBS)



Source: UBS Estimates, Euromonitor, Nielsen xAOC+C, USDA, Company presentations; Note: APAC meat substitutes exclude tofu products

UBS says that the plant-based meat opportunity brings a growing profit pool to pure plays like Beyond Meat and its privately-owned rival Impossible Foods, the producer of a soy-based burger with the taste, texture and artificial bleed of traditional animal meat.

NO FREE LUNCH

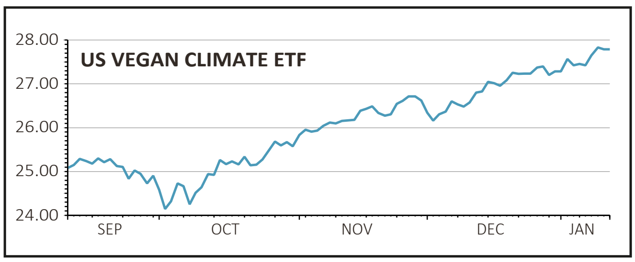
Like all hot trends, it is worth considering the risks if you want to get involved as an investor. Appetite for meat alternatives is ravenous right now, but it could slow in the future. For Beyond Meat, it relies on a few suppliers for its main ingredient, pea protein, while its success is attracting hot competition.

Incumbent meat producers and food giants aren't going to let disruptors like Beyond Meat and Impossible Foods eat their lunch. Major names are investing to enter the meatless meat category or the broader vegan and vegetarian foods market.

Tyson Foods has launched its own meatless products, Switzerland's Nestle acquired plant-based meat maker Sweet Earth in 2017, while Kellogg, Conagra Brands and Nomad Foods have all highlighted plant-based meat offerings and innovation plans to investors. French food group Danone, whose brands include soya milk maker Alpro, is delivering strong growth from its plant-based offering.

THE FIRST VEGAN-themed exchange-traded fund, **US Vegan Climate ETF**, has done well on the stock market since floating last year. Unfortunately the product is not currently available for UK investors.

It screens the market according to vegan and climate-conscious principles. The top holdings aren't the obvious food manufacturers or retailers; instead, you've got names like Microsoft and Apple which may come as a surprise to many investors.



EXAMPLES OF LONDON-LISTED STOCKS WITH A VEGAN ANGLE

- **Premier Foods (PFD)** has a new plant-based brand called Plantastic whose products include cake bars and dessert pots which use plant-based ingredients. Half-year results in November went down well with the market. Stockbroker Peel Hunt says: 'Premier Foods has been viewed as a zombie company for most of the past decade, constrained by its balance sheet and pension fund, and unable to invest sufficiently in marketing, new product development and assets. However, changes are afoot with a new senior management team combined with a business that is improving sales, profits and cash flow.'

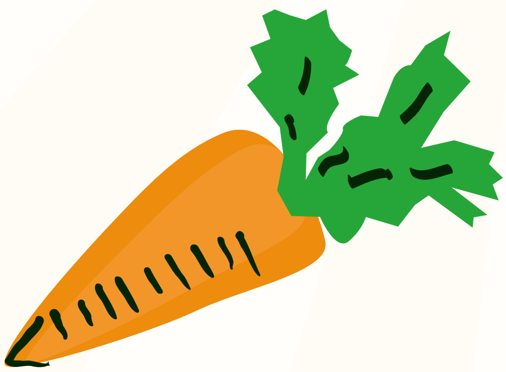
- **Unilever's (ULVR)** portfolio of food brands includes The Vegetarian Butcher and numerous vegetarian and vegan friendly offerings such as Hellmann's Vegan Mayo, Ben & Jerry's vegan ice cream and Knorr Vegan Mealmakers. Unilever has also outlined an interest in healthier plant-based products with a lower environmental impact, although UBS describes the FTSE 100 giant's steps in plant-based categories as 'incremental rather than projecting a more serious strategic shift'.

- Cosmetics supplier **Warpaint London's (W7L:AIM)** wares include the Very Vegan cosmetics brand.

- **Science in Sport (SIS:AIM)** makes a high-protein range of plant-based protein bars and powders under the PLANT20 name which caters for demand from vegan, vegetarian and clean-eating athletes along with the growing numbers of flexitarian and environment-conscious consumers. It also supplies a wide range of vegan products including the brand's GO Electrolyte powder, GO Energy powder, Hydro and GO Isotonic Energy gels.

Kraft Heinz's main meat-alternative brand is the BOCA Burger (one of the first veggie burgers), although this has lost market share since 2013. One challenge for the BOCA Burger is that today's alternative-meat craze is being driven not by vegetarians, but by flexitarians – meat devourers who occasionally buy alternative-protein products.

In order to appeal to these shoppers, Beyond Meat and other upstarts are convincing grocers to stock their products next to fresh-looking animal burgers in chilled-meat cases. In contrast, BOCA Burgers are frozen and sit in refrigerators with vegetarian and vegan products where meat-munchers might not think to look.



OTHER ISSUES TO WEIGH UP

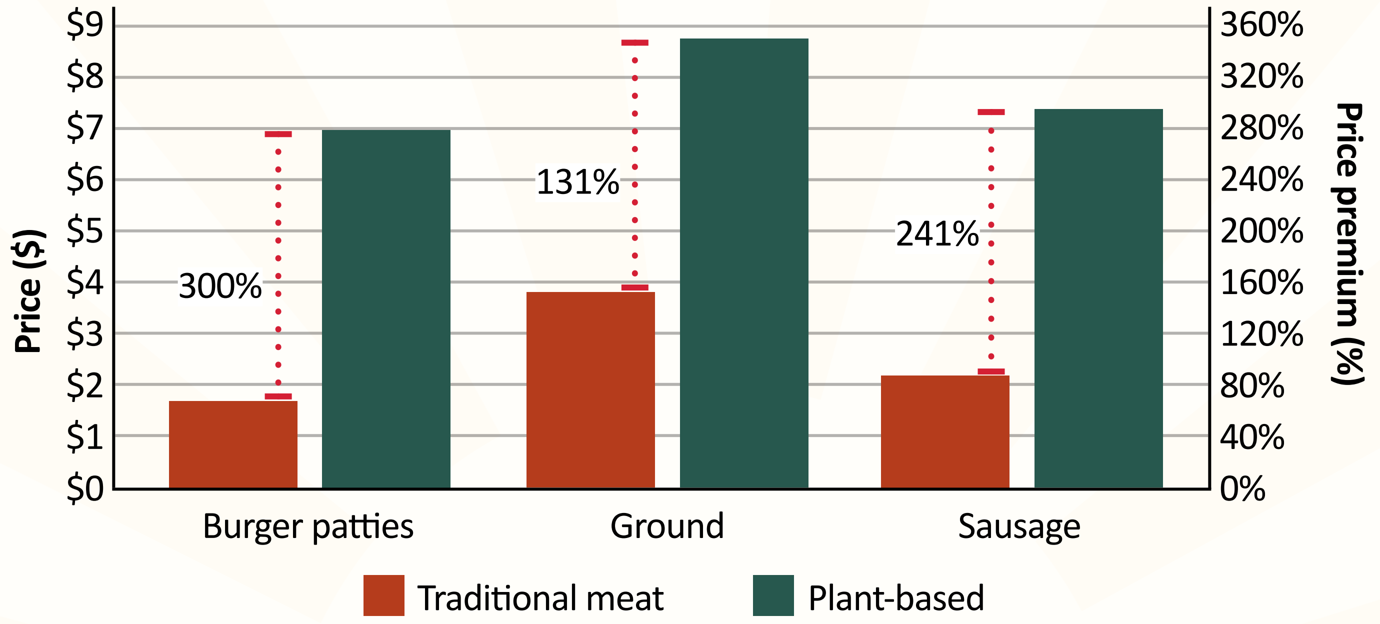
Another factor to consider is how certain raw materials are produced. Agne Rackauskaite, a senior research analyst at Impax Asset Management, comments: 'When evaluating investment in companies focused on meat alternatives, it is important for the investor to look at the environmental impact of the entire production cycle.

'For example, if we want to invest in a company growing fruit and veg, we conduct a detailed analysis, looking closely at the company portfolio, what they are growing and its impact.

'Almonds might score well on greenhouse gas emissions, but require a lot of water to grow while avocados can lead to deforestation and growing demand contributes to monoculture.

'As companies developing meat alternatives continue to scale, they will have to focus on supply chain – by 2050, there will be 9bn people in the world and the challenge is to have more high quality based proteins to feed everyone.'

PLANT-BASED PRODUCTS ARE PRICED AT A SIGNIFICANT PREMIUM TO TRADITIONAL ANIMAL PRODUCTS



Source: BCM estimates, Berenberg

MEAT PLAYERS GET IN ON THE ACT

Hilton Food (HFG), the global meat packing business, is benefiting from vegetarian and vegan products produced by Dalco, in which it has a 50% stake.

Having made its bones by packaging up red meat for retailers including **Tesco (TSCO)**, Hilton has moved with the times by investing in Holland's leading vegetarian product maker, enabling it to diversify into a further protein and expand significantly into the fast-growing vegetarian market.

From an investment perspective, you will have to pay close attention to see if the vegan movement results in a drop in meat-related business and whether there is enough plant-based activity to pick up the slack for Hilton.

There is a similar angle with pork-to-poultry supplier **Cranswick (CWK)** which acquired Mediterranean food products business Katsouris Brothers in a deal that further broadened its non-meat activities.

Supplying everything from Greek olives and olive oil to feta and chickpeas, Katsouris also has a presence in nuts and grains. This acquisition helped high-quality pig processor Cranswick to diversify away from meats and into plant-based categories, while strengthening its ties with major retailers.

FOUR WAYS TO INVEST IN THE VEGAN BOOM

SECURITIES TRUST OF SCOTLAND (STS) BUY AT 207.5P

We're a fan of the quarterly-dividend paying investment trust whose manager Mark Whitehead goes global in targeting companies that have strong ESG policies and sustainability practices that drive revenues, profitability and cash flows.

'These companies will most likely be aligned with a low carbon, equitable, healthy and safe society and reward shareholders with a growing dividend and strong total returns over the long term,' the Martin Currie money manager informs *Shares*.

'As investors we have a pivotal role to play in preventing climate change, and must act to prevent global warming by demanding that the companies we invest in are a force for good,' continues Whitehead.

'The increased amount of animal protein being produced is boosting greenhouse gas emissions that are contributing meaningfully to climate change. DSM estimates that livestock and fish production contribute to 14.5% of our world's greenhouse gas emissions, at a time when the world is demanding more meat and fish as populations swell and incomes rise, particularly in Asia.

'These factors are providing a tailwind for companies to be able to innovate and capture swelling demand for healthier and more sustainable plant-based alternatives to drive revenue growth.'

From the Securities Trust of Scotland portfolio, he cites Danone, International Flavours & Fragrances and DSM as three relevant companies harnessing the structural growth trend of people eating and using greater amounts of plant-based products.

Danone's acquisition of Whitewave in 2017 increased its plant-based product set. And its Alpro brand has been around a long time making plant-based food and drinks including soya, almond and oat milks as well as lactose-free 100% plant-based yoghurts.

As for International Flavors & Fragrances, it is pioneering technologies that support alternative and sustainable food sources without compromising taste.

SARASIN FOOD & AGRICULTURE OPPORTUNITIES (B77DTQ9). BUY AT 188.1P

One way to gain exposure to the vegan theme is through funds focused on ESG factors. Portfolio managers with ESG mandates are putting money to work in this area because veganism and vegetarianism offer solutions to ethical dilemmas such as climate change, animal cruelty, land degradation and human health.

Sarasin Food & Agriculture Opportunities, a fund managed by Henry Boucher and Jeneiv Shah, invests in Dutch-listed life science company Koninklijke DSM. It produces a ModuMax taste modulator which can be used in plant-based foods to help them taste better. It has also developed a livestock feed enzyme able to reduce methane emissions from dairy cows by about 30%. Another top holding in the fund is China Mengniu Dairy, currently enjoying success with its non-dairy range.

GREGGS (GRG). BUY AT £24.18

Perhaps the most obvious veganism play on the UK stock market is Greggs, whose strong festive sales were boosted by the ongoing, priceless publicity surrounding its now-iconic vegan-friendly sausage roll.

Greggs has added to its vegan-friendly range with the launch of the 'Vegan Steak Bake', which uses Quorn instead of meat with gravy made from vegan steak seasoning, onion powder, spice extracts, flavourings and water, as well as its first vegan doughnut.

Its initial vegan launch proved a marketing masterstroke and played a role in what proved a 'phenomenal' 2019 for the business, to quote chief executive Roger Whiteside, and the hype around new vegan launches could hold the key to further earnings upgrades. However, risk-averse investors should note the high-flying shares are now 'priced for perfection', according to Shore Capital analyst Darren Shirley, with a valuation that leaves no scope for disappointment.

Importantly for anyone considering an investment in Greggs, it seems clear that its vegan products have acted as a sustained catalyst to bring more people into its shops and that it wasn't a one-off fad.

Can Greggs' latest vegan offering hold the key to further earnings upgrades?

KERRY (KYGA). BUY AT €114.9

The complexities associated with shifting to plant-based products leaves London-listed Irish food producer Kerry well-placed to provide its technological capabilities into the supply chain, says UBS.

Stockbroker Davy also sees Kerry as a beneficiary of the vegan boom. It says first generation plant-based food options often lacked flavour but second generation options now hitting the shelves have more focus on the taste experience, thereby benefitting Kerry as an ingredients business. It can make plant-based burgers tasted beefier, less salty and have a less starchy taste.

Kerry also has a consumer foods business with brands such as Richmond, which last year launched its first meat-free sausage, as well as its first dedicated meat-free alternative brand called Naked Glory. The latter offers meat-free meatballs, burgers, mince and sausages containing a natural smoke extract.

SUSTAINABLE FINANCIAL RETURNS FOR LONG-TERM GROWTH

BLACKROCK INCOME AND GROWTH INVESTMENT TRUST PLC

ESG considerations are becoming more important for investors. Adam Avigdori, Co-Manager of the BlackRock Income and Growth Investment Trust plc, discusses how they draw ESG analysis into their investment process.

Adam Avigdori
Co-Manager
BlackRock Income and Growth Investment Trust plc

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. The investor may not get back the amount originally invested.

On the BlackRock Income and Growth Investment Trust, we are looking for companies that generate a high return on capital and can grow dividends over time. In order for companies to do this, they need to score highly on a range of financial factors, but non-financial factors are equally important to ensure those returns are sustainable. This is where our environmental, social and governance (ESG) analysis comes in.

This part of our analysis has always been important. However, as issues such as climate change come under greater scrutiny from policymakers, consumers and regulators, we are conscious that shareholders are becoming increasingly sensitive about owning any company that isn't actively managing the associated risks. However, we have always felt that considering ESG factors is the best way to manage businesses over the long term for all stakeholders.

EMBEDDED ESG

Whilst we have no direct ESG mandate, these factors have always been an integral part of our analysis. In our 1,000+ company meetings each year, we seek to understand how companies are performing, the industry dynamics they face, what differentiates them versus their competitors and importantly how sustainable this competitive position is, and therefore how it is likely to evolve over time. This research is complemented by our analysis of the ecosystem surrounding the company; understanding the company's relationships with its customers, regulators, suppliers, employees and shareholders.

We believe that companies that promote sustainable relationships with all their stakeholders are better positioned to mitigate risks and to sustain their financial returns over the long term. Our analysis of the ecosystem highlights both the risks as well as the opportunities facing companies over the long term.

We are particularly interested in the growing interdependencies between stakeholders as the focus on ESG increases. For example, a company may differentiate its products or services by reducing its environmental footprint. However, this can also differentiate the company as an employer and influence its ability to attract and retain talent as employees are increasingly responsive to companies' ESG practices. This in turn can influence the financial factors as well as influence other stakeholders such as the shareholders and the cost of capital.

BEYOND FINANCIAL FACTORS

As such, while analysis of financial factors such as its revenue growth, profitability, cash generation and allocation, the balance sheet and return on capital are vitally important, our analysis of ESG factors provides us with conviction that these returns are sustainable over the long term.

Within our environmental analysis, we consider companies that have low absolute and relative resource intensity and have a clear understanding of how they are using carbon and water. We like to see a company improving its resource efficiency and helping others to reduce their resource footprint.

Our analysis of social factors includes looking for a commitment to high and improving standards of health and safety. We want to see robust management of human resources – a living wage, a good working environment, BlackRock

plus an analysis of labour practices along the supply chain. Evidence of a sustainable relationship with both suppliers and customers is also vitally important for long term growth.

'Governance' involves understanding a company's risk management and mitigation processes, its relationship with regulators and its management remuneration strategy. We want to ensure that a company's capital allocation policies are supportive of its long-term strategy. Additionally, we look at the composition of the Board, including factors such as independence, diversity of tenure, experience, geography and gender.

TEAM SUPPORT

In undertaking this ESG analysis, we are supported by BlackRock's large internal team of ESG specialists. They provide us with data and insights to keep us well informed of sustainability considerations. Armed with the necessary data and tools, we can bring this information into our investment processes.

Additionally, BlackRock has a large Stewardship team. We partner with our colleagues in Stewardship to engage with companies regularly. We believe this engagement helps align companies' behaviours to maximise the potential for long-term shareholder value creation.

This trust aims to deliver long-term consistent growth in capital and income to our investors. We believe this analysis of ESG factors helps us deliver these dual goals for our shareholders. They are part and parcel of creating a sustainable business for the long term.

Unless otherwise stated all data is sourced from BlackRock as at November 2019.

For more information on this Trust and how to access the opportunities presented by the income and growth sector, please visit: www.blackrock.com/uk/brig

TO INVEST IN THIS TRUST CLICK HERE

Risk Warnings

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and basis of taxation may change from time to time.

Trust Specific Risks

Liquidity risk: The Fund's investments may have low liquidity which often causes the value of these investments to be less predictable. In extreme cases, the Fund may not be able to realise the investment at the latest market price or at a price considered fair.

Gearing risk: Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.

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The most and least popular stocks heading into 2020

Discover the names which analysts are either backing to go up or down in value this year

By **Russ Mould**
AJ Bell Investment Director

Although the UK's stock market underperformed those of Eastern Europe, the US and Western Europe in 2019, in sterling, total-return terms, few investors are likely to sniff at a total return of 19.2% from the FTSE 350 index. The FTSE 250 outpaced the FTSE 100 with a total return of 28.9% against 17.3%.

Better still, the headline indices were relatively calm, especially compared to the wild swings of the fourth quarter of 2018.

Yet for all of the positive headlines and lack of volatility, there was still huge dispersion between the best and worst performing stocks.

Ten members of the FTSE 100 generated a positive total return that exceeded 100% and the top five – **Future (FUTR)**, **Pets At Home (PETS)**, **JD Sports (JD.)**, **Galliford Try (GFRD)** and **Dunelm (DNLM)** – offered 125% of more, even though three were retailers and one was a magazine publisher, industries widely perceived to be in distress.

Only 40 of the FTSE 350 generated losses over the year but there were still some nasty accidents. The worst five performers – **Pearson (PSON)**, **IP Group (IPO)**, **NMC Health (NMC)**, **Aston Martin (AML)** and **Tullow Oil (TLW)** – all cost investors at least 30% of their investment.

This begs the question of how investors can find winners or avoid portfolio-damaging losers.

TOP OF THE POPS

One possible way to narrow down an index as big as the FTSE 350 is to identify which firms are most and least preferred in the research written by analysts at the leading investment banks and broking firms.

Granted, this is primarily intended for institutional investors but websites such as Sharecast and the Broker Forecasts section of *Shares*' own website provide a summary of how many analysts cover a stock and how many rate the stock a 'buy', 'hold' or 'sell'.

This column has back-tested the performance on the most and least popular stocks at the start of a year for the past several years and its conclusion remains that broker research needs to be treated with a degree of caution.

This is not to poke fun at the analysts. It just shows how hard picking individual stocks can be, even if it is your full-time job.

The good news, from the brokers' point of view, was that the FTSE 100 stocks with the greatest

BROKERS' TOP FTSE 100 PICKS BEAT THE INDEX IN 2019 (BUT SO DID THE NAMES THEY LIKED LEAST)

	% analysts with Buy ratings	Total returns in 2019
DCC	93%	11.7%
Informa	92%	39.5%
Melrose Industries	91%	49.4%
NMC Health	89%	-34.8%
GVC	87%	36.2%
Mondi	86%	12.9%
Segro	86%	55.8%
Glencore	84%	-13.7%
3i	80%	46.8%
St. James's Place	80%	23.2%
Total		**23.2%**
FTSE 100	**52%**	**17.3%**

Source: AJ Bell, Sharecast, Shares, Refinitiv percentage of 'buy' ratings went up and – on average – provided a total return which exceeded that of the index. The bad news was that the stocks with the greatest percentage of 'sell' ratings managed the same feat, albeit not quite to the same degree.

BROKERS' TOP FTSE 350 PICKS BEAT THE INDEX IN 2019 (BUT THEIR LEAST PREFERRED NAMES DID EVEN BETTER)

	% analysts with Buy ratings	Total returns in 2019
Avast	100%	63.1%
Polypipe	100%	68.6%
Coats	100%	-6.4%
BCA Marketplace	100%	10.4%
Energean Oil & Gas	100%	48.0%
St. Modwen Properties	100%	27.4%
Telecom Plus	100%	8.7%
CLS	100%	46.2%
Primary Health Properties	100%	49.2%
Sirius Minerals	100%	-82.9%
Total		23.2%
FTSE 100	51%	19.2%

Source: AJ Bell, Sharecast, Shares, Refinitiv

The same pattern can be seen across the whole of the FTSE 350, where the stocks that came with the highest percentage of broker 'buys' beat the index, so did the names they were keenest to avoid. In fact, the least popular names did better still.

THE WISDOM OF CROWDS

Some slack can be cut for the beleaguered analysts, since we are still in a bull market, merger and acquisition activity is running hot and 2019 was generally a good year for equities around the globe.

Putting up 'sell' ratings is therefore a potentially thankless task and at least the analysts' combined top picks did beat the index, something that they had failed to do in 2015, 2016, 2017 and 2018.

In that context, it is interesting to note that the broking community is carrying the lowest percentage of 'buy' ratings and the highest percentage of 'sells' going into 2020 since AJ Bell began this annual survey in 2015, at least so far as the FTSE 100 is concerned.


Sirius Minerals

Make of that what you will, but wilful contrarians may be cheeky enough to think it is a 'buy' signal.

BROKERS SEEM LESS BULLISH NOW ON FTSE 100 STOCKS THAN AT ANY STAGE SINCE 2015

FTSE 100			
	Buys	Holds	Sells
2015	47%	39%	14%
2016	47%	40%	13%
2017	45%	40%	15%
2018	49%	37%	14%
2019	52%	36%	12%
2020	46%	38%	16%

Source: AJ Bell, Sharecast, Shares, Refinitiv

FTSE 350			
	Buys	Holds	Sells
2015	49%	39%	12%
2016	48%	40%	12%
2017	47%	39%	15%
2018	48%	38%	13%
2019	51%	38%	11%
2020	47%	39%	14%

Source: AJ Bell, Sharecast, Shares, Refinitiv

THE WAY AHEAD

This goes to show that anyone prepared to pick their own stocks rather than pay a fund manager or use an index-tracker fund to do it for them must do their own research on individual companies before they even think about buying or selling any of its shares.

At best, broker research may be a useful filter or perhaps a contrarian indicator. With that in mind, investors might like to know which stocks are most liked – and disliked – by analysts at the start of 2020. The tables below list the names which investors may wish to analyse in greater depth, or simply avoid altogether, depending upon their view of the value of the research provided.

THE 10 MOST AND LEAST POPULAR FTSE 100 STOCKS WITH ANALYSTS AT THE START OF 2020

FTSE 100: MOST POPULAR STOCKS IN 2020	
	% analysts with Buy ratings
Melrose Industries	92%
NMC Health	90%
Coca-Cola HBC	86%
M&G	86%
Vodafone	83%
International Cons. Airlines	83%
DCC	80%
Smurfit Kappa	80%
British American Tobacco	79%
JD Sports Fashion	78%
FTSE 100	46%

FTSE 100: LEAST POPULAR STOCKS IN 2020	
	% analysts with Sell ratings
Hargreaves Lansdown	67%
Kingfisher	50%
Rightmove	50%
Sage	47%
Intertek	45%
Admiral	44%
Standard Chartered	43%
InterContinental Hotels	43%
Ocado	41%
FTSE 100	16%

THE 10 MOST AND LEAST POPULAR FTSE 350 STOCKS WITH ANALYSTS AT THE START OF 2020

FTSE 350: MOST POPULAR STOCKS IN 2020	
	% analysts with Buy ratings
Vivo Energy	100%
Brewin Dolphin	100%
Countryside Properties	100%
Energean Oil & Gas	100%
Future	100%
CLS	100%
PPHE Hotel	100%
PureTech Health	100%
Airtel Africa	100%
Galliford Try	100%
FTSE 350	47%

FTSE 350: LEAST POPULAR STOCKS IN 2020	
	% analysts with Sell ratings
Hargreaves Lansdown	67%
Frasers Group	67%
TalkTalk Telecom	58%
Jupiter Fund Management	57%
Aggreko	55%
Sage	50%
Kingfisher	50%
Royal Mail	50%
Rightmove	50%
Barr AG	50%
FTSE 350	14%

Source: Sharecast, Shares, Refinitiv. Percentage of 'buy' and 'sell' ratings as of 2 Jan 2020. The FTSE 350 table has been amended after the original article included incorrect data. We apologise for any confusion.

Why the 'lowest cost' ETFs aren't always the cheapest

Low fees definitely have their advantages, but there's more to consider when choosing an ETF

How low can you go? Typically asked during a game of limbo, it has been a question increasingly posed by investors in exchange-traded funds (ETFs).

Pitched as a simple way to invest at a cheaper price than using the services of a fund manager, ETFs can invest in stocks for a charge as low as 0.04%, equating to 4p for every £100 invested.

That figure could get even smaller as the price war among ETF providers shows no sign of abating in 2020.

As with all investments however, while cost is definitely important, the headline fees isn't the full story.

TOTAL COST OF OWNERSHIP

'If you're going to buy and hold an ETF for 20 years, clearly one that's got a lower cost is going to work in your favour,' says Matt Brennan, head of passive portfolios at AJ Bell.

But for those who plan to hold an ETF for anywhere between one and five years, Brennan says it is more important to look at what he describes as the 'total cost of ownership'.

This includes the level of bid-ask spread you will encounter when looking to buy an ETF, or in other words the difference between the highest price a buyer is willing to pay and the lowest price that a seller is willing to accept.

For example, the aforementioned ETF at 0.04% is **Lyxor Core Morningstar UK (LCUK)**. It is almost half of the cost of the popular **iShares Core FTSE 100 ETF (ISF)** at a total expense ratio (TER) of 0.07%.

But the bid-ask spread for the Lyxor ETF is 0.2%, whereas the spread for iShares one is 0.05%, meaning despite the headline cost for the Lyxor ETF being 0.04%, the total cost of it is 0.24%, whereas the actual cost for the iShares one is half that at 0.12%.

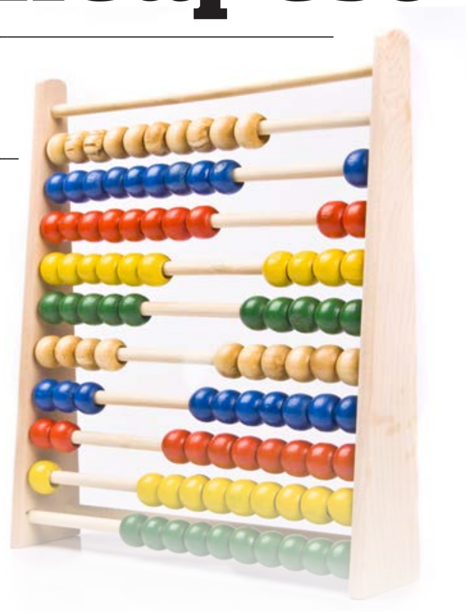
Brennan says that looking at the size of an ETF can be an important factor.

The Lyxor ETF holds £44m of investors' money, whereas the iShares one holds £8.5bn. The more investors in a fund, the more buying and selling of its shares there will be, which in turn means the bid-ask spread will generally be lower.

Aside from cost, performance is another important factor to consider. For developed markets such as the UK and US, it's unlikely there will be much variance for ETFs investing in the likes of the FTSE 100 and S&P 500.

For areas such as emerging markets (EM) though, there can be significant differences.

Brennan uses the example of South Korea and the two main index providers, FTSE and MSCI.



MSCI classifies South Korea as an emerging market, whereas FTSE doesn't. While it is impossible beforehand to say how well South Korea will perform, in 2019 the MSCI index – with South Korea in it – returned 12.7%, whereas the FTSE index returned 15.1%.

That's a 2.4% difference which would negate any difference in the costs between different ETFs.

Headline costs for EM ETFs can vary greatly, costing anywhere from 0.18% to 0.5%.

The point here is that when it comes to more niche areas like emerging markets, be sure of what you want to invest in.

Brennan says: 'In a UK ETF, you know you're buying UK shares like **HSBC (HSBA)** and **Royal Dutch Shell (RDSA)**.

'But for emerging markets it can be more complex. It's less about cost and more important to pick an ETF that best represents what you're trying to get exposure to.'

LOOKING UNDER THE BONNET

To do this, he adds that it's important to check what's in the index. This is usually easy to do – just type the name into a search engine, e.g. MSCI World Index, and the index's latest monthly factsheet is often among the first results that appear.

Using the MSCI World index as an example, it has 1,646 constituents so it's neither practical nor necessary to go through a list of all of them.

But the factsheet will contain the top 10 constituents as well as a percentage breakdown of the countries and sectors which make up the index, which should give you a good enough idea of what's in the index.

Though it must be said MSCI does a much better job of making its index information accessible than other providers, such as FTSE Russell and Solactive, which often require a little more digging on their websites to find the right information.

Sadly you also have to do some digging to find the total cost of ownership figures for ETFs. We haven't found a central source of information, instead it requires you to look on each ETF provider's website for the information or to contact them directly for the data.

Just remember that the ongoing charges figure is a good starting point for your research but it isn't the complete picture. We now look at various parts of the market and reveal the ETFs with the lowest ongoing charges figure per category.

UK

As most ETFs track the FTSE 100 index, going for a low cost option is a good way for investors to get exposure to UK large caps. But as mentioned, be aware of the fund size, as this can potentially increase the bid-ask spread and negate any difference in headline cost.

ETF	OCF
Lyxor Core Morningstar UK	0.04%
L&G UK Equity	0.05%
iShares Core FTSE 100*	0.07%

Source: AJ Bell. OCF = Ongoing charges figure

US

The US is considered the most efficient stock market in the world with the odds stacked against active fund managers outperforming. Most of the US-focused ETFs follow the same index. Most of the cheapest ones on offer have over £1bn in assets.

ETF	OCF
Invesco S&P 500	0.05%
L&G US Equity	0.05%
Vanguard S&P 500*	0.07%

Source: AJ Bell

*Other ETFs have the same cost. The ones chosen provide an illustrative example.

GLOBAL

Anyone investing in a global ETF should know they will most likely have more than half of their portfolio invested in US stocks, as most of them follow the MSCI World or FTSE World indices, which skew heavily towards the US.

Picking a global dividend ETF which doesn't use MSCI or FTSE indices is the most effective way to get a more truly diversified global exposure, though these ETFs typically cost twice the amount as more vanilla global ETFs.

ETF	OCF
L&G Global Equity	0.10%
Lyxor Core MSCI World	0.12%
HSBC MSCI World	0.15%

Source: AJ Bell

JAPAN

One of the most popular ways to invest in Japan is via an ETF, particularly in the large cap space where the vast majority of active managers have historically underperformed. An active fund could be the way to go for Japanese small and mid-caps, which are the considered the least efficient stock markets in the developed world.

But for exposure to companies in the Nikkei 225 or 400, a low cost ETF seems to do the job better than a more expensive active fund.

ETF	OCF
Xtrackers Nikkei 225	0.09%
Lyxor Core MSCI Japan	0.12%
Amundi IS JPX-Nikkei 400	0.18%

Source: AJ Bell

GLOBAL PROPERTY

Property ETFs are yet to take off in the way bond ETFs have and options for investors are relatively limited, hence the charges tend to be higher than other sectors.

Most of those available for investors invest in real estate investment trusts (REITs) across global developed markets, typically in the US, UK and Europe.

ETF	OCF
Amundi IS FTSE EPRA NAREIT Global	0.24%
HSBC FTSE EPRA/NAREIT Developed	0.40%
SPDR Dow Jones Global Real Estate ETF	0.40%

Source: AJ Bell

GLOBAL BONDS

Bond ETFs have gained increasingly popularity with investors as they are a simple, low cost way to add bonds to a portfolio.

Given most of the biggest global bond ETFs are also the cheapest, they can provide a low total cost of ownership with a low bid/ask spread as well as headline cost. Please note that the lowest cost ones tend to track global aggregate bond indices, which are a mix of government and company bonds.

Global corporate bond ETFs, which invest in bonds of the biggest firms around the world, on the other hand typically cost more and have also performed better in the past year. Though underperformance could be higher in a market downturn, and past performance is no guide to future performance.

ETF	OCF
Amundi IS Barclays Global Aggregate 500M	0.10%
iShares Global Aggregate Bond	0.10%
SPDR Bloomberg Barclay Global Aggregate Bond	0.10%

Source: AJ Bell

EMERGING MARKETS

As mentioned, it's important to check what's in the index to ensure you're getting the exposure you want. Most in this category follow the MSCI Emerging Markets index, with the exception of **Vanguard FTSE Emerging Markets (VFEM)**.

ETF	OCF
iShares Core MSCI EM IMI	0.18%
Xtrackers MSCI Emerging Markets	0.20%
Amundi IS MSCI Emerging Markets	0.20%

Source: AJ Bell

By **Yoosof Farah** Reporter

The pros and cons of funds with concentrated portfolios

What do you need to consider when investing in collectives with a limited number of holdings?

The pros and cons of portfolios with only a small number of holdings have come under the spotlight after ratings company Morningstar downgraded **LF Lindsell Train UK Equity (B18B9X7)** from Gold to Bronze. Among the reasons cited was the higher levels of stock-specific risk than most peers created by the fund's portfolio being concentrated on just 23 stocks.

The counterpoint to Morningstar's concerns, and one made by Lindsell Train itself (and acknowledged by Morningstar), is that the concentration has made a big contribution to an enviable long-term track record.

To be classified as a concentrated portfolio you would generally need less than 50 holdings. Adopting this approach means taking relatively big bets on assets in the portfolio. If the investor gets it right then they could see market-beating gains – but get it wrong and the results could be disastrous in relative terms.

TRENDS WITH CONCENTRATED PORTFOLIOS

Aberdeen Standard Investments was recently appointed to take over running **LF Woodford Income Focus (BD9X6D5)** and it will adopt a high conviction approach, targeting around 30 positions.

New investment trust **Nippon Active Value Fund** plans to float on the UK stock market in February with a very concentrated portfolio, targeting up to 20 small to mid-cap Japanese companies. In this case the concentrated approach is linked to its aim of being an activist investor.

Rising Sun Management will run the fund and chief investment officer James Rosenwald says: 'The directors of Rising Sun Management have developed a focused approach to activist investing, which we will utilise in Nippon Active Value Fund.

'For example, we have generated reasonable returns for clients using highly concentrated positions by taking board seats and making shareholder proposals at annual meetings.'

By investing in fewer holdings funds are also more exposed when something goes wrong with an individual investment. The reverse is true too, a good call will have a more appreciable impact on performance. The net result is these funds are likely to diverge more from the wider market and their benchmark.

BEATING THE BENCHMARK

There are arguments in favour of a more conviction-based approach. Active managers get paid to make investment decisions and a highly diversified fund which hugs its benchmark could struggle to justify the extra cost compared with a passive tracker fund.

LF Blue Whale Growth Fund (BD6PG78) has just over 20 holdings and launched in September 2017. Over the last 12 months the fund has achieved a cumulative performance of 26.2% against 19.8% for the IA Global benchmark.

Co-manager Stephen Yiu says: 'We felt there was a shortage of funds in the market which aim to deliver significant outperformance and if you want to have a product which offers potential for significant outperformance you need to run a highly concentrated portfolio.'

ARE CONCENTRATED PORTFOLIOS COMMON?

Shares has identified 28 open-ended funds with holdings of 25 or less and which have three-year performance track records. Out of this number, 18 have outperformed their relevant benchmark according to FE Fundinfo.

One fund in this category which has not performed that well is **MI Downing UK Micro-Cap Growth (B2403R7)**. Steered by Judith MacKenzie since its inception in 2011, holdings in the likes of home safety products firm **FireAngel Safety Technology (FA.:AIM)**, professional services outfit **Norman Broadbent (NBB:AIM)** and delivery group **DX (DX.:AIM)** have not paid off in recent times. Over the last three years the fund is down 16% against a 39% advance from the IA UK Smaller Companies benchmark.

Arguably this fund's approach leaves it exposed to two significant risks, both the greater volatility inherent in smaller company shares, alongside the lack of diversification.

MANAGING THE RISKS

So how do managers look to mitigate the risks associated with running a more concentrated portfolio?

There is an emphasis on really doing the homework on a stock and as Blue Whale's Stephen Yiu says this is easier with a more limited number of shares.

'My understanding is a large number of fund managers do not have a lot of resources. If you have two people running 75 stocks and working 10 hours a day, that leaves just five hours per stock.

'We have a team of five, and working the same 10 hours a day we can spend a much greater amount of time looking at individual stocks.'

Yiu points out that unlike some funds he and his team do not rely on broker research which is available to competitors, allowing them to come up with more original investment ideas in-house.

POINTS TO CONSIDER

Provided you do your own research diligently there is no inherent reason to avoid buying a fund with a small number of holdings, but crucially only as part of a diversified portfolio.

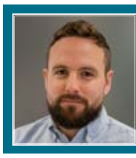
This way if a previously lauded fund manager loses their golden touch or faces a series of unexpected failures among their investments, the impact on your personal wealth will be contained.

Yiu adds that to achieve diversification it might be preferable to invest in three different high conviction funds with limited crossover in terms of their holdings, thus benefiting from the expertise of three separate fund management teams, rather than buying a single more diversified fund.

Top performing concentrated funds

Fund	Outperformance (%)*
Seilern World Growth	31.7
Lindsell Train Japanese Equities	29.5
AB Concentrated US Equities	26.2
CFP SDL Free Spirit General	24.7
Mirabaud Equities Global Focus	23.6
LF Lindsell Train UK Equity	21.2
Nomura Funds Global High Conviction	15.1
Dominion Global Trends Luxury Consumer	11.7
VT Castlebay UK Equity	8.4
GAM Star Japan Leaders	7.5

Source: Morningstar, FE Trustnet *3-year cumulative performance relative to the benchmark.



By **Tom Sieber**
Deputy Editor

The difference between bottom-up and top-down investing

They are two different ways of looking for opportunities on the market

All investors want to make money from equity markets but you can go about it in many different ways.

Styles like growth, value and income are widely understood, as are buying shares directly or using funds or investment trusts.

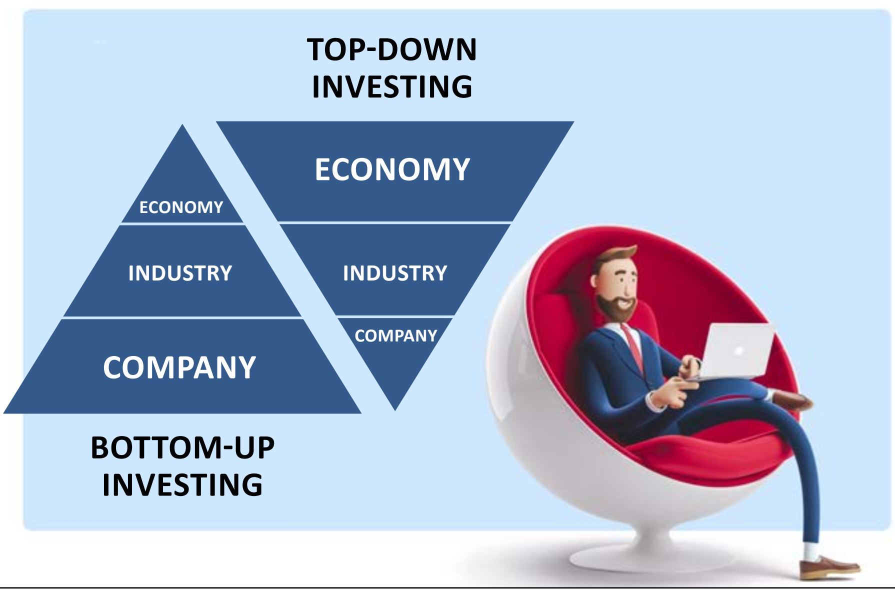
And within the wider funds space there is the age-old debate about active versus passive, where you elect to put your cash to work with a trusted expert who picks stocks on your behalf, or go with trackers or ETFs, which will follow an index, sector or investment theme.

While more experienced investors will have already established what kind of investor they are, what sort of assets are attractive, and where to begin looking, those newer to investing may be confused with how to start a screening process.

One way is to decide if you are a top-down investor or a bottom-up one. These are two broad ways investors can work out a starting point to begin searching for investments that are right for them.

WHAT'S THE DIFFERENCE BETWEEN THE TWO?

- **Top-down investing** means you first look at the overall economic picture and then start drilling down in to areas that appear most fruitful. It is also known as macro investing.
- **Bottom-up investing** is stock picking, where the investor pays much more attention to a company at the start of the research process and less attention to its sector or the economy.



AN EXAMPLE OF TOP-DOWN INVESTING

Let's look at a couple of hypothetical examples. The referenced investment products are for illustration only and not a recommendation for readers to buy.

John is a 50-year-old from Liverpool with two grown-up children and a third doing their A Levels. He works in the shipping insurance industry and already has a firm grasp of international markets and economies, and is comfortable investing overseas.

He believes that GDP growth of 6%-plus in China makes it an attractive investment market as the population in that region becomes increasingly wealthy and educated. He also thinks

US consumers can continue to prop up the US economy for the foreseeable future, so likes North America as an investment space too.

In China John believes that smartphones and internet access will continue to drive digital entertainment, and believes that makes the technology and social media industries in China potentially exciting.

As part of his study of the markets, John puts online retail giant Alibaba on his research list as it has the potential to benefit from more Chinese people buying stuff on their smartphones.

John also wants access to wider trends in the US and China, so he looks for ETFs and funds to bolster his portfolio. One product he intends to research is **iShares MSCI USA SRI UCITS ETF (SUAS)**, which blends large cap growth with income and owns names like Microsoft, Walt Disney and Pepsi.

He is also interested in learning about **Fidelity Asia Pacific Opportunities Fund (BQ1SWL9)**, which has around three quarters of its assets in young and mature Asian companies.

USEFUL APPROACH

That's top-down investing, albeit a little simplified. It is a useful approach for choosing a specific country (if you are open to foreign stock investing), and it works well for asset classes like stocks, commodities and currencies.

Currencies don't really have a bottom-up counterpart, anyway, because their value against other currencies is entirely based on macroeconomic factors.

The late 1990s was a great example of top-down investing, for instance, when many investors saw huge profits for companies that were taking advantage of the internet. While some of those stocks have done extraordinarily well since then, many more did not, crashing, burning and generating miserable returns for those that invested in them.

AN EXAMPLE OF BOTTOM-UP INVESTING

Now let's look at an example of a bottom-up investor. Meet Sarah, a 36-year-old mother of two young children from Watford. She returned to work three years ago by taking a part-time job managing the women's fashion floor in a local **Marks & Spencer (MKS)** store.

She's nervous about directly owning shares in foreign businesses, preferring familiar brand names from the UK. She knows the fashion industry well, but is also aware that she can access global economies and companies either by buying shares in UK companies that sell a lot overseas, or by investing in funds that invest in overseas firms.

Sarah has learned a lot about Marks & Spencer in her time with the company, and while she understands that clothing sales performance has been propped up by far better food sales, she believes fashion sales can be turned round over the coming years through better buying and using the powerful Marks & Spencer brand.

On a next 12 months price-to-earnings multiple of 10.7 (based on Refinitiv data) the shares are on a rough 50% discount to the wider retail sector, and Sarah wonders if there is substantial share price recovery potential if management get the business back on track.

KNOWLEDGE ADVANTAGE

Should she proceed and buy the shares, her decision will have been influenced by her in-depth knowledge of the business – something that falls under the banner of 'bottom-up investing'.

Choosing an investment because of the robust fundamentals or recovery potential, not the bigger industry, country or macroeconomic picture, is most widely used for equities, but it can also be easily applied to corporate bonds, since they have a similar source of value (the company).

Such an investor does not ignore macro trends, but they would put much more weight on company fundamentals than wider industry dynamics.

By **Steven Frazer**
News Editor

How much money will I need in retirement?

We examine the range of options from the bare minimum up to a comfortable lifestyle

It is very difficult to predict how much you'll spend each year looking a decade ahead, let alone trying to predict what your annual spending will be in retirement. But it's important to know how much you're likely to spend, so you can make sure you've saved enough to meet those costs.

Many people tend to base their income expectations in retirement on a comparable sum to what they earned each year when they were employed, but for lots of people this will be a really ambitious sum to reach.

Generally, your costs should be lower in retirement, as you could have paid off your mortgage, your children should be financially independent and you won't have to pay the costs of commuting, for example.

DOWNSIZING

You might also move to a smaller house, which is cheaper to maintain, or only need one car, rather than two. Conversely many people plan to spend their retirement going on lots of holidays, which can be a big cost, as well as socialising more or taking up pricier hobbies, such as golf.

To help people plan out how much we actually need in pension income, the Pension and Lifetime Savings Association (PLSA) has put together three scenarios for retirement and worked out the costs.

The options include different levels of holidays, spending on food and leisure activities, among others. They vary between a £15,700 a year cost for a couple or £10,200 for an individual, to £47,500 for a couple or £33,000 per person.

"an individual buying an annuity might need a pension pot of around £200,000 to achieve a £10,000 annual income"

These figures increase if you're living in London, where the cost of living is higher – for example the minimum level for a couple rises to £19,800 and the comfortable level for an individual rises to £36,300. Clearly everyone will spend money differently, but it's a good guide to roughly how much you might need for the lifestyle you want.

Back of an envelope sums suggest an individual buying an annuity might need a pension pot of around £200,000 to achieve a £10,000 annual income – although most of us should be able to supplement our in-comings with the state pension.

HOW MUCH DO YOU NEED IN RETIREMENT?

	UK-wide		London and the south-east	
	One person	Couple	One person	Couple
Minimum	£10,200	£15,700	£12,400	£19,800
Moderate	£20,200	£29,100	£24,100	£33,300
Comfortable	£33,000	£47,500	£36,300	£49,300

Source: PLSA Retirement Living Standards report

Let's look at each scenario:

MINIMUM

This is the base level case from the PLSA, and covers all of the basics while also leaving a little pot of money to have some fun with. It allows £38 a week for food and drink for a single person, which covers a food shop in Tesco, including some cheap beer or wine, and one takeaway plus one meal out a month, at an additional cost of £45.

All the scenarios assume you're a homeowner, not a renter, and that you have paid off your mortgage, although they do allow money for household bills. The minimum scenario means you can buy contents insurance and can spend £150 a year on decorating or maintenance of your house, but it doesn't allow for any gardening or cleaning. All scenarios allow for basic broadband at home, a TV and a Sky package and this minimum case also allows for a basic mobile phone per person on a £7.50 a month contract.

Transport is another big difference between the scenarios. This example assumes that you don't have a car to run, and that you use your free bus pass and also have a rail card to get reduced fares, as well as allowing for £100 per person a year for train tickets, and £10 a week per household for taxis.

For clothing and personal care you're allowed a £15 hair cut or £8 for men every month to six weeks, as well as £350 a year for clothes for women and £230 a year for men. Basic costs of dentists, new glasses etc are included for all scenarios.

Holidays are a big focus for many in retirement, and even the basic model allows for some trips. You can have one week-long trip in the UK a year on a coach package deal, as well as a long weekend in the UK, but with both going off peak, and £225 holiday spending money in total for the year for the couple.

Finally, £40 per couple a week is given for hobbies or social occasions, allowing for going to the cinema or swimming, for example.

MODERATE

This scenario is intended to give a touch more financial security and bit more luxury in places. The food and drink costs rise to £46 a week, accounting for slightly higher-end goods, but still from Tesco, including more expensive wine and beer. It also accounts for £75 a month for eating out or getting a takeaway.

For housing the costs allow for much more than the minimum: you can get building and contents insurance, pay for boiler servicing and insurance, and pay for a funeral plan. In addition you have £500 a year to spend on decorating or getting a handy-person in to fix things, but it doesn't allow anything for major house renovations. You also have no budget for a gardener or cleaner. On top of this you can have a better smartphone, costing £16 a month per person.

In this scenario on top of the same allowance for train and taxis as the minimum case, car ownership is included. The example is that the car is three years old and is replaced every decade. The clothing budget is also bumped up to £750 a year per person, while hairdressing costs are increased to £45 every six weeks for women as well as £20 for beauty treatments.

Your holiday options are also upgraded and stretch to going abroad. The model allows for 10 days in the Mediterranean, but still outside of school holidays, in a three-star hotel, as well as a long weekend in the UK. Total spending money also increases to £475 per couple for both trips too.

You can spend more on hobbies and going out, with the budget increasing to £70 a week for a couple, meaning you can go to the theatre or take a day trip, for example.

COMFORTABLE

This example is intended to show more financial freedom but also allow for some luxuries in your retirement, as well as bit more day-to-day spending.

The food and drink costs increase further to £56 a week, which allows you to shop at Sainsbury's rather than Tesco, although mainly buying own-brand goods. It also gives a much bigger budget for eating out: £100 per couple a week for meals out or takeaways, plus £100 a couple a month to take others out for a meal.

On top of what's provided for in the moderate case, you get a higher budget of £900 for decorating costs or house maintenance, so doing a big project like redoing your kitchen or getting double-glazing could be possible after a few years of saving.

Also included is a gardener to do some work a couple of times a year and mow the lawn regularly and a cleaner to help two days a year with deep cleans, as well as a window cleaner every month. You can also have a top-of-the-range smartphone costing £28 a month per person.

For this example as a couple you're allowed a more high-end car (the example is a Nissan Qashqai) that's five years old but replaced every five years, in addition to a second, older, cheaper car that's also replaced every five years. You train costs are bumped up to £200 a year per person.

The clothing budget is increased again to £1,500 a year for a woman and £1,000 for men, while hairdressing costs rise to £75 every six weeks.

Holidays get distinctly more luxurious in this scenario, with a two week trip to the Med in the summer, still not in school holidays, as well as a week in the sun in winter, to somewhere like the Canaries. Total holiday spending money increases to almost £1,000 in total for a couple a year. The social budget ramps up too, to £100 per couple a week, meaning that you could have a gym membership or belong to the local golf club, as well as have some outings.

In addition, you get a number of upgrades to your home life. So the cost of a second TV is accounted for, as well as a streaming service like Netflix on top of your Sky TV subscription, and a music service like Spotify is also included. Also £1,000 a year is included in the budget to spend on family members, so either for taking grandchildren out, contributing to a family holiday or saving up to give bigger gifts for things like weddings.

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

'How do VCT and EIS products work alongside a pension?'

AJ Bell pensions expert Tom Selby looks at the associated tax breaks

I've maxed out my pensions lifetime allowance of £1,055,000 and am looking for alternative ways to invest my money in a tax efficient way. Can you explain how VCTs and EIS product work?
David

Tom Selby
AJ Bell
Senior Analyst says:

ISAs are the best known alternative to pensions, allowing you to contribute up to £20,000 a year and invest in stocks, bonds and funds around the world without paying any tax on the gains you make. Furthermore, you can withdraw funds from ISAs tax-free.

Beyond pensions and ISAs, there are alternative vehicles designed to encourage people to invest in certain types of companies. Two of the main types of schemes are venture capital trusts (VCTs) and the Enterprise Investment Scheme (EIS).

Individuals aged 18 or over can receive income tax relief at 30% on investments of up to £200,000 a year in newly issued ordinary shares in VCTs, with relief given via a reduction in your income tax liability.

For example, if you had an income tax liability of £10,000 and invested £20,000 in VCT shares, the tax relief of £6,000 (30% of £20,000) would be deducted from the tax bill, leaving you with £4,000 to pay. Shares need to be held for at least five years to qualify for income tax relief.

Dividends from VCTs of up to £200,000 are also tax-free and there is no capital gains tax (CGT) to pay when you dispose of your shares.

EIS products also offer tax relief of up to 30% on qualifying investments, with a significantly higher limit on investments of £1m in a tax year.

Tax relief is applied in the same way as for VCTs. Disposals of shares at a profit are usually exempt from CGT, provided the shares have been held for three years. Income tax or CGT relief is also available for losses on disposals.

A third alternative, Seed Enterprise Investment Scheme (SEIS), operates in a similar way to EIS, but with income tax relief given at 50% on qualifying investments up to £100,000 in a tax year.

Both SEIS and EIS investments allow you to defer chargeable gains on any assets by reinvesting the gains in shares in qualifying companies, potentially allowing you to reduce your overall tax liability.

These tax incentives are specifically in place to encourage people to invest in smaller, early-stage, and therefore potentially riskier, companies. As a result, only certain companies can qualify.

You'll need to do your own research to understand if they might be suitable for your personal circumstances. In particular, you should be mindful of the fact companies that qualify for these reliefs are likely to be high risk.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **editorial@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide guidance and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

HOW I INVEST: Managing a concentrated portfolio of stocks

46-year-old Dave looks for opportunities among both small and large companies

With just over 20 years' investing experience under his belt, Dave from Staffordshire has honed his skills to be able to run a concentrated portfolio entirely out of small, medium and large cap stocks.

The 46-year-old public sector worker first began putting money into the markets in 1999. 'I opened an ISA possibly at the worst time to start investing,' he says. 'Fortunately I topped it up at opportune moments and eventually doubled my money by the time I cashed out when my son was born.'

His son is now a teenager and has already gained his first taste of the investing world by helping to edit some of the videos Dave made on his YouTube channel – all about stocks. 'He enjoyed editing all of the "errs" out of my videos. I hope he gets serious about investing early.'

Dave says he is now less involved with the broadcasting side of his interests so as to spend more time with the family.

PAYING DOWN THE DEBTS

Having separated from his partner, he took out a second mortgage which has now been paid off. There is also not much left of the original mortgage to pay off. 'I did toy with the idea of clearing the mortgage with my investments but after discussing this with my investor friends I decided to carry on investing.'

Dave's goal is FIRE – a term to describe the 'financial independence, retire early' movement. This is where people manage to stop working early because they've saved up enough money, either cash or investments, to help fund their lifestyle and not be slave to employment. He says partial FIRE – namely having to work less – would also be fine, but in either case he would also like to have built up enough wealth to ensure his son has a good start in life.

> 'I did toy with the idea of clearing the mortgage with my investments but after discussing this with my investor friends I decided to carry on investing"

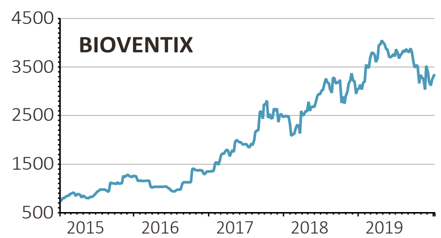
'I'm careful with money. If I can save a few quid I will as it all adds up and can be put to better use doing nice things with the family.'

Dave describes himself as a nervous investor and not someone looking to take on more risk. He used to spend 20 hours a month managing his portfolio and looking for new opportunities but this has been reduced more recently.

'I look at financial websites for content, chat and stock screening to find new companies to research. I also follow the work of ShareSoc, the not-for-profit shareholder society.'

WHAT'S IN HIS PORTFOLIO?

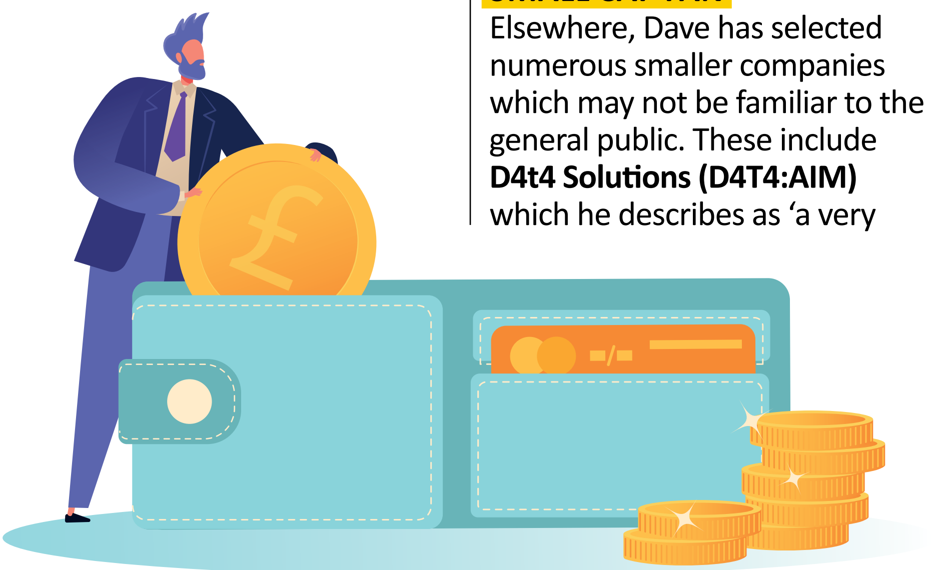
His portfolio currently consists of 15 stocks, the biggest of which is biotechnology group **Bioventix (BVXP:AIM)**. 'This has been a stellar performer, which I've held from around £5 and was buying all the way up to £12. I had to trim it back slightly as it would have been around 50% of my portfolio. This was a mistake as it promptly doubled in price.'



5 years to 9 Jan 2020. Source: Datastream

The second biggest holding is **Rockrose Energy (RRE)**, an oil and gas producer. 'I wanted some exposure to oil and I get that from both Rockrose and a stake in activist investor **Crystal Amber (CRS:AIM)** which owns a significant chunk of **Hurricane Energy (HUR:AIM)**.'

Completing the commodities theme in his portfolio is **Fresnillo (FRES)**, the FTSE 250 precious metals miner. The company lagged many of its peers in last year's gold price rally due to operational setbacks. However, its shares have started to recover in the past few weeks amid another rally in the metal price.



COLLECTING DIVIDENDS

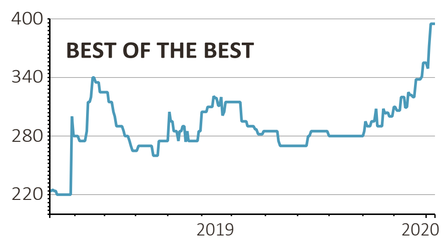
Income is another major theme among Dave's investments with numerous stocks bought partially for their dividend-paying characteristics. Spread betting provider **IG (IGG)** was picked in his search for what he calls 'quality companies', noting that it operates in an addressable market worth billions of pounds. **Acorn Income Fund (AIF)** was purchased for income and the fact its shares were trading on a large discount to the value of its underlying assets.

Insurer **Legal & General (LGEN)** was snapped up for yield and as a play on the UK market. There is also quarterly-dividend paying **Duke Royalty (DUKE:AIM)** which lends money to private companies on a long-term basis, typically between 25 and 40 years, in exchange for part of their revenue.

SMALL CAP FAN

Elsewhere, Dave has selected numerous smaller companies which may not be familiar to the general public. These include **D4t4 Solutions (D4T4:AIM)** which he describes as 'a very interesting business using clever technology to lawfully track people on the internet, mainly those visiting banks or insurers'.

If any readers have spent time waiting in airports over the past decade, they may recall seeing sports cars parked in the departures lounge with someone selling tickets to win a vehicle. This was the old business model of AIM-quoted **Best of the Best (BOTB:AIM)**, one of Dave's investments and a company which is now fully online running luxury item prize draws.



1 year to 9 Jan 2020. Source: Datastream

'Trading has been going well,' he says, and so has the share price. At the time of writing Best of the Best was trading at its highest level since June 2017.

By **Daniel Coatsworth**
Editor

KEY

- Main Market
- AIM
- Investment Trust
- Fund
- Exchange-Traded Fund
- IPO Coming Soon
- Overseas share

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

23 January: Blue Prism.

Half year results

21 January: IG Group, Joules, Sensyne Health.
22 January: Van Elle. **23 January:** CPL Resources, Ilika, NCC.

Trading statements

17 January: Gym Group. **20 January:** Audioboom, Henry Boot. **21 January:** Dixons Carphone.
22 January: Close Brothers, Sage. **23 January:** Computacenter, Gear4Music.

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