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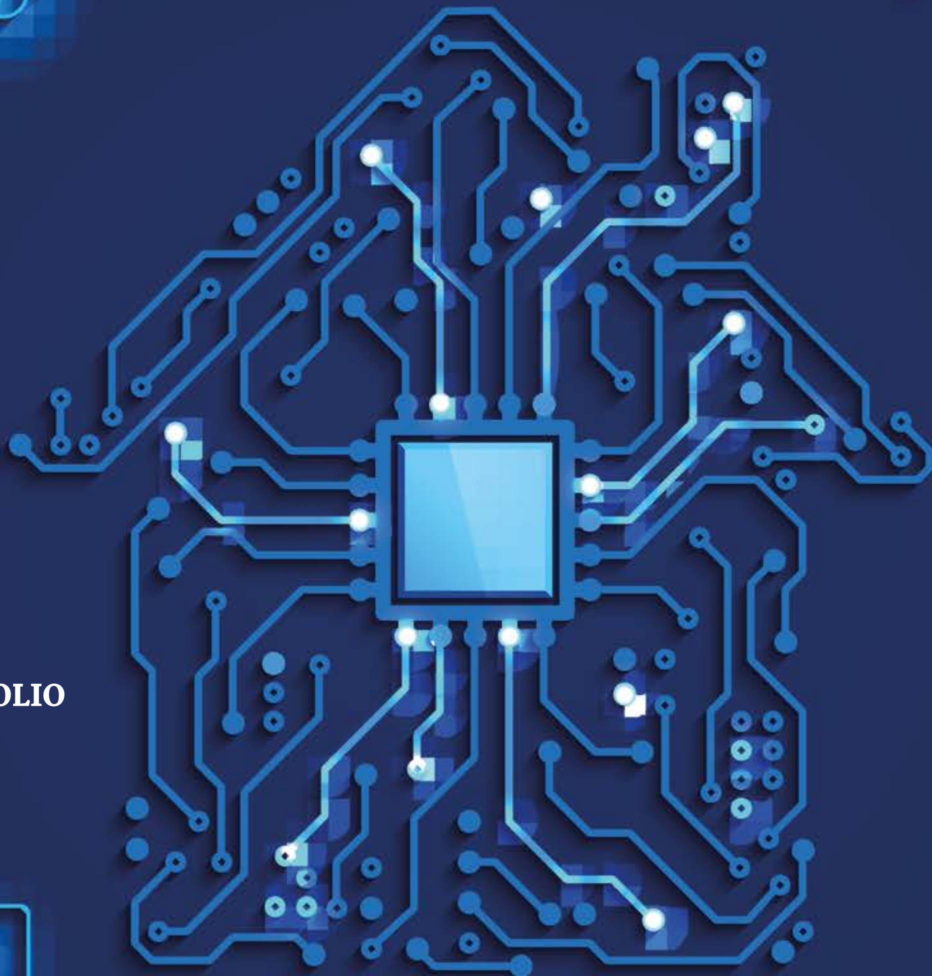

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WELCOME

Dear Reader,

As I write, the country must have breathed a collective sigh of relief after it was revealed that Jeremy Corbyn's Labour Party would finally back the Prime Minister's call for a general election, after Brussels granted yet another delay to Britain's departure from the EU. And although this certainly does not spell the end of the Brexit saga, it is – perhaps – the end of the beginning.

Current polling points to a comfortable Conservative majority for Johnson, but this election may prove to be the most complex and unpredictable in living memory. With the country split down the middle on Brexit, there is some curious vote-swapping at play, with Conservatives looking set to lose Remain votes to the Lib Dems and Labour likely to lose Leave votes to the Conservatives, for example.

It is Johnson's hope that Tory Remainers fear a Corbyn government more than they fear Brexit, as it is their prospective desertion to the likes of Jo Swinson's Lib Dems that could deliver a Labour-led coalition on 12th December. Meanwhile, Farage's Brexit Party recently announced it will contest every seat rather than enter into some informal electoral pact with the Tories unless Boris abandons his deal with the EU. Ironically, a strong showing for them on election day could actually spell the end for the whole Brexit project if it resulted in the Tories being ejected from office.

From an investment standpoint, an election always casts a cloud of uncertainty over the market, but readers will no doubt welcome the prospect of a route out of the Brexit impasse that has held back this country for so long. It has long been this writer's view that it is uncertainty surrounding the end result of Brexit rather than Brexit itself that is holding back the performance of UK assets. But don't take my word for it – no less a figure than Warren Buffett has said that he's looking to make a "very large" acquisition in the UK, and our very own Jim Mellon is a big fan of UK stocks right now.

True, it's possible that we could be left with another hung parliament in December, in which case all bets are off. But it's more likely that the window of opportunity to stock up on cheap UK assets could be coming to an end.

As always, I wish you the best of luck for the month ahead.

Best regards,

J Faulkner
Editor

CONTACTS

ADVERTISING
amanda@masterinvestor.co.uk

EDITORIAL ENQUIRIES
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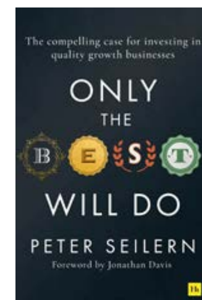

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Master Investor Ltd.
Unit 2, The IO Centre
Salbrook Industrial Estate
Salbrook Road
Salfords
Redhill RH1 5GJ
United Kingdom

EDITORIAL
Editorial Director James Faulkner
Sub Editor Fiona Nicolson
Creative Director Alexandra Mueller

EDITORIAL CONTRIBUTORS
Filipe R. Costa
Richard Gill, CFA
Victor Hill
David Jones
Mike Kerley
John Kingham
Andrew Latto, CFA
Jim Mellon
Tim Price
Robert Stephens, CFA
Nick Sudbury
Mark Watson-Mitchell

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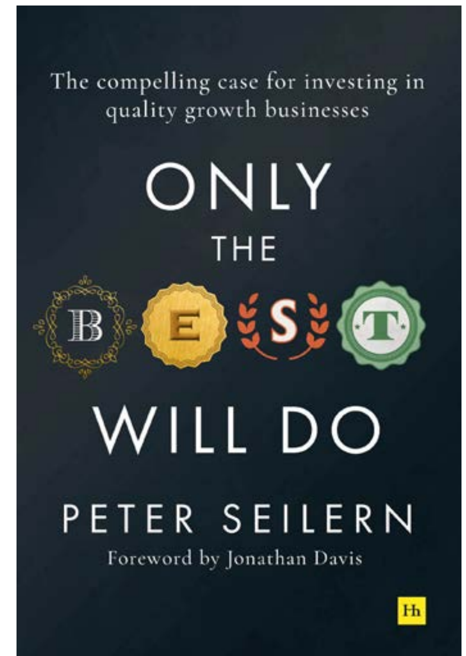

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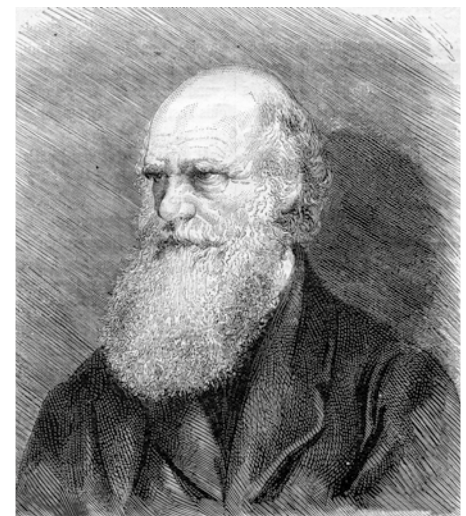

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BY JIM MELLON

MELLON ON THE MARKETS

Inside the mind of the Master Investor: influential British investor, Jim Mellon, reveals his latest thoughts on the markets.

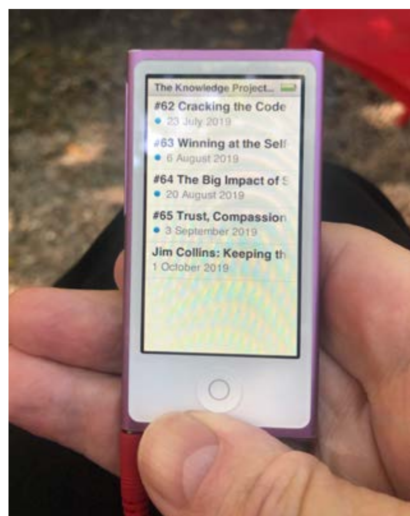
It's day three of the Camino de Santiago (way of Saint James, in English) walk from the Portuguese end up to Santiago. Talking of saints, this closely followed the canonisation of John Henry Newman, in the Vatican, which I attended with my sister Trish, who has spent years toiling in Catholic service.

I am going to do more of these walks; I listen to podcasts and take in the scenery, and apart from blisters and dreadful food, I thoroughly recommend being away from the hurly burly for a bit. One of the great podcasts I have listened to is *In Our Time* with Melvyn (too many interruptions) Bragg. I was also impressed by *The Knowledge Project*, where I listened to Jim Collins, a US management guru, who you may know from his book *Good to Great* and his thoughts on the "hedgehog concept".

I always assumed that Jim and his ilk would turn me off; too earnest, too prescriptive, too American. But he's sold 10 million books, so I suppose he knows his market, and he's certainly comfortably off.

However, when I listened to this podcast, I was mesmerised. He is, first of all, seemingly humble, and an excellent articulator and explainer of the success and failures of companies. His explanation of why Microsoft succeeded, and IBM failed, despite having more or less identical software is instructive.

His eschewing of starting a fund based on his insights is such an elegant explanation of why we have to be our own "hedgehogs", sticking to what we know, and it rang a bell with me. Too often, I have strayed beyond any competency I have, with either disastrous or below-average effects. I am now going to stick rigidly to the little I know.



Jim Collins talks about the really great companies being compounders at steady, achievable rates, exploiting technology, but not trying to 'leapfrog the world'. He also talks about great 'Level 5 leaders' being individuals who think beyond short-term profit, and who never deviate from core values, which always take first place over short-term profit.

I recommend this, and I've embedded the link here. It really was an important moment for me; I have been working too hard recently, being in the US, the Middle East, Australia and Hong Kong all in one short month. Am I working smart? Am I enjoying it? Probably not.

I think all of us – and this is obvious, but true – need to step back and 'smell the roses' sometimes. Although I believe that hard work is necessary for both personal fulfilment and financial success, it's not everything. I am going to re-evaluate a lot in the near future, and the Camino is a perfect place to start.

Back to 'Grub Street' and the exigency of keeping the lights on in the real world, as opposed to the lights in our heads.

"I THINK ALL OF US – AND THIS IS OBVIOUS, BUT TRUE – NEED TO STEP BACK AND 'SMELL THE ROSES' SOMETIMES."

"I HAVE NEVER SEEN SO MUCH OPPORTUNITY IN MY INVESTMENT CAREER."

This last month was an exceptionally good one for us, and I hope it was for you too.

The pound performed to plan. Likewise, UK dividend shares have been outstanding, and we also (see last issue) scored a hit with our Texan friends at **Reata (NASDAQ:RETA)** (big recommendation), who announced a successful drug for genetic disease Friedreich's ataxia. Lots of negative yielding bonds turned to modestly positive rate bonds. Gold bounced around, but watch for the big breakout. It's coming.

Because I am on a pilgrimage, Mellon on the Markets is going to be relatively short this month.

So, here are my recommendations for Master Investor readers.

1. Stick with gold, silver and platinum. Everything suggests to me that, despite option traders trying to keep gold below $1,500 an ounce, it is going to surge soon. Buy **Anglo Gold (JSE:ANG)** and **Condor (LON:CNR)**.
2. Keep shorting negative yielding bonds. And as for Greek bonds, sell them hard and often.
3. Stick with UK shares, even though they have had a run. I would hold **BP (LON:BP.), Shell (LON:RDSA), British Land (LON:BLND), Doric Nimrod (LON:DMA), Prudential (LON:PRU)** (M&G and Prudential as a package), **Marston's (LON:MARS), GSK (LON:GSK), Avation (LON:AVAP)** and **Tesco (LON:TSCO)** – oh, and **Lloyd's (LON:LLOY)** and **HSBC (LON:HSBA)**.
4. In Europe, look at **Carrefour (CA:FP), Henkel (ETR:HEN3)** and **Société Générale (EPA:GLE)**.
5. In the US, remain very cautious, particularly in tech, but consider a drug company like **Gilead (NASDAQ:GILD)**. And whatever you do, short **Boeing (NYSE:BA)** – forty-two new MAX planes a month, no one buying and cash out the door. It's over. Down 30% more?
6. Keep buying sterling; my target is 1.35 against the US dollar. Brexit is being sorted and is a blip, as I have consistently said.

I have never seen so much opportunity in my investment career. Seriously. I recommend that those that are interested book their place at the Master Investor event next year – and quickly. Bookings are selling so far ahead of the numbers this time last year as to be outrageous.

Remember, stick to meta themes, like longevity or 'clean' meat, for the long term, buy high-quality dividend shares for income, and be careful on currency dispositions. I like sterling, the yen and the Aussie dollar.

Nice result on the rugby, by the way!

Happy hunting!

Jim Mellon

About Jim

Jim is an entrepreneur with a flair for identifying emerging global trends enabling him to build a worldwide business empire. He is amongst the top 10% in the "Sunday Times Rich List" (Britain's equivalent to the Forbes list). He is often described as the British Warren Buffett and he predicted the Credit Crunch of 2007-08 in a book entitled *Wake Up! Survive and Prosper in the Coming Economic Turmoil*. Jim followed this with *The Top 10 Investments for the Next 10 Years* (2008) and subsequently *Cracking the Code* (2012), *Fast Forward* (2014) and, most recently, *Juvenescence* (2017). His monthly "Mellon on the Markets" column in Master Investor Magazine has gained him cult status among investors. He holds a master's degree in Politics, Philosophy and Economics from Oxford University. He is on the Board of Trustees of the Buck Institute in California, a trustee of the Biogerontology Institute, and a Fellow of Oriel College, Oxford.

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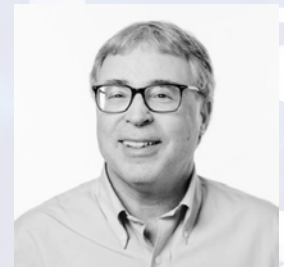

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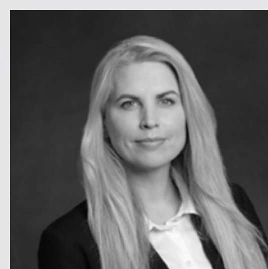

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BY VICTOR HILL

COVER FEATURE

INVESTING IN THE SMART ECONOMY

Victor Hill explains how smart technology could transform our economy – and boost your portfolio.

The smart economy is one in which we can achieve massive increases in efficiency by means of the application of smart technology. That means, first and foremost, that we can reduce our carbon emissions, which contribute to global warming, without sacrificing our standard of living. It also means that we could have more leisure time and lead healthier lifestyles. The UK has already committed to going net carbon neutral by 2050. With smart metering and smart electricity generation this might just be possible.

A smart future

Nearly 15 million people in Britain now live in homes which are equipped with so-called smart meters. By means of these, people can monitor their own consumption of energy at home, ie gas and electricity, and keep track of how much they are spending on domestic energy. The more people learn about how they use energy, the more they can make sensible choices. An estimated 73 percent of people with smart meters have taken steps to reduce their energy consumption and have been able to reduce their energy bills by around £75 a year – a figure that is likely to rise.

We are told that these smart meters are fully encrypted and that they do not retain any personal data. In fact, they were designed with the help of the National Cyber Security Centre (NCSC – an agency of GCHQ, the UK government anti-espionage agency).

> “SMART METERING IS NOW STARTING TO PREDICT ENERGY DEMAND IN REAL TIME AND TO GENERATE ENERGY ACCORDINGLY.”

But this is only the beginning. We are on the threshold of a revolution in transport. In short, most of us are going to transition from owning and using petrol and diesel powered cars propelled by the internal combustion engine (ICE), to owning and using electric cars within the next 10 years. Those electric-powered cars will need to be recharged either from public recharging points – and many UK supermarkets are already rolling these out – or, probably more regularly, at home. This means that our household electricity bills are likely to go up considerably, even as our spending on petrol and diesel shrinks.

And there's more to it than that. Our next-generation electric cars will use batteries that we can use to heat and run our homes. The electricity we use will largely be provided from renewable sources (ie from solar panels, wind turbines and, to a lesser extent, from other technologies such as tidal turbines).

"NATIONAL GRID (LON:NG.) RECKONS THAT THE TRANSITION TO ELECTRIC VEHICLES WILL REQUIRE A 15 PERCENT INCREASE IN ELECTRICITY GENERATION BY 2040."

So, there is an energy revolution taking place and there is also an awakening of consciousness as to how we use the energy available to us. Smart metering is now starting to predict energy demand in real time and to generate energy accordingly, such that there is zero wastage from the national grid. This is essential if the UK and other advanced countries are to meet the stated target of becoming net CO2 neutral by 2050.

There are many ways in which smart technology could help cut our household electricity consumption. A smart freezer could adjust its temperature very slightly as demand increases; or a smart washing machine might adjust its spin cycle when power reduces in price. Homes with solar panels can already earn money by selling excess electricity back into the grid. Soon they will be able to time that sale to the moment when the price is most favourable.

The road ahead

Everyone knows that our ICE-powered cars are one of the biggest factors in our carbon footprint. By footprint, we mean the total average amount of CO2 emitted by each citizen. In the UK that stands at more than 10 tonnes of CO2 per person per year, though the carbon footprint of every American is easily twice that.

Since 2010, in the EU all new cars sold provide information on how much CO2 they emit for every kilometre of distance driven. In the UK, vehicle tax – a levy on each car owned, normally now paid by monthly direct debit, is calibrated according to emissions. Cars which emit less than 100 grams per kilometre pay no car tax at all[i]. The current average across all cars on UK roads is 120.4 grams of CO2 per kilometre. Multiply that by the many billions of car kilometres travelled and that adds up to an awful lot of greenhouse gas.

Last year, fewer than 60,000 new electric vehicles were registered in the UK. That was just 2.6 percent of all new vehicles – but well up from 0.6 percent in 2014. That is partly because the cost of electric vehicles is still much more than that of ICE-powered vehicles, despite the modest government subsidy. But by 2025, that price differential is expected to reduce to zero. The sale of all new ICE-powered vehicles will be banned by 2040, and that is now likely to be bought forward to 2032. In Norway, an advanced country, which does not have a native automotive industry, about half of all new cars sold last year were electric.

National Grid (LON:NG.) reckons that the transition to electric vehicles will require a 15 percent increase in electricity generation by 2040. But currently, a lot of energy that we generate is 'lost' because there is insufficient battery-storage capacity. This energy wastage is compounded because energy consumption fluctuates throughout the day and indeed across the year. Energy consumption is highest in the evenings and lowest at night when most people are tucked up in bed. Obviously, it is much higher in winter than in summer (though in countries like the US and Australia, where air conditioning is ubiquitous, that differential is eroding).

Much of Britain's energy output is now supplied through renewable sources; but when there is a surge in demand, we often have to bring fossil-fuel-burning generators back to life. The fear is that, with everyone driving electric cars, these CO2-belching backup power-generation systems may become impossible to dispense with. Everyone will potter back from work in their noiseless electric cars and then all plug in to recharge them at the same time. (In fact, the old nine-to-five work rota has been in decline for years, so this fear may be overdone: but we still have rush-hour traffic jams on our roads, don't we?)

This is why electricity-generation experts are thinking ahead and trying to work out how we might be able to recharge our electric cars more smartly in the future. The new thinking is that you could plug your car into the recharge point when you get home, but that the smart charger would work out when to charge at some optimal moment during the night when demand sags – and you would get a discount, accordingly. If you need to charge-and-go – no problem. The system will over-ride the constraints; but of course, you will have to pay more.

Smart-time electricity tariffs have been around for years. Many readers in the UK will remember the Economy-7 tariff whereby you could get a discount for running your washing machine (or whatever) during the night. That gave rise to electric timers and other early-stage smart (but non-digital) technology.

Now take this concept one stage further. Supposing you get home from work in your electric velocipede and it still has some juice in its lithium battery. Rather than heating your well-deserved shower from the grid at peak time, you now plug in your vehicle to your home circuit. In this way you relieve pressure from the grid, and you save money – the smart car will recharge itself during the night more cheaply.

The average home in the UK uses about 10 kilowatt hours of electricity every day. The capacity of a respectable electric car battery these days is about 55 kilowatt hours. So, in the event of a power cut, most people could keep their homes going from their car batteries for about five days (though they wouldn't be able to use the car).

The next generation of smart meters will be able to price energy in real time, matching demand with available supply. This will mean that householders become ever-more savvy about when they use energy. Of course, with the rise of robotics and artificial intelligence, a robot butler might discreetly suggest that we delay our dinner or shower by 30 minutes in order to use renewable energy and not fossil-powered energy – and thus save 50 pence or so. I once read that HM the Queen goes around her palaces in the late evening switching off lights. Soon, we shall all have a machine to do that for us.

It is already possible for those who have installed solar panels to sell the electricity they generate back to the grid at the most advantageous price. So, how about council-house tenants forming cooperatives to harvest and store electricity from solar panels?

The main problem with our current non-smart infrastructure is that it waits to find out the level of demand, and then responds. The infrastructure of the future will anticipate demand in the next hours and days and allocate generation to the most efficient generators on the grid available. Householders will be incentivised through the price mechanism to use energy when supplies of renewable energy are plentiful – that is when the sun is shining for solar energy and when the wind is blowing for wind turbines.

Caring for the elderly

In 50 years' time there is likely to be an additional 8.6 million people over 65 years old in the UK. Senior citizens will benefit greatly from smart household technology. For a start, voice-activated

Criticisms of smart meters

Not everyone is so enamoured with smart meters. The first generation of smart meters were found to be inaccurate, though all the major energy suppliers now claim that initial glitches have been fixed. Smart meters are not compulsory. However, the energy companies, which are themselves under pressure to reduce carbon emissions on pain of penalty, are using strong-arm tactics to get customers to sign up to smart meters. Some energy giants are even using smart meters to claw back debts from customers, forcing them to pay up front.

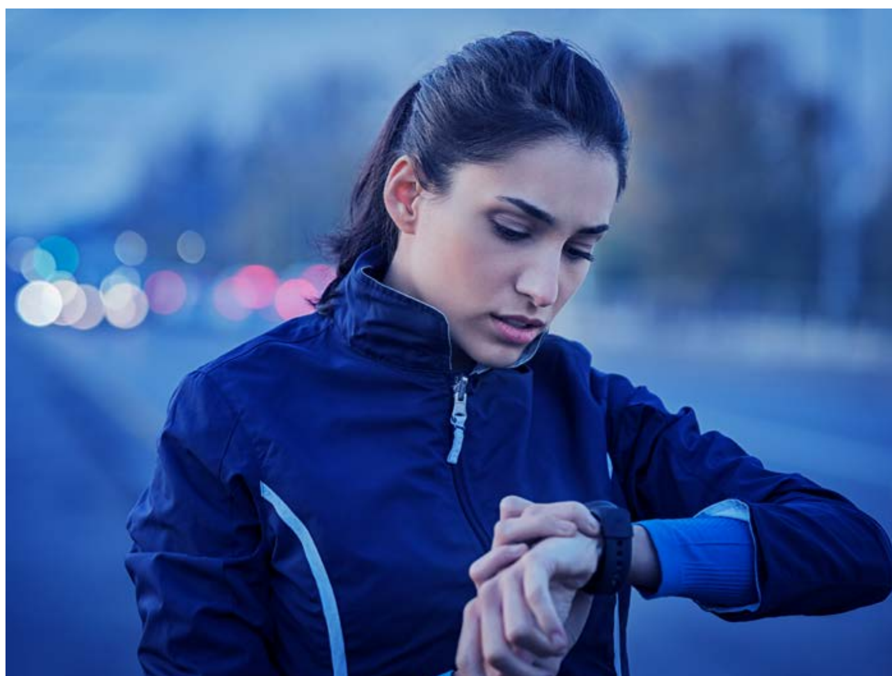
The internet of things

The thermostat is ancient technology – but useful and clever. (Almost as clever as kettles that switch themselves off when they boil by using pre-digital bimetallic strips). And we can now adjust our home heating and hot water remotely via our smartphones. But, very soon, household appliances will be able to modulate their activity by interacting with smart meters. One small application of this could be that your fridge moderates its temperature automatically according to its contents. An empty fridge may as well turn itself off, but a fridge full of cheese only needs to set the temperature at about 10 degrees Centigrade. On the other hand, the compartment containing seafood needs to be kept at about four degrees Centigrade.

A downward trend in the cost of renewable energy

Kwasi Kwarteng MP, the minister for business, energy and clean growth, told Bloomberg New Energy Finance (BNEF) Summit last month that the record-low strike price of £39.65 per megawatt hour in the latest offshore auctions for the Dogger Bank array – below the wholesale market cost of power – shows that the North Sea wind-turbine expansion has become a roaring success. He said it was time for people to stop pitting green energy and economic growth against each other in a sort of 'Manichean struggle'. The two objectives are now aligned. Renewable costs are falling so fast that the switch to a post-fossil energy system could theoretically raise productivity, stimulate investment and raise economic growth.

"SO MANY PEOPLE NOW WEAR DEVICES THAT TRACK THEIR PERFORMANCE IN THE GYM OR ON THE RUNNING TRACK THAT WE HAVE BECOME BLASÉ ABOUT THE IMPLICATIONS OF THIS TECHNOLOGY."



thermometers are easily imaginable. So, Grandma can just say "I'm cold" and the robot will turn the heating up appropriately. In fact, the robot will monitor the external weather (ie temperature and humidity) and will scan weather forecasts on the internet in order to determine if it is safe for Grandma to head for the social club. Similarly, smart doorbells with cameras equipped with facial-recognition technology will greet visitors and bid them enter – or not, as the case may be.

Homes could also be fitted with motion sensors. That means that relatives would be notified if Grandma did not get out of bed in the morning. (I agree that there are ethical issues with this, which require separate discussion). Sensors could also determine if an elderly relative has taken his/her medication in the correct dosage.

Smart fitness

So many people now wear devices that track their performance in the gym or on the running track that we have become blasé about the implications of this technology. Used wisely, a **Fitbit (NYSE:FIT)** smartwatch can be akin to having an experienced fitness coach at your side during your workout. But if we don't use our common sense, then these devices can push us beyond our reasonable limits or make us feel inadequate.

I have been arguing for a long time in these pages that we should all start tracking our principal health metrics – eg pulse, blood pressure, body temperature, respiratory rate, liver function or whatever – and freely beam this data to an intelligent digital National Health Service which will call us in when it thinks there is a cause for concern. That is also UK Secretary of State for Health and Social Care, Matt Hancock's aspiration – though he does not yet have a timetable for when it might be achieved.

In that way, we could move in the direction of a more Confucian health system where the doctor anticipates your health outcomes rather than just treats your maladies. Asian readers will understand the last sentence perfectly – even if some Europeans struggle. Famously, Chinese barefoot

Heat pumps

Natural gas is currently responsible for 80 percent of the heating energy used by households across the UK, according to British Gas (a subsidiary of **Centrica (LON:CNA)**). The UK government has decreed that no new homes will be built with gas-powered central heating after 2025. This will be a great opportunity for the manufacturers and installers of heat pumps. Heat pumps use electricity to extract ambient heat from the ground or the air. These are now already available in the UK. The principal manufacturers of heat pumps used in the UK are: **Hitachi (TYO:6501), Samsung Electric (KRX: 005930)**, Glen Dimplex (a private Irish company with a manufacturing plant in Northern Ireland) and Worcester Bosch (owned by Bosch GmbH, a private German conglomerate).

Using liquid air to keep the lights on

Last month a plan was revealed to store cheap night-time wind energy in the form of liquid air, stored at a temperature of minus nearly 200 degrees Centigrade. The idea is to use off-peak electricity to compress and cool air in a tank at a temperature so low that it becomes liquid natural gas (LNG) in the same way that natural gas is transported. When demand peaks, the liquid is warmed back into gas, and as that expands it drives a turbine to create more electricity[ii]. The technology, created by the private inventor Peter Dearman, shows great promise.

Its backer, Highview Power (in which Mr Dearman is a shareholder), has announced that a grid-scale 50 megawatt plant is to be built in the north of England on the site of a former conventional power station. The proposed project will be able to supply electricity to around 25,000 homes for a day, although it would mainly be used for short periods to cover sudden peaks in demand. The key innovation is to store the excess heat generated when the air is compressed and use it to reheat the liquefied air when it is needed.

Highview plans to construct five plants around the country that can provide zero-CO2 power during long lulls in output from the UK's North Sea wind farms. It can also absorb surges of excess energy that would otherwise be wasted at times of low demand. Highview already runs a cryogenic energy-storage plant which converts low-grade waste heat to power at the Pilsworth landfill facility in Bury, Greater Manchester. The plant began operation in April 2018 and was developed in partnership with recycling and renewable-energy company, Viridor (a subsidiary of the **Pennon Group (LON:PNN)**. The project was backed by £8 million of UK government funding.

doctors (healthcare workers trained to attend to people in rural areas) were tasked not with healing the sick – but with keeping the well healthy.

Smart storage

We want to phase out fossil-fuel power generation and to use renewables as much as possible. But the problem is that sometimes the wind doesn't blow and (especially in the UK) the sun doesn't always shine. The solution is to have massive, backup batteries on standby.

Tesla (NASDAQ:TSLA) and SpaceX chief executive Elon Musk famously promised to build a giant battery in South Australia within 100 days or do it for free. He delivered on his promise. The 100 megawatt lithium-ion Tesla battery, the most powerful of its kind in the world, has been operating at the Hornsdale Power Reserve (HPR) wind farm near Jamestown in northern South Australia since the summer of 2017. Hornsdale is operated by French energy giant **Neoen SA (EPA:NEOEN)**.

Responding to a challenge from Australian tech billionaire Mike Cannon-Brookes on Twitter, the Tesla boss partnered with Neoen to build the battery within 100 days, beating more than 70 competing bids. A report by South Australia's auditor general, published last November, said that the former government of South Australia had decided not to pursue a claim for damages against Hornsdale for failing to demonstrate the battery's reliability. To pass the reliability tests, HPR needed to demonstrate reliable commercial operation of the battery for at least 28 consecutive days without interruption – something that Tesla has so far failed to do.

How to get to net zero realistically

The UK government has pledged to get the country to net zero carbon emissions by 2050. But how realistic is that? The consensus is that it can be done but that it entails enormous change, according to the UK Committee on Climate Change.

The International Panel on Climate Change, a UN body, has stated that, globally, mankind needs to get to net zero by 2050 in order to avoid 'runaway' climate change. That is where the average temperature exceeds two degrees Centigrade above the 1800 level. It has identified a number of challenges for people in advanced countries. These include replacing gas boilers in homes with low-carbon alternatives like heat pumps; transitioning from ICE-powered transport to electric vehicles; and switching electricity generation away from fossil fuels in favour of renewables.

Transport accounts for 28 percent of the UK's total carbon emissions. About a quarter of our emissions are related to heating our homes, 80 percent of which are currently heated using gas boilers. The consumption of coal in the UK is in terminal decline. In fact, the country went for a week over the summer without burning

> **"JOHNSON MATTHEY (LON:JMAT) IS A BRITISH ENGINEERING AND TECHNOLOGY FIRM WHICH IS TRYING TO PUSH THE BOUNDARIES OF BATTERY TECHNOLOGY FURTHER."**

any coal at all – probably for the first time since the world's first coal-fired power station was opened in Holborn, London in 1882. In fact, the last coal-powered facility will be closed down for good in 2025.

The future is represented by large offshore arrays like Hornsea One, the world's biggest offshore wind farm in the North Sea.

Changes in consumer behaviour

The most evident area where people will be vigorously encouraged to change their behaviour is air travel. People who fly frequently (and that includes most of the people who write for this magazine and many of those who read it), and who thus contribute to large-scale carbon emissions, will increasingly be accused of antisocial behaviour. While there is scope to electrify short-haul flights it is doubtful that long-haul flights could ever be rendered carbon neutral.

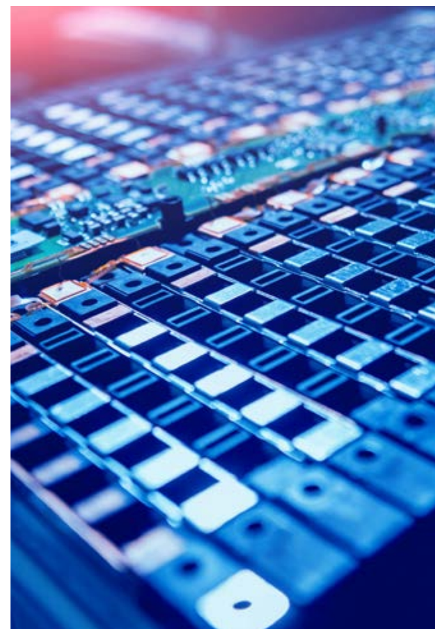
Smart monitors will soon be available, which track your personal contribution to CO2 emissions. No doubt it will become a badge of honour to reduce one's emissions to below two tonnes of CO2 per year. That is roughly the level that could realistically be cancelled out by planting trees. Most of us would have to change our lifestyles drastically in order to reach that level.

Smart batteries

Battery technology is in rapid development. The two key variables are battery density (the amount of electric power you can cram into a brick-sized piece of kit or the weight-to-energy ratio) and its cycle life (how many times you can use and then recharge the battery without significant loss of capacity). There is generally a trade-off between the two. But the long-term success of electric cars will depend on greatly enhancing both variables.

Johnson Matthey (LON:JMAT) is a British engineering and technology firm which is trying to push the boundaries of battery technology further. Johnson Matthey is already famous for manufacturing around one third of the catalytic converters found in cars worldwide. It also produces components which make fuel cells work and refines the precious metals from which modern batteries are made.

When a battery supplies power, positively charged electrons flow around the circuit into the cathode; and when it is charged the reverse takes place. So, the cathode's ability to release and to accept (lithium) ions and electrons is a key factor in its performance. Recently, Johnson Matthey came up with a combination of cathode materials which should significantly improve the range and performance of electric cars while also making recharging them more quickly.



Cathodes are made of layers of lithium interspersed with other metal oxides, of which nickel is now favoured. The element that stabilises the nickel in lithium batteries is cobalt. This metal is rare and therefore expensive; furthermore, the supply is mostly from politically unstable countries such as the Democratic Republic of Congo. Thus cobalt is often melded with cheaper metals such as manganese and aluminium.

Cobalt is poisonous – so recycling batteries which contain cobalt will become a major issue. The other problem with lithium batteries is that they can catch fire and even explode. Note the spate of incidents which forced Samsung to recall tens of thousands of Galaxy Note 7 smartphones in 2016. Lithium-ion batteries are also very heavy.

Scottish and Southern Energy (SSE) responds

In October this year, SSE Energy Services launched a new tariff for electric-vehicle owners, giving them up to 2,000 kilowatt hours of free electricity a year when they charge their car overnight at home. They estimate that customers who sign up to the 1 Year Fix and Drive tariff will benefit from 8,000 free miles a year. All electricity so used will be fully supplied from renewable sources. The tariff will be available to both new and existing customers without any exit fee. **SSE (LON:SSE)** is the UK's third-largest energy supplier, providing energy to 5.7 million customers throughout Great Britain. In September **Ovo Energy** (private) agreed to buy SSE's retail business for £500 million. Ovo, launched 10 years ago, was already the UK's largest independent energy supplier, with 1.5 million customers and about 2,000 employees. Since February this year it has been 20 percent owned by the **Mitsubishi Corporation (TYO:8058)**. It is now taking on SSE's 3.5 million household customers and 8,000 staff, achieving the position of number two in the UK market behind British Gas.

Meet the meter maker

Smart meters supplied by a number of UK power companies including **E.ON (ETR:EOAN)** and **EDF (EPA:EDF)** are manufactured by Chameleon Technology (UK) Ltd. Chameleon is a leading energy-technology company providing real-time smart-meter data for consumers. Chameleon designs and manufactures in-home displays and connected devices and applications, and also maintains a cloud platform. Its customers are mostly utilities across the UK and Europe. Chameleon also works with appliance manufacturers. Its head office is in Harrogate, North Yorkshire. Chameleon ranks at number 33 on the Sunday Times Tech Track 100 2019. More than four million of its smart meters have been installed in UK homes.

"INVESTORS SHOULD SEEK EXPOSURE TO THE RENEWABLE REVOLUTION AND THE SMART TECHNOLOGY THAT DRIVES IT."

On 18 October, Austin Electric Vehicles (private), an engineering firm based in Essex which owns the rights to use the old Austin Motor Company logo, signed a deal to buy a new battery technology from the British designer Trevor Jackson. Austin will begin producing the new-style batteries for electric vehicles next year[iii]. Car-industry sceptics claim the technology is unproven. But an independent evaluation by UK Trade and Investment, a government agency (since replaced by the Department for International Trade), said in 2017 that it had much higher energy density than conventional batteries.

Scientists discovered years ago that by dipping aluminium into an electrolyte, they could trigger a reaction between the metal and air to produce electricity. Initially, the electrolyte was extremely poisonous. But after years of experimentation at his workshop in Cornwall, Mr Jackson claims to have developed a new formula for the electrolyte which is neither poisonous nor caustic. This electrolyte works with much lower-purity metal – including recycled aluminium drinks cans. Technically, this is not so much a battery as a fuel cell.

Austin Electric envisages that instead of rolling out a national network of charging points, car owners using the Jackson fuel cell would just swap depleted batteries for fully charged ones at supermarkets. They claim to be in discussions with two leading UK supermarket chains about this.

Meanwhile, Dyson Technology, the firm headed by British inventor Sir James Dyson, most famous for its iconic vacuum cleaners, announced on 11 October that while it had developed a "fantastic electric car" it was scrapping the project because it was "not commercially viable".

Action

The oil majors will clearly lose out in the smart-energy revolution – though I would hazard a guess that there will still be an oil industry at the end of the century (something to be explored elsewhere). The electric-power generators, particularly those which progress fastest with renewable-energy production, and their suppliers, will be clear winners from the electrification of transport. There are huge opportunities for niche suppliers such as Chameleon Technology (see panel) as well as for the likes of Tesla which can provide massive battery facilities to back up wind farms and solar arrays.

Investors should seek exposure to the renewable revolution and the smart technology that drives it. Most of the large investment 'stables' now offer renewable-energy funds which allocate to both clean-power generators and equipment manufacturers.

Max King, an author at MoneyWeek, and a previous fund manager, quotes the Foresight Group, which manages the **Foresight Solar Fund (LSE:FSFL)** to the effect that construction costs in the UK have fallen from £2.5 million per megawatt hour in 2011 to £0.5 million today[iv]. Improvement in the design of photovoltaic cells has driven a 30 percent plus increase in output. In Spain and Portugal, where the sun shines more reliably, solar costs are now below unsubsidised wholesale prices. That may be attainable in the UK, where solar-energy yields are 40 percent lower, within 10 years.

About Victor

Victor is a financial economist, consultant, trainer and writer, with extensive experience in commercial and investment banking and fund management. His career includes stints at JP Morgan, Argyll Investment Management and World Bank IFC.

i https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/786913/V149_rates_of_vehicle_tax_for_cars_motorcycles_light_goods_vehicles_and_private_light_goods_vehicles__01_04_2019.pdf
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BY MARK WATSON-MITCHELL

PORTFOLIO INTELLIGENCE

THOMAS COOK

WHAT WENT WRONG AND WHO WILL BENEFIT FROM ITS DEMISE?

Mark Watson Mitchell examines the demise of Thomas Cook and asks what lessons investors can learn, and which companies will benefit.

Britain's oldest travel agency business failed in September, after being in business for 178 years. It endured a somewhat chequered career in its later years.

In 1948, Thomas Cook was nationalised and became part of the state-owned British Railways. In 1972, it was privatised when it was acquired by a consortium of Midland Bank, the Automobile Association and Trusthouse Forte. Five years later, sole ownership passed to Midland Bank.

The bank sold it off in 1992 to a German bank and a charter airline. Nine years later it changed hands again, becoming part of C&N Touristic AG, one of Germany's largest travel groups.

A merger with MyTravel, formerly the Airtours business, way back in February 2007 saw the group eventually become a FTSE 100 Index constituent in December that year.

Gradually Thomas Cook had become a massive global-travel group, with annual sales of £9bn, 22,000 staff in 16 countries and 19m customers.

Close to going under

In 2011, the company was close to going under after suffering a period of poor trading. Including a pension deficit, its debts at that point were around £2bn. It then was granted an emergency loan by RBS and a consortium of other banks.

A £425m fundraising from shareholders in 2013 turned out to be just a drop in the ocean of its debt.

Over the years, the group had fallen behind the times and continued to prioritise selling its packaged holidays through its 563 shops, despite also having a small and capable online operation.

From 150p to worthless

In the middle of last year, Thomas Cook's shares were trading at around the 150p level.

The years of losses continued. Last year it was down £1.5bn in the first half alone, and its debts had mounted up. Writing down its MyTravel business cost £1.1bn and did not help its position.

In mid-May this year, its shares were classed as 'worthless' by analysts at both Citigroup and Morgan Stanley. That was after it had declared its third profit warning in less than a year. The shares were then 20p.

Sell off its airline

The planned sale of its airline was possibly a corporate lifeline, as well as closing down some of its shops, and it was also considering whether to sell off its travel-exchange operations. In addition, it had received an approach from a private-equity group for its Nordic interests.

By July, boss Peter Fankauser declared that the best way out of its problems was to succumb to a £450m bailout by the £75bn Chinese investment group Fosun, which was already a Thomas Cook shareholder.

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> "THOMAS COOK'S FATE WAS INEVITABLE. ITS DEMISE WILL BE DISCUSSED AND ANALYSED FOR MONTHS, IF NOT YEARS."

The Chinese wanted to fund but...

The Chinese group owns Wolverhampton Wanderers Football Club and also the Club Med beach-holiday business.

Fosun was prepared to put in its funding by way of acquiring 75% of the Thomas Cook tour business and 25% of the group's airline. This was conditional on the company's banks and bondholders coughing up an equal amount, £450m, in return for 25% of the tour business and 75% of the airline.

However, two of the banks concerned, which I understand may well have been the state-controlled Lloyds Bank and the RBS, demanded that the company secured an added £200m of working capital.

£200m plea to the government rejected

That was the point when the government was being criticised for refusing to bail out the company, declaring that the first £200m would be used and another chunk would be sought a couple of months after. How right it was to be so firm in denying the company's request.

It was suggested to me by someone in the know that the banks were being asked to convert some £600m of loans into equity, while the overall debt pile was over £3bn. It was actually seeking £1.1bn of funding just to carry it through the winter months.

Thomas Cook's fate was inevitable. Its demise will be discussed and analysed for months, if not years.

So, who will benefit from its failure?

The group's UK business alone had over 2.5m customers, with a 28% market share of the offline market and 10% of the online market. There are obvious beneficiaries in any market as a major player departs – and that is the case with Thomas Cook.

It also may well put a lot of investors off from investing in this part of the travel sector. However, I reckon that there is much to be gained for those companies brave enough to step up.

The fleet of planes

When the company went into liquidation it had 34 planes in its fleet, 91% of which were leased.

I understand that Apple Aviation are handling the maintenance, storing and preparation of the first four of those Airbus A321 and A330 planes, at its facilities at Newquay Airport in Cornwall. They will then be reassigned and reliveried to other airline operators.

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The air slots

KPMG, which has been appointed by the official receiver, has sought bids for the group's airport take-off and landing slots at Gatwick Airport, including 15 pairs of summer slots.

Already it is suggested that easyJet, Virgin Atlantic Airways and Wizz Air have made bids for the group's slots at Manchester and Aberdeen Airports.

These slots are sought after and can prove invaluable to operators. Despite being at middle-of the-day times, which are not generally as desirable, they could also raise tens of millions of pounds for the liquidation.

The 563 retail shops

In a cracking deal, which surprised so many in the travel sector, the Sunderland-based private company Hays Travel paid a rumoured £50m for 555 of the Thomas Cook retail travel-agency shops. Hays Travel also instantly offered the group's former employees, who had been out of work for two weeks, the ability to start back at work in their previous branches. It already had some 190 shops of its own, so it was a bold move.

That was a very shrewd deal for Hays Travel, which is the largest third-party agency for TUI in the UK. In fact, Hays Travel is the country's largest independent travel agent. It runs at around a £1bn turnover and makes about £10m a year in pre-tax profits. In its last accounts, I understand that it had a £100m cash balance, so the deal price would have been relatively easy to cover. With the Thomas Cook business, it could easily triple those figures.

Hays Travel is a multi-agent business, whereas Thomas Cook simply marketed its own packages and services. Therefore, its scope to increase its business is massive.

The remaining Thomas Cook shops may well be closed, if not sold off.

Whatever else is left?

As mentioned, the group also had business in the Nordic region, including an air operation and a travel business.

Its various travel brands included Airtours, Signature and Manos. Its tour-operation brands took in Ving, Tjareborg, Spies, Neckermann and Intourist. It also owned 42% of the Aldiana tourist firm.

In addition, it had 68 hotels across the globe. Its hotel and resort brands included Sunprime Hotels, Casa Cook Hotels, Cooks Club Hotels, Sunwing Family Resorts, SunConnect Resorts and Smartline Hotels.

Primarily branded for couples, SENTIDO Hotels and Resorts was one of Thomas Cook's biggest own-brand hotels. There are currently 70 SENTIDO hotels in 13 countries across Europe, Africa and Asia.

The beneficiaries – large and small

There are several players in the UK packaged holiday and airline-operating sector, in which Thomas Cook was a dominant force.

Whether, of course, the other players can swoop in and grab chunks of the business that the public would have otherwise directed to Thomas Cook, that is, as yet, unknown. However, several of the others have already seen an uplift in their business and certainly in enquiries. Just think of it – over 19m customers and nearly £10bn of next season's business going begging.

Having taken a look at the sector, I consider that the others could well include any or all of the following quoted companies that could benefit from the gaps in the market.

In the direct market, I have taken a quick look at TUI Group, International Consolidated Airlines Group, easyJet, Ryanair, Wizz Air and the Dart Group.

TUI Group (LON:TUI)

Market cap:	£6.18bn
Share price:	1049p
Turnover:	€19.52bn
Pre-tax profits:	€971.50m
EPS:	€1.17
Dividend:	€0.72
P/E ratio:	9.86
Yield:	70.62%

This Anglo-German multinational is the world's largest tourism group. It owns 1,600 travel agencies and leading online portals, six airlines with around 150 aircraft, over 380 hotels, 17 cruise liners and many incoming agencies in all major holiday destinations around the globe. It handles around 27m customers, in 180 regions and has some 70,000 employees.

The group has already stated that it has added 2m seats to its programme; last year it handled 6m seats – so they are obviously looking to take advantage of the collapse.

Karolis Kavolelis / Shutterstock.com

International Consolidated Airlines Group (LON:IAG)

Market cap: £10.3bn
Share price: 508.6p
Turnover: €24.41bn
Pre-tax profit: €3.49bn
EPS: €128.64p
Dividend: 27.69p
P/E: 3.95
Yield: 5.44%

This is the sixth-largest airline company in the world, owning both British Airways and Iberia. It also takes in Aer Lingus, Anisec Luftfahrt, Vueling and the Avios Group.

In addition, it also owns LEVEL, a low-cost long-haul airline, operating out of Barcelona. It had planned to take over Norwegian but subsequently disposed of all its shares. Qatar Airways owns over 21% of the IAG equity.

It has a massive order for 200 Boeing 737 MAX aircraft outstanding, despite the maker having major problems with that model.

It is a natural contender to pick up some of Thomas Cook's passenger business but is currently having some major disputes with its airline pilots.

Fasttailwind / Shutterstock.com

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Ryanair (LON:RYA)

Market cap: €13.11bn
Share price: €11.93
Turnover: €76.97bn
Pre-tax profit: €885.00m
EPS: €0.76.65
Dividend: n/a
P/E: 15.10
Yield: n/a

Not the world's favourite airline – in fact it could be the most complained about by passengers for the extra costs after having purchased seat tickets.

The boss takes a massive annual bonus and pay cheque, and has a reputation for being combative.

It is the price charged for travel seats that would probably help Ryanair to pick up some of the Thomas Cook direct business.

easyJet (LON:EZJ)

Market cap:	£4.91bn
Share price:	1235p
Turnover:	£58.98bn
Pre-tax profit:	£445.00m
EPS:	90.90p
Dividend:	58.60p
P/E:	13.59
Yield:	4.75%

This low-cost European point-to-point airline enjoys a credit rating amongst the strongest in the world for an airline. It had net cash of £396m and enjoys a return on capital employed of 14.4%.

It has a dedicated workforce of over 10,000 people, including nearly 3,000 pilots and 7,000 cabin crew. It operates on 979 routes and is either the number one or number two operator at 51 airports. Last year, it carried 88.5m passengers on its modern Airbus fleet, using the A320 family of aircraft. Currently it is up-gauging its fleet to 186-seat cabins.

Without doubt Thomas Cook's demise presents easyJet with great business opportunities.

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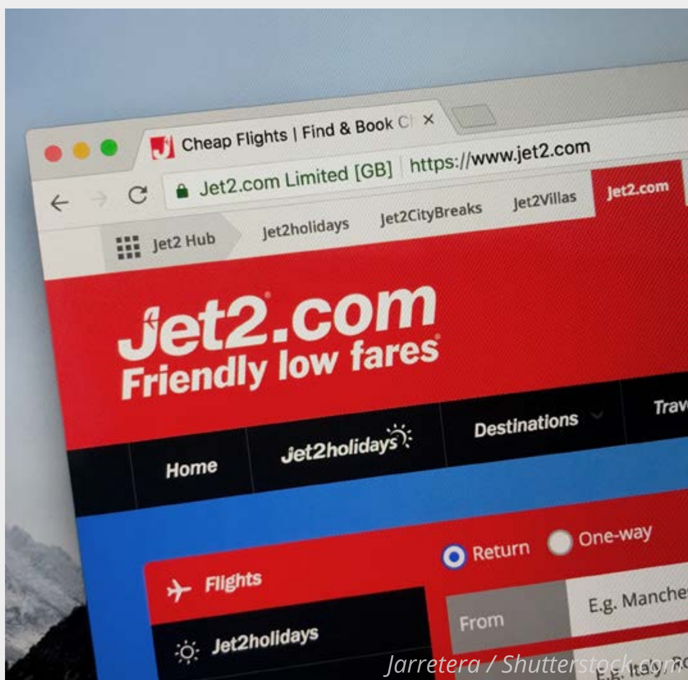
Wizz Air (LON:WIZZ)

Market cap:	€13.11bn
Share price:	€11.93
Turnover:	€76.97bn
Pre-tax profit:	€885.00m
EPS:	€0.76.65
Dividend:	n/a
P/E:	15.10
Yield:	n/a

This airline is the largest low-cost operator in central and eastern Europe. It has 119 Airbus A320 and A321 aircraft in its fleet, with an average age of 4.7 years. The company handles 37m passengers a year, on 710 routes, flying out of 151 airports in 44 countries, and averages around a 95% load factor.

It has a team of 4,500 employees and is a natural recipient of some of the Thomas Cook business.

Dart Group (LON:DTG)



Jarretera / Shutterstock.com

Market cap: £1.84bn
Share price: 1236p
Turnover: £3.14bn
Pre-tax profit: £177.50m
EPS: 97.98p
Dividend: 10.20p
P/E: 12.62
Yield: 0.83%

This group could well be the biggest beneficiary of the Thomas Cook demise. It has two main divisions – leisure travel, and distribution and logistics.

It owns Jet2.com, its low-fare and charter-flight airline which provides scheduled leisure air services. It now has a fleet of 100 aircraft flying to 70-plus beach, city and ski destinations across Europe and beyond. With nine bases in the UK, it handled 12m passengers last year.

As the third-largest British airline behind British Airways and easyJet, it has already seen a big pickup in demand and has added an extra 170,000 seats to its schedule between October this year and next March.

Jet2holidays is the Group's ATOL-bonded package-holiday specialist to more than 500 resorts across Europe, the Canaries and the Mediterranean.

Thomas Cook derived 30% of its business from the Iberian peninsula, which is just where Jet2 operates and which gives it scope for big business upside.

Dart's other business, Fowler Welch, handles fresh produce and temperature-controlled and ambient products on behalf of retailers, growers, importers and manufacturers throughout the UK.

The periphery players

On the retail front, On the Beach will benefit. Stobart Group, the owner of Southend Airport, could also see an uplift in its passenger flow through. On the transport front, National Express might well see a positive impact on its business.

Even easyHotel, Hostelworld, Ten Lifestyle and travel-insurance companies may be gainers on the periphery.

About Mark

Director of SQC Research and Author of mw-m.com.

Mark, who has over fifty-five years' experience in the UK stock market, established SQC Research in 1993. He previously worked as a dealer for four stockbroking firms and an investment fund management business. Prior to SQC Research, which provides investment information and comment on smaller quoted companies, he published financial and investment magazines and newsletters.

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BY RICHARD GILL, CFA

FROM ACORNS TO OAK TREES

AIM TO BOUNCE BACK

Richard Gill, CFA, looks at three AIM 100 companies which he believes look like they are ready to bounce back.

Just over one year on from the market crash in the final quarter of 2018, most share fans are unfortunately still licking their wounds. Investors across the whole spectrum of UK-listed stocks were hit by the 'flash crash', with the FTSE 100 losing 10.2% between 1 October and the end of the year. The FTSE 250 lost 14.2% and the AIM All Share dropped by 22.1%. While the larger caps have almost made back all of their losses as I write, small caps remain well and truly in the doldrums.

Particularly notable about the small-cap share plummet is that the traditionally stalwart AIM 100 index constituents have led the fall. The index is down by 22.7% since last year, compared to the AIM All Share which is down by 19.1%, following some markedly bad performances from AIM's billion-pound businesses.

Asos (LONASC), for example, has lost 38% of its value since the start of Q1 2018 as investors became concerned with growth rates and failed to maintain the online retailer's high rating. Fellow highly rated stock **Fevertree (LON:FEVR)** has fallen by 43%, with investors again concerned about slowing growth at the tonic maker and the high price of the shares. Former market darlings **Accesso Technology (LON:ACSO)** and **Blue Prism (LON:PRSM)** are down by 79% and 63% respectively, with beleaguered litigation-finance firm **Burford Capital (LON:BUR)** losing 58% after a hatchet job from US short-seller Muddy Waters.

> “SMALL CAPS REMAIN WELL AND TRULY IN THE DOLDRUMS.”

As in any bear market, some companies can be caught up in the malaise despite continuing to trade well and have good growth prospects. Here are three AIM 100 companies which I believe look like they are ready to bounce back.

REDDE

Companies which offer a dividend yield of around 5-6% or higher should always be scrutinised carefully, to avoid the infamous 'dividend trap'. This is a situation where an investment may look attractive due to the high income on offer but in the background there could be a whole host of problems such as poor operational performance, a declining industry or an unsustainable level of payouts.

An example of a classic dividend trap was HMV, back in 2011, when the yield on offer had risen to 11%. However, dragged down by debt and its failure to catch on to the digital-music trend, the company went bust in January 2013. Not all high yielding stocks are dividend traps however, with this next company having a deliberate policy to make large payouts.

On the road

Founded in 1992 as Helphire but rebranded in 2014, **Redde (LON:REDD)** is a market-leading provider of a range of accident management, incident management and legal services, which works with insurance companies, insurance brokers, motor dealerships and large, national, fleet owners.
The company delivers accident-management services to motorists, helping them remain mobile until their vehicles are repaired, and also providing legal services ensuring motorists are compensated for their injuries and losses. Ancillary legal services provided also include wills and probate; family law; clinical negligence; and employer and public-liability law advice.

Under long-standing chief executive Martin Ward, the business has grown well since the rebrand, with revenues trebling to £590 million between 2014 and 2019, and earnings up from 7.47p to 13.44p per share. The last financial year was a good one for the company financially. It grew pre-tax profits adjusted for non-cash and exceptional items by 7.1% to £49.3 million. Operational highlights for the period included a 9.4% growth in credit-hire cases and a 5.2% increase in number of repair cases.

In the Redde

Redde shares weathered the October 2018 small-cap sell-off reasonably well but unfortunately there was some bad news in March this year. The company revealed that its hire-and-repair contract with a large insurer it had worked with for 10 years had not been renewed. As a result, consensus operating-profit forecasts for the year to June 2020 were expected to be hit to the tune of £4.7 million. The share price pretty much halved to a low of 90p on the back of this news, which seemed a massive overreaction, given that the shortfall amounted to around only 9% of profit forecasts for the year.

Redde is experiencing strong momentum elsewhere however, with a number of new contracts won in other areas of the business since March, as well as a contract renewal with a major insurer. This has all contributed to confidence in the company meeting revised market expectations.

Paint the town Redde

Redde shares have recovered from their recent lows to currently trade at 114.8p, capitalising the company at £352 million. At the current price, if the annual dividend payout of 11.65p per share is maintained then the yield on offer is a stonking 10.1%. That's the highest of any AIM 100 company. So the question here is, is the dividend likely to be maintained and is it sustainable?

Firstly, it is important to note that the high payout is deliberate, with Redde having a 'full distribution' dividend policy. This means it gives away pretty much all of its annual profits to shareholders. The last set of results stated that Redde, *"...intends to at least maintain the absolute dividend amount"*. With current market-consensus forecasts for 2020 looking for 13.3p of earnings, that does look likely, in the absence of any more nasty surprises.

"UNDER LONG-STANDING CHIEF EXECUTIVE MARTIN WARD, THE BUSINESS HAS GROWN WELL."

The sustainability question should also consider the balance sheet, which looks sound in my opinion. Redde had net debt of £34.7 million as at 30 June 2019 (cash of £11.9 million), with this mainly made up of obligations under finance leases which the company takes out to rent vehicles. However, interest on these was just £1.2 million last year, well covered by EBITDA of almost £55 million. The company also had minimal capex expenses of £3.75 million last year. In addition, the company has a £50 million, five-year, committed, revolving capital facility with HSBC, along with a £5 million overdraft.

As well as the high dividend yield, Redde shares look cheap on an earnings basis, trading on a multiple of 8.6 times 2020 forecasts. One caveat however is that the administrator of Woodford Investment Management, Link Fund Solutions, has a near 20% holding in Redde. While this is expected to be sold off, other institutions, including Société Générale, have recently been increasing their stake.

RENEW HOLDINGS

According to Hofstadter's Law, it always takes longer than you expect, to complete a large task. This is especially the case with large infrastructure projects, with many running over time and budget due to their huge complexity. Crossrail was supposed to be ready for the Olympics, wasn't it? And Virgin Galactic seems to have been promising that its space-tourism flights are two-three years away, every year for the past 15 years. One company which helps to support large infrastructure projects, however, is performing a lot more reliably.

Renew Holdings (LON:RNWH) is an engineering-services group which supports a range of UK infrastructure assets through its various subsidiaries. The core engineering-services division, which accounts for over 90% of revenues, focuses on energy, environmental and infrastructure markets, providing services such as asset maintenance, civil engineering and installation. These markets provide a good degree of visibility as they are largely governed by regulation and benefit from non-discretionary spend, with long-term visibility of committed funding. Another of its divisions, specialist building, focuses on refurbishment projects in the high-quality, residential market in London and the Home Counties.

The group was significantly expanded last year following the £80 million acquisition of specialist, independent rail contractor QTS Group. Based in Scotland, and with eight operational bases across the UK, QTS has a long-standing relationship with Network Rail, operating under long-term framework contracts. In the year to March 2018 it made revenues of around £70 million and adjusted operating profits of £9.2 million, with the deal expected to be materially earnings enhancing.

Renewed profits

Like most firms in the industry, Renew had a tough time following the 2009 recession. But since bottoming out in July that year the shares have increased fourteen-fold. Revenues have increased from £316.6 million in 2009 to £541.5 million in the last financial year, with operating profits up from £4.6 million to £31.1 million. The numbers have been driven by an increasing focus on the engineering-services businesses, along with a strategy to acquire complementary companies.

The most recent numbers, covering the six months to March 2019, reported a record set of figures, which in part were boosted by a first full H1 contribution from QTS. Revenues for the half year grew by an impressive 15% to £301 million, with adjusted operating profits advancing by 39% to £18.4 million. Notable was an improvement in the operating margin from 5% to 6.1%, crucial in an industry which traditionally has slim pickings. Operating highlights included a 4% increase in the overall group order book to £580 million and significant new framework contracts secured in the energy and infrastructure industries.

At the beginning of October, Renew announced a positive trading update, confirming that results for the year to 30 September 2019 would be in line with market expectations, reflecting the full-year contribution from QTS. Engineering services expects to report good organic growth and a strong order book reflecting its focus on long-term framework contracts, with net debt expected to be between £10-£11 million at the period end.

On track for growth

Sentiment with regard to companies in the engineering and contracting services sector remains relatively low following the demise of Carillion last year. That may go some way towards explaining why Renew trades on a multiple of just over nine times consensus earnings forecasts for the current financial year. With a dividend of around 12p being pencilled in, the yield of 3.2% is reasonable.

Overall, I believe that the shares look like a good bet, with management being a particularly good asset here. What's more, the business is strongly cash generative, with a £16.6 million inflow from operations in 2018, and the current order book represents just over a year's worth of historic revenues. Notable growth opportunities come from Network Rail's current Control Period 6 (CP6) five-year financial period, which has had £48 billion allocated to its budget, with an increase of around 25% in planned spending on operations, maintenance, support and renewals activities, compared to CP5.

> **"RENEW TRADES ON A MULTIPLE OF JUST OVER NINE TIMES CONSENSUS EARNINGS FORECASTS."**

Renew shares have slipped a few percent since the October trading update, which seems unfair given that it was in line with expectations and there were no negative points. In September this year, analysts at Peel Hunt initiated coverage on the shares and slapped on a 500p target price, implying upside potential of 33%. Top management seems to agree with that view, with the chief executive, chief financial officer and another director recently splashing out a combined £50,000 on buying the shares.

DRAPER ESPRIT

Most company TIDM (Tradable Instrument Display Mnemonic) codes are a simple abbreviation of a business's name. BARC is used for Barclays, EXPN for Experian, GSK for GlaxoSmithKline and so on. But some companies are allocated more amusing monikers, like UFO for mining explorer Alien Metals, ZZZ for defunct temporary-accommodation provider Snoozebox, and CAKE for collapsed pastry purveyor Patisserie Valerie. Perhaps the best use of a TIDM code to describe a business is demonstrated by this next company.

Draper Esprit (LON:GROW) is a listed venture-capital investor focused on the creation, funding and development of high-growth technology businesses, with an emphasis on digital technologies in the UK, the Republic of Ireland and Europe. As well as investing directly in companies, it also has a range of EIS and VCT funds through which it can provide capital to growth businesses. Since listing on AIM and the Euronext Growth markets in 2016 the company has, every year, exceeded its target portfolio return of 20%, successfully exiting a number of investments.

As at 31 March this year, Draper Esprit's portfolio consisted of minority stakes in 54 companies, with 15 core holdings accounting for 70% of the portfolio by value. These are growing fast, with the portfolio companies having an average turnover in excess of $142 million, up by more than 45% annually from 2018 to 2019. Some of the core holdings include Ledger, a hardware security wallet for cryptocurrencies and blockchain applications; Lyst, a global fashion search-engine platform; international money-transfer platform Transferwise; and review website Trustpilot.

Showing spirit

The last financial year was highly successful for Draper Esprit, with the primary portfolio value soaring in value by 144% to £594 million – a 58% increase in fair value over the 12 months to March 2019. The plc invested £226.4 million during the period, with a further £35.1 million invested by the firm's EIS/VCT funds, funded by the plc raising £215 million and the funds £64 million. In addition, £16 million was generated via two exits, with an additional £15.3 million realised post period end – the company has now exited 18 companies since the 2016 IPO.

An AGM update in July showed further progress in the current financial year, with £22 million invested across six portfolio companies and a further £6.5 million allocated from the EIS/VCT funds in the year to date. This included a further investment of €7 million into Berlin-headquartered digital-banking company N26 as part of a $170 million round. The company also invested a further £2.2 million into machine-learning business Realeyes, which measures emotions through facial-recognition technology, and €2.5

"WITH £150 MILLION OF FURTHER FUNDS FOR INVESTMENT, I BELIEVE SHAREHOLDERS ARE IN FOR ANOTHER SUCCESSFUL YEAR."

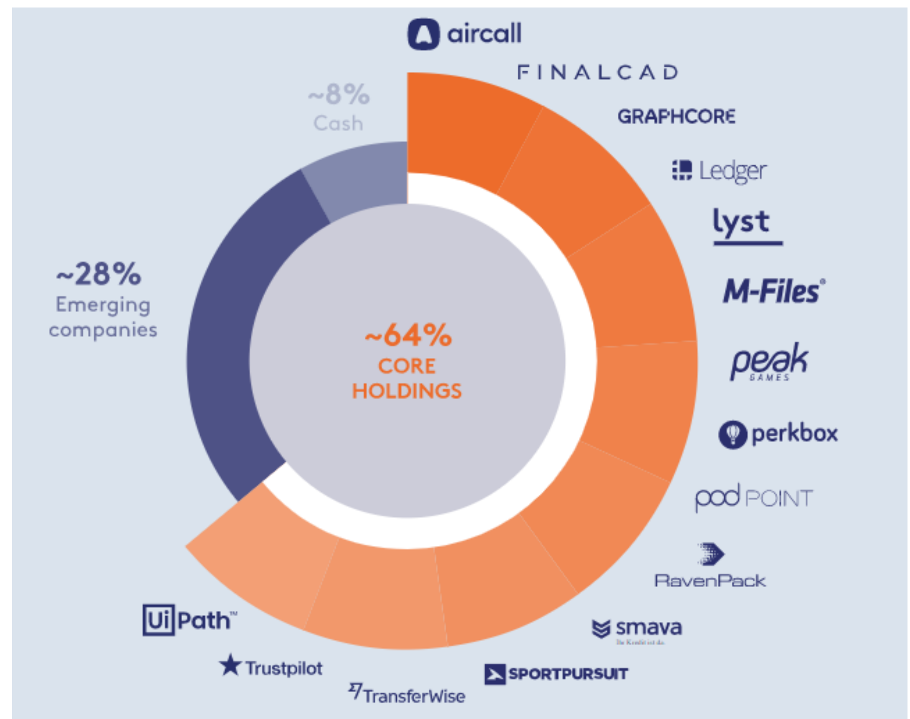
million in Aiven, a cloud-technology company developing a portfolio of database-as-a-service products.

At the end of October, there was a further positive update, reporting on progress at a trio of investee companies. Firstly, big-data analytics provider RavenPack has raised $10 million, with the funding valuation increasing Draper Esprit's holding by a fair value of £18.3 million to £33.9 million. Meanwhile, online marketplace Pollen has raised $60 million in new finance, with Draper Esprit taking part in the round to the tune of £5.9 million. The company's holding increased in value by £2.3 million to £13.2 million at the funding round's price. Finally, Draper Esprit led a $9 million funding round into Sweepr, investing £2.7 million in the Dublin-based customer-experience platform for the 'connected home', which will be used to expand the workforce in the US and Europe.

Unwarranted discount

Investment companies such as Draper Esprit are valued in relation to their net assets, with the market usually applying a premium or discount depending on the characteristics of the company. With a current share price of 459p and a NAV per share of 524p as at 31 March 2019, the current discount is 12.4%. For a company with such a good track record, that discount looks a bit harsh, especially considering the further increases in value reported since the period end.

Draper Esprit has grown its NAV per share from 352p as at 30 September 2016, which is a compound growth rate of 17.25% per annum – rises in the portfolio value have been diluted by equity fundraisings. That is impressive, and with £150 million of further funds for investment, I believe shareholders are in for another successful year in 2020. Analysts at both Numis and Peel Hunt argue that the shares should trade at a premium to NAV, with the latter having a target price of 630p. That implies upside of 37%.



About Richard

Richard Gill is an investment analyst with over a decade's experience of analysing small/mid cap equities. He is the Head of Research at Align Research. Richard qualified with the Chartered Financial Analyst (CFA) designation in 2012 and was awarded PLUS Markets Financial Writer of the Year at the 2008 PLUS Awards. He has been a judge at the Small Cap Awards from 2013 to 2018.

BY MIKE KERLEY

WHY CAUTION ON HONG KONG IS PAYING DIVIDENDS

Prudent investors will have been cautious on Hong Kong for some time, says Henderson Far East Income Fund Manager Mike Kerley.

For anyone with an interest in the Asian growth story, the scenes in Hong Kong are very worrying. While no one could have foreseen the scale and intensity of the demonstrations, there were reasons to be wary about exposure to Hong Kong.

The **Henderson Far East Income Ltd. (LON:HFEL)** portfolio is not overly exposed to Hong Kong (around 8% of the portfolio, as at 30 September 2019) because we have been cautious on Hong Kong for some time. In our view, wealth inequality in Hong Kong has been a problem for years, so we have been mindful of any exposure to the city. We don't own any of the high-yielding sectors in Hong Kong, such as property companies, banks and utilities, which have historically been portfolio staples for income investors in Asia.

Trouble brewing

The protests started in the summer with opposition to a new bill that would have facilitated the extradition of citizens to mainland China and Macau (when accused of crimes against the Beijing government). The bill was withdrawn following months of mass protests and disruption to the city. However, rather than calming the situation, the concession ignited a wider, all-encompassing resistance to China's political influence in Hong Kong. Now we are seeing violent and destructive demonstrations, with both sides taking radical measures and being unwilling to back down. The disorder has even filtered into parliamentary proceedings.

The demonstrations may be in the name of pro-democracy, but underlying this is a deeply fractured society. The property market is at the heart of Hong Kong's economy and prices have been soaring for years – driven in part by mainlanders buying property in the city, driving prices up and fuelling the discontent we see today. That has made life very difficult for locals on low and average salaries, with exorbitant rents and poor living standards. In fact, Hong Kong was deemed the most expensive city in the

“WHILE NO ONE COULD HAVE FORESEEN THE SCALE AND INTENSITY OF THE DEMONSTRATIONS, THERE WERE REASONS TO BE WARY ABOUT EXPOSURE TO HONG KONG.”

"FOR INCOME SEEKERS, ASIA IS A NO BRAINER."

world to buy a home in 2019 (*source: CBRE, 2019*). All of this has been a big deterrent for us.

More to the point, the gap between the 'haves' and 'have-nots' is wider in Hong Kong than in any other developed economy. Using the most widely accepted measure of income inequality, the Gini coefficient, Hong Kong is one of the 10 most unequal societies in the world, keeping company with third-world countries like Lesotho, Guatemala, Haiti and Namibia (*source: IMF*).

Hong Kong's Beijing-backed leader, Carrie Lam, identified wealth disparity as a key concern after her appointment in 2017. Following months of protests, Lam laid out plans to provide affordable housing for first-time buyers in the annual policy speech in October. The administration believes that addressing the property crisis will soothe the unrest. That remains to be seen, but it would certainly be a step in the right direction.

Asia out in front

The situation across the rest of Asia is largely unchanged; the way to access the region's exponential economic growth is no longer through western companies exporting into the region, but rather through domestic companies that are aggressively targeting local and global market share. These companies are generally found elsewhere than Hong Kong, which is typically home to more mature companies with well-established businesses.

That is reflected in the HFEL portfolio (approximate figures in brackets), which has more exposure to Taiwan (14%), Singapore (12%), South Korea (9%) and Thailand (9%) than it does to Hong Kong, with Indonesia (5%) not far behind. Mainland China (21%) and Australia (16%) represent the two largest geographical exposures for the portfolio.

With that said, I don't think the portfolio should be viewed through this lens. We don't allocate funds by

geography. We look for companies that can sustain and grow their dividends into the future. Generally, we look for companies within sectors where there is a strong demand. Right now, we see attractive opportunities in diversified financials (excluding banks), property, telecoms and consumer goods.

Generally speaking, Asian companies are paying out more than before in the way of dividends and are net cash in many cases. That might be hard to see if you look at index data, because so much of the growth in recent years has come from non-yielding companies, in particular Chinese internet firms.

For income seekers, Asia is a no brainer. Global growth is slowing, but Asian economies are still out in front in terms of GDP growth forecasts, according to latest IMF figures. Asian governments have more flexibility around fiscal policy, monetary policy (interest rates) and spending than their western counterparts, while dividend growth has been stronger in Asia than anywhere else in the world.

Glossary

Fiscal policy: government policy relating to setting tax rates and spending levels. It is separate from monetary policy, which is typically set by a central bank. Fiscal austerity refers to raising taxes and/or cutting spending in an attempt to reduce government debt. Fiscal expansion (or 'stimulus') refers to an increase in government spending and/or a reduction in taxes.

IMF (International Monetary Fund): the IMF is an international organisation that aims to promote global economic growth and financial stability, encourage international trade and reduce poverty.

Monetary policy: the policies of a central bank, aimed at influencing the level of inflation and growth in an economy. It includes controlling interest rates and the supply of money.

Yield: the level of income on a security, typically expressed as a percentage rate.

HFEL's proprietary research, the *Asia Pacific (ex Japan) Dividend Index 2019*, found that since 2009 total dividend payouts in Asia-Pacific (ex Japan) grew 221% compared to 119% in the rest of the world. The portfolio has been well-placed to profit from this, trading on a 6% yield this year – the highest of any equity investment trust – and that's down to our focus on cash-generative, domestic companies with strong dividend-growth prospects.

About Mike

Mike Kerley is Director of Asia Pacific Equities and Portfolio Manager of Henderson Far East Income Ltd. since 2007. Previously, he was with ISIS Asset Management as director of Pacific Basin equities. Prior to this, he worked in the operations department at Invesco Asset Management and later assumed the positions of trainee fund manager for Asian equities, fund manager for global equities, and fund manager for emerging market equities.

Mike attended the London Business School, where he studied investment management. He has managed money in the Asia-Pacific region since 1993 and has 34 of financial industry experience.

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BY FILIPE R. COSTA

THE MACRO INVESTOR

HOW TO BUILD AN ESG PORTFOLIO

Filipe R. Costa explains how to create a core passive ESG portfolio without lowering your expected return.

"There is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

— Milton Friedman, *Capitalism and Freedom*, 1962

It is often said that millennials and Generation Z are a lot more tuned in to environmental challenges, human rights, animal rights, social responsibility and sustainability issues than previous generations. For example, Greta Thunberg is providing a voice for a generation that is willing to talk seriously about changing the future. And changing the future is not only about fossil fuels or the environment, but also about demanding equal opportunities irrespective of gender; forcing companies to create better working conditions; and recognising that companies have a responsibility that reaches further afield than just shareholders. The newer generations are forcing chief executives to abandon the old shareholder-centric view and replace it with a broader stakeholder view.

Some believe the world is becoming more ethical, as investors are now willing to trade some of their profits for a more socially responsible view on corporate values. But that's not what's happening. Profit maximisation is still the key mandate for a chief executive. What investors do recognise now, though, is that the way companies have been maximising profits is deficient, suffering from a short-term and narrow world view. But for a corporation and going concern with shares traded without a maturity date, why would profit maximisation target the short term?

So, the way we look at profit maximisation is being redefined. For instance, a good corporation nowadays is not one that cuts employee salaries and working conditions to maximise this year's profits. It's one that builds a working culture where employees feel that they are contributing to the greater good. This can lead to higher productivity, increased innovation and a reduction in employee turnover. A good company is also one that pays its suppliers on time. Instead of just profit maximisation, we're now looking for sustainable profit maximisation.

Environmental, social and corporate governance (ESG) refers to the three central factors in measuring the sustainability of an

"ESG IS NOT ABOUT ETHICS BUT RATHER ABOUT CHANGING THE WAY PROFITS ARE MAXIMISED."

investment in a company or business. More and more investors are looking for ways to measure the sustainability of a company in order to filter out those companies that rank the lowest. Contrary to some beliefs, this doesn't sacrifice expected risk and return for ethics. It's not just possible to build a core ESG portfolio – it's desirable, as it should improve the long-term expected return while reducing risk.

The lack of historical data on ESG portfolios and a misconception about what ESG really is are the key reasons for performance concerns. Taking a long-term view on profits, ESG would need a long period of historical data for validation. Unfortunately, we don't have it, as the trend has been gaining traction only recently. At the same time, a misconception about what ESG is can lead to improper portfolio construction that in the end impacts on risk and return. Even among professionals, there is a misuse of terms. ESG portfolios are often presented alongside socially responsible investing (SRI) portfolios and other 'ethical' investments. In my opinion, there is a huge difference between them, both in terms of meaning and expected performance.

ESG is not about ethics but rather about changing the way profits are maximised. It adds non-financial filters to improve the risk-return profile. SRI is a values-based strategy that adds ethical filters (restrictions) to the investible universe. It's like investing with a handicap, which in the end may lead to a trade off.

Building an ESG portfolio is a challenge

It is relatively easy for an individual investor to filter stocks using financial data, to then rank them according to investment purposes. But when it comes to ESG, it gets trickier as there isn't sufficient information to build a portfolio out of a quantitative screen. Companies are required to report non-financial information about their business and, as long as they're aware this additional reporting may benefit them, they'll improve the amount and quality of the published information. But there's a lack of norms and standards for proper reporting. Investors willing to add an ESG layer to their screening would have to either rely on subjective third-party research or buy a final product that incorporates the research, like an ETF. Either way, problems arise.

The offer of passive investing products relying on ESG is growing but lacks standards. The naming of funds is misleading, with many ETFs being presented as being ESG when they are in fact SRI. Other times, the products come with high fees, which make them impracticable for long-term investment purposes. If investing in the S&P 500 can be done for a 0.03% annual fee, why would you pay 0.25%, 0.35% or even 0.55% to invest in an ESG fund? There's no point in investing in ESG ETFs if they deliver the same or lower returns. They need to prove they're less exposed to long-term risks and that they do better during recessions. But data is insufficient so far.

"IT'S NOT JUST POSSIBLE TO BUILD A CORE ESG PORTFOLIO – IT'S DESIRABLE, AS IT SHOULD IMPROVE THE LONG-TERM EXPECTED RETURN WHILE REDUCING RISK."

What is ESG?

ESG investment is a strategy that adds environmental concerns, social awareness and good corporate-governance practices to traditional financial analysis. While there is no standard definition of what the exact components of ESG are, we may summarise them as follows.

Starting with environmental concerns, these are related to the threat of climate change and depletion of resources. In terms of investment strategy, the idea is to give more weight to environmentally friendly companies while omitting those which are not. As new legislation is approved, the first group should benefit over time. An investment ranking for environmental issues should look at climate-change policies; plans and disclosures; greenhouse-gas emissions goals and the company's plan to meet such goals; carbon footprint and intensity; water-related issues; usage of renewable energy including wind and solar; recycling policy; production of green products; and use of green technologies and infrastructure.

Next, social concerns are related to the company's culture and issues that impact on employees, customers, consumers and suppliers. An investment ranking for social practices should review employee treatment, pay, benefits, training and perks; diversity and inclusion in hiring, allowing for and respecting differences; employee-safety policies, including prevention of sexual harassment; consumer protection; and animal welfare, including the testing of products on animals, as well as the welfare of animals bred for the food market.

Corporate governance covers the area of investigation into the rights and responsibilities of the management of a company, which includes its board, shareholders and the various stakeholders in that company. An investment ranking for corporate governance should consider diversity of the board of directors and management team; separation of powers (eg the chief executive and chairman should not be the same person; transparency in communicating with shareholders; the company's relationship with market-regulator bodies like the SEC (in the US) or the FCA (in the UK); and executive compensation, bonuses and perks – in particular how they compare with salaries in general.

The Impact of Annual Fees In Long-Term Performance				
Fund	**A**	**B**	**C**	**D**
Starting Balance	100,000	100,000	100,000	100,000
Annual Fees (%)	0.03	0.12	0.25	0.50
Gross Average Annual Return (%)	10.00	10.00	10.00	10.00
Nr. of Years	30	30	30	30
Total Fees	900	3,600	7,500	15,000
Net Average Annual Return (%)	9.97	9.88	9.75	9.50
Cumulative Balance	1,730,720	1,688,727	1,629,806	1,522,031
Diff. In Cumulative Balance	---	41,992	58,921	107,775

How to distinguish ESG from SRI?

ESG investors choose companies on the basis of the ESG attributes they demonstrate. While higher ethics standards may lead companies to rank higher in ESG filters, that should be because such standards are expected to maximise long-term profits. The ESG criteria added to the investment process are expected to improve the risk-return profile.

SRI investors focus on excluding companies and industries because they fail to exhibit certain ethical or moral attributes. SRI usually focuses on excluding sectors that cast doubts, with regard to ethics. Typical exclusions include tobacco, alcohol, gambling, and weapons-related companies. To some extent, SRI excludes the so-called 'sin stocks', which involves a very high degree of judgement and can lead to a number of different investment strategies – one for each ethical judgement.

ESG is more about including and maximising profits without restrictions, while SRI is all about excluding and maximising profits with a few restrictions. A company dedicated to gambling, scoring high on environmental sustainability, employee treatment and corporate governance may merit inclusion in an ESG fund even though it may be screened out of an SRI fund. A reason to exclude the whole gambling industry from an ESG fund would be the realisation that the industry is unviable over the long term. The same reasoning applies to fossil fuels, for example. A fund manager doesn't have to exclude the sector as a whole if he or she thinks the industry is still viable. Companies operating in that sector would just eventually rank lower on some environmental filters.

While, theoretically, it is easy to discern differences between ESG and SRI, in practice, when choosing an ETF, investors will find it difficult and most likely need to review the fund's prospects carefully.

Let's take for example the **iShares MSCI KLD 400 Social ETF (NYSEARCA:DSI)**. It's listed on the sustainable funds page of BlackRock iShares. We can't say it isn't a sustainable fund, but as long as it excludes companies operating in tobacco, controversial weapons, gambling and adult entertainment, it also is an SRI ETF. There's no particular reason to exclude gambling and adult entertainment on ESG grounds and so this fund is likely to compromise expected return.

Where to invest?

For the purpose of investing in ESG, investors must dedicate time to understanding whether the fund they're targeting is a pure ESG play or not, in particular because, as mentioned above, an SRI fund is likely to compromise expected returns over time.

S&P 500 ESG Index and funds

S&P Dow Jones has been providing indexes in the ESG space since 1999, with the Dow Jones Sustainable Index series. This year, the company launched the S&P ESG Index Series, led by the S&P500 ESG Index. The S&P 500 ESG Index aligns traditional core values with ESG values. The index broad-market exposure and industry diversification result in a return profile similar to that of the S&P 500, which means investors may use it as a core strategy. In terms of exclusions, the index excludes tobacco, controversial weapons and companies which do not comply with the UN Global Compact (UNGC). This is for long-term profits reasons and not due to ethical matters.

The guidance required for building the index is simple: provide a similar risk/return to the S&P 500 and avoid companies that are not managing their businesses in line with ESG principles, while favouring those that are. For that purpose, non-financial data is collected, mainly from companies' responses to an annual assessment of their sustainability practices, to then build an ESG score to rank companies. In the end, the S&P 500 ESG index excludes more than 30% of the S&P 500 index constituents. However, it still tracks it closely with a tracking error below 1%, and a risk-return profile very similar to that of the main index.

Some notable exclusions are Boeing, Honeywell and Lockheed Martin (controversial weapons); Philip Morris International (tobacco); Berkshire Hathaway and Netflix (UNGC score too low); Home Depot (low relative ESG score); Johnson & Johnson; and Alphabet (low overall ESG score).

Differences Between the S&P 500 and the S&P 500 ESG

Category	S&P 500	S&P 500 ESG
No. of Constituents	505	333
Market Capitalisation (in USD Bn)	21,027	15,881
Annualised Total Returns (%)		
Five-Year	8.49	8.47
Three-Year	9.26	9.44
One-Year	-4.38	-3.95
Annualised Risk (%)		
Five-Year	13.22	13.18
Three-Year	13.00	13.02
One-Year	17.00	17.09
Excess Returns (%)		
Five-Year		-0.03
Three-Year		0.18
One-Year		0.43
Realised Tracking Error (%)		
Five-Year		0.80
Three-Year		0.72
One-Year		0.81

Source: *S&P Dow Jones Indices LLC. Data as of December 2018*

The ETF offer relying on the new S&P 500 ESG is very limited at the moment, but there are two ETFs worth mentioning here, as follows:

- **UBS ETF S&P 500 ESG UCITS ETF** This ETF invests in the companies of the index by replicating it instead of trying to beat its performance; it is marketed in several European countries and currencies; and the management fee is 0.12%.
- **DWS Xtrackers S&P 500 ESG ETF (NYSEARCA:SNPE)** Management fees are 0.11% and it was listed at the end of June this year, so it's relatively new.

BlackRock iShares

BlackRock offers a full core strategy for investors to gain exposure to ESG values. Its funds exclude a few industries but on the basis of long-term profits, not ethics. At the same time, they include an ESG ranking which is at the heart of the strategy. Investors can build a whole portfolio using iShares ESG ETFs. Four different ESG equity ETFs give investors a full exposure to global equities. Another three ESG bond ETFs complement the offer, allowing investors to build pure ESG stock-bond portfolios, as follows:

- **iShares ESG MSCI USA ETF (NASDAQ:ESGU)** This ETF has an expense ratio of 0.15%; covers the US large and mid-cap market; seeks to track the risk and return of the MSCI USA Index while achieving a more sustainable outcome; excludes tobacco, controversial weapons, civilian firearms and companies involved in serious business controversies; and follows a quantitative approach in order to rank stocks in terms of an ESG index.
- **iShares ESG MSCI USA SmallCap ETF (BATS:ESML)** The above ETF has an expense ratio of 0.17%; covers the US small-cap market; and uses similar exclusions to those used for ESGU. It follows a quantitative approach to rank stocks using an ESG metric.
- **iShares ESG MSCI EAFE ETF (NASDAQ:ESGD)** USGD has an expense ratio of 0.20%; covers the international developed market; and uses similar exclusions to those used for ESGU. It also follows a quantitative approach to rank stocks using an ESG metric.

"IT'S DIFFICULT TO FIND GOOD ESG STRATEGIES, WHICH MEANS INVESTORS SHOULD STICK TO THE BEST ETF PROVIDERS."

- **iShares ESG MSCI Emerging Markets ETF (NASDAQ:ESGE)** ESGE has an expense ratio of 0.25%; covers emerging markets; and uses similar exclusions to those used for ESGU, also following a quantitative approach to rank stocks using an ESG metric.
- **iShares ESG Bonds** – iShares additionally offers thee bond ETFs: **US 1-5 Year Corporate (NASDAQ:SUSB), US Corporate (NASDAQ:SUSC)** and **US Aggregate (NYSEARCA:EAGG)**. These products offer exposure to bond issues from companies that have higher ESG ratings. Their expense fees are 0.12%, 0.18% and 0.10%, respectively.

Vanguard Offer

Vanguard offers a few sustainable funds that are worth mentioning here as they fail to deliver on pure ESG criteria:

- **Vanguard ESG US Stock ETF (BATS:ESGV)**, which tracks the FTSE US All Cap Choice Index and has an expense ratio of 0.12%; and **Vanguard ESG International Stock ETF (BATS:VSGX)**. It tracks the FTSE Global All Cap ex US Choice Index and has an expense ratio of 0.15%.

These ETFs employ a negative-screening framework, excluding companies based on their products and/or practices. They exclude companies dedicated to nuclear power, fossil fuels, tobacco, controversial weapons, alcohol and adult entertainment. These ETFs also do not use an ESG measure to rank stocks. Taking these characteristics into consideration, I would say they're more values-based strategies than ESG funds.

Final remarks

The new generations are more ESG-aware than their forebears and are forcing companies to change their focus from short-term profit maximisation to a long-term strategy. In just a few years, companies have experienced significant changes in their culture and in the way they think about the future. ESG investing summarises this new view.

Despite the misunderstandings around funds' names, ESG isn't an ethical, values-based investment, but rather an improvement on the previous profit-maximising model. To that extent, it should represent a new core investment and not be a satellite part of an investment portfolio. SRI is different, as it purposely restricts investment decisions and should therefore come with a worse risk-return profile. Still, it's difficult to find good ESG strategies, which means investors should stick to the best ETF providers, the lowest commissions and to the funds that don't deviate by much from the market.

About Filipe

Filipe has been a contributor to Master Investor since the earliest years. His specialisation is monetary policy, macro issues and behavioural finance where he allies the practical experience of several years of trading with academic credentials. Filipe in fact teaches courses on Financial Markets and Monetary Economics at the University of Oporto Faculty of Economics, helping traders maximise profits and better manage risk.

BY DAVID JONES

CHART NAVIGATOR

WHY TREND-LINE BREAKS CAN BE AN INVESTOR'S BEST FRIEND

David Jones looks at a technique that many people believe is a negative signal – but can actually be an excellent opportunity to buy into a share that has been rising.

I have been a technical analyst for the best part of 25 years now – that is a lot of time spent staring at squiggly lines. During that period, I have found that a lot of the stuff that is meant to happen (according to the textbooks at least) never quite works the same way in the real world; I am sure you have experienced similar in your own line of work. One of the things that plagues market commentary and analyses is that these days everyone has an opinion – you are never short of views in the media as to what a particular company or market is set to do next. But I find it is only when putting real money on the line that your mind focuses on what actually works and what doesn't in financial markets.

Probably one of the main observations for me has been on the subject of trends. The idea of following a trend is at the core of charting and technical analysis. Budding chartists have it drummed into them not to try to second guess direction, but to go with the flow. For this purpose, the trend line has been a popular way of identifying a trend.

The Royal Dutch Shell chart (chart one) hart one provides a great example of a trend and using a trend line as a way of judging

Royal Dutch Shell 2016 to 2017 (chart one)

"THE IDEA OF FOLLOWING A TREND IS AT THE CORE OF CHARTING AND TECHNICAL ANALYSIS."

whether it is still valid. The trend was clearly up in the period shown on the chart, and that slanted line did a great job of providing support and stopping any weakness. Pullbacks to this trend line were seen as buying opportunities.

But if the trend line breaks – look out below! The trend is going to end and down the share price goes – or so the theory has it. That trend line did break in early 2017.

The Shell price did fall out of the trend line in chart two – but surprisingly, 'financial Armageddon' did not ensue. The price drifted for a few months but still held above the previous major low shown by the shaded area on the chart. The positive sentiment eventually returned, and the share price pushed higher once more, albeit at a slightly slower rate.

The point here is that just because a trend line on a chart breaks, do not assume that the trend is over – it can just be a pause in that particular move before the market carries on. As with chart two, it can actually offer a better entry point with a lower risk and greater reward.

It was researching the latest US stock-market earnings season at the end of October that made me think about covering this topic, and here is the share-price chart that inspired it.

Chart three (Facebook) is another example of a great trend that had been performing well, only for the share price to go breaking through.

Facebook December 2018 to July 2019 (chart three)

In this example, the move was much more dramatic – the trend line broke at $180 per share and Facebook fell to $160 fairly quickly. But once again the previous major lows were not broken. The fall was bad, but not critical. The share price turned sharply and was back above $200 within a couple of months.

I am not trying to suggest that trend-line breaks never lead to a major trend reversal. Of course, at some point they have to, otherwise financial markets would only ever trend one way. Rather, the approach here is not to be scared out of an investment – or put off buying in – just because this phenomenon has happened. It can present a great opportunity, as long as the previous major support holds. This approach is

> **"JUST BECAUSE A TREND LINE ON A CHART BREAKS, DO NOT ASSUME THAT THE TREND IS OVER."**

Royal Dutch Shell 2016 to 2018 (chart two)

Barclays May 2018 to present (chart four)

just as valid when following a market that has been sliding – do not be tempted to buy in just on the first break of that down trend line.

Looking at chart four, it would have been easy to have been wrong-footed by the share-price trend in Barclays. That downtrend had been doing a great job of stopping any rallies until February of this year. So, the break when it came did look very positive − and the price also managed to hold above that trend break point for quite some time. But into the summer the price succumbed once more and slipped to its worst level since 2016. (Incidentally, the strength seen since then is certainly encouraging and perhaps finally we have seen the end of that downtrend, if the 170p level can be cracked.)

I would be the first to admit that this is all very clear with the benefit of hindsight when we can see what happened weeks or months after the trend-line break. It is much, much more difficult to do it in the here and now. With that in mind, looking at a couple of real-world examples happening at the time of writing can help formulate a disciplined strategy for how and when to make the best of these potential opportunities, so I will continue with this theme for our two charts of the month.

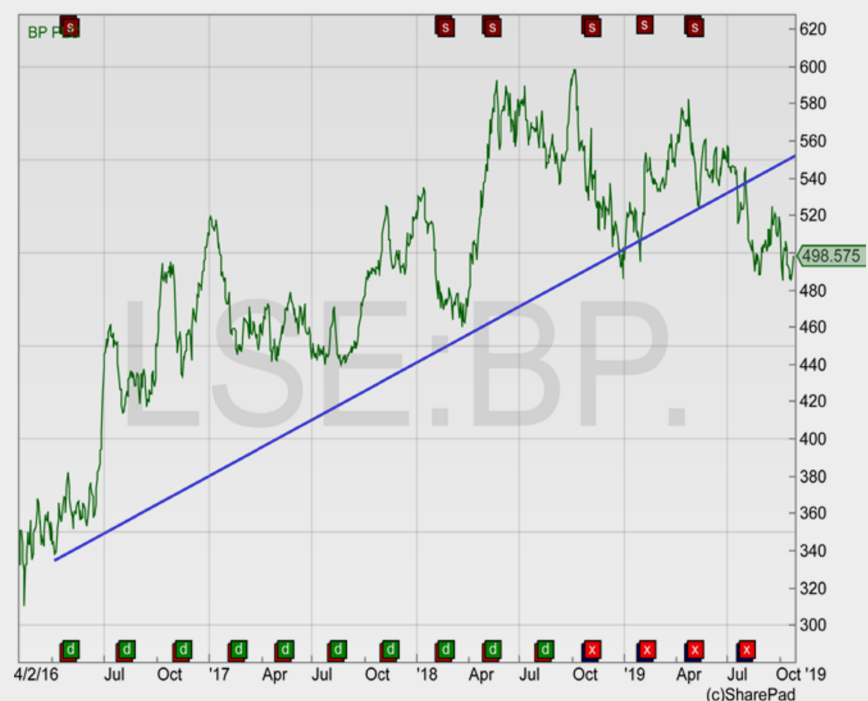
Charts of the Month

We return to the world of blue-chip oil companies for the first interesting chart (chart five) of the month. This is not a textbook example – and that is perfectly fine. As I said at the beginning, textbook examples tend to be easily found with hindsight but unfortunately as investors we do not have a time machine handy, to wait for the moves to play out and then go back and buy.

This trend in BP has been chugging along for a few years but not without the occasional wobble. The first of these was at the end of 2018 with the price briefly slipping below. What has happened over the last few months is more interesting, as it looks like a full-blown break below that trend-line support.

As in the previous examples, although BP has dropped out of its trend it has not (yet, at least) broken the previous major lows. To my eyes, these are sitting around 450p from February 2018. This trend-line break does not yet look like a major reversal and could prove to be a great opportunity to buy in ahead of any eventual recovery. In addition, BP has a decent dividend yield – around 6% at the time of writing. Some patience may be required to wait to see if the oil giant's fortunes turn around – in the meantime, at least the investor will get some income from holding.

BP February 2016 to present (chart five)



And now for something a little different. Most of the examples we have looked at were failed trend-line breaks in an uptrend. The share price had been moving higher, fell out of the trend but held above a major low and eventually resumed its path upwards. The Vodafone chart (chart six) is none of these things. The share price had been in a downtrend until this summer. In fact, the low set then was the lowest the price has been since 2002.

The share price rallied and broke above the downtrend. But the whole idea of this approach is not to get overexcited just because a trend line breaks. The assumption is that this is a false break and normal downwards service will be resumed.

But the Vodafone price has cleared the shaded zone on the chart – the last major highs from March of this year at 150p. This could actually be the start of a major reversal in Vodafone's fortunes. The more cautious investor could not be blamed for waiting a few more weeks at least to see if this new uptrend could be built on, but it remains an interesting share to watch. Like BP, it is another decent dividend payer, paying out just under 5% on a historical basis.

Vodafone, 2018 to present (chart six)

About David

David Jones qualified as a technical analyst in 1995 and started his City career as a currency analyst. He then went on to work for trading companies CMC Markets and IG Group as Chief Market Strategist. Since leaving the industry in 2013 he has been a presenter on BBC Radio 5 Live's Wake up to Money programme and the Chartist for Shares magazine. He is an active trader and private investor.

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BY NICK SUDBURY

FUNDS AND TRUSTS IN FOCUS

THE BEST TRUSTS AND FUNDS FOR INCOME

Funds expert Nick Sudbury scours the markets for the funds and trusts that offer investors an above-average level of income.

The increasing likelihood of a global economic slowdown will probably mean that interest rates will stay lower for longer. Income investors have already had more than a decade to get used to this 'new normal' and the pressure it puts on market yields, but there are still some funds and investment trusts that offer an attractive dividend.

We have been in a low interest-rate environment ever since the financial crisis of 2008 and with inflation having recently fallen to less than two percent and UK interest rates at just 0.75%, it doesn't seem like this will change anytime soon:

"It was previously considered possible to hold a balanced and diversified investment portfolio consisting of equities, property, fixed interest and cash that could generate a natural income of around four or five percent per annum, but this is no longer the case," explains Patrick Connolly, a chartered financial planner at Chase de Vere Independent Financial Advisers.

He says that it is still possible to achieve a higher level of income, although it would entail focusing on less secure fixed-interest assets like high-yield bonds and emerging-market debt, and using equity income funds that take more risk:

Mr Connolly concludes: "The best approach for many income investors is to focus first and foremost on long-term asset allocation by holding a diversified investment portfolio with an acceptable level of overall risk. If this doesn't generate enough natural income, then investors can top it up by making capital withdrawals rather than looking for riskier higher yielding options."

What to look for in an income fund

The key when looking to invest in funds or trusts that seek to deliver an attractive yield is to ensure that the income is sustainable. This is particularly important when you are relying on it for your everyday expenditure, as big fluctuations can make financial planning very difficult:

"It's important not to get mesmerised by a high quoted yield and to understand what it's investing in to achieve this, as the general rule of thumb is that the higher the yield, the higher the risk," cautions Ryan Hughes, head of active portfolios at AJ Bell.

There's no magic formula for guaranteeing a sustainable yield, although the investment structure is an important element, as open-ended funds are required to pay out all of their income each year, whereas investment trusts can hold some of it back in good years to boost income in the tougher times.

As a result, some trusts have many years' history of growing dividends and it is therefore worth looking at the list of 'Dividend Heroes' published on the website of the Association of Investment Companies (AIC), which highlights those that have increased their dividends for 20 consecutive years. While it's not certain that the trust will keep increasing its dividend, there is certainly a good chance that it will.

"THE KEY WHEN LOOKING TO INVEST IN FUNDS OR TRUSTS THAT SEEK TO DELIVER AN ATTRACTIVE YIELD IS TO ENSURE THAT THE INCOME IS SUSTAINABLE."

Emma Wall, head of investment analysis at Hargreaves Lansdown, says that investment trusts are able to use their cash reserves to smooth dividends out, but as with many elements of fund investing, it is down to the skill of the manager:

"Judging income sustainability varies from fund to fund; it will depend on how diversified the underlying portfolio is and whether the manager uses derivatives to boost the income. Investors should look at how the fund fared in the last downturn. While past performance is no guarantee of future returns, it can help to indicate how a fund manager may deal with future challenges."

Another key point to check is the timing and frequency of the distributions. Some funds pay monthly, whereas others declare quarterly or semi-annual dividends. It should therefore be possible to put together a diversified portfolio of funds and trusts that pays a consistent monthly income. When using open-ended funds, it is important to make sure that you buy the income units, otherwise the dividends would be automatically reinvested.

Company	AIC sector	Number of consecutive years' dividend increased
City of London Investment Trust	UK Equity Income	53
Bankers Investment Trust	Global	52
Alliance Trust	Global	52
Caledonia Investments	Flexible Investment	52
BMO Global Smaller Companies	Global Smaller Companies	49
F&C Investment Trust	Global	48
Brunner Investment Trust	Global	47
JPMorgan Claverhouse Investment Trust	UK Equity Income	46
Murray Income	UK Equity Income	46
Witan Investment Trust	Global	44
Scottish American	Global Equity Income	39
Scottish Mortgage Investment Trust	Global	37
Merchants Trust	UK Equity Income	37
Scottish Investment Trust	Global	35
Temple Bar	UK Equity Income	35
Value & Income	UK Equity Income	32
BMO Capital & Income	UK Equity Income	25
British & American	UK Equity Income	24
Schroder Income Growth	UK Equity Income	24
Invesco Income Growth	UK Equity Income	22
Perpetual Income and Growth	UK Equity Income	20

Source: AIC/Morningstar. Correct as at 15 October 2019.

Open-ended income funds

Mr Connolly recommends the **Royal London Short Duration Credit** fund, which invests at least 70% of its assets in company bonds that mature in five years or less. He says that it has provided consistent positive returns that aren't affected much by short-term market noise or interest-rate movements, although it can get left behind when fixed-interest markets are performing well. It has a modest yield of 3.3%.

He also likes **Fidelity Extra Income**, which he says has an excellent long-term track record and pays a consistent yield, which is currently 3.3%: "This is a diversified and defensively managed bond fund that aims to deliver lower volatility than you would typically expect from a portfolio of investment- grade and high-yield bonds."

Alternatively, he suggests **Schroder Income Maximiser**, which holds most of the same stocks as the **Schroder Income fund** but sells covered call options on selected shares. This means that the growth potential of these stocks is sacrificed, with the proceeds from the option sales being used to boost the income. The current yield is 6.9% and it has been at this sort of level in all of the 13 years since it was launched.

Ms Wall recommends that conservative investors try **Morgan**

Stanley Sterling Corporate Bond, which invests in high-quality corporate bonds. She says that the distribution yield is only about 3.2%, so while it isn't particularly high income, it is more defensive than some higher-income options and offers good diversification for a portfolio that already has a large equity allocation.

Another option is **Royal London Sterling Extra Yield Bond**, where investors who are comfortable with the volatility receive a higher distribution yield of 5.4%.

For more adventurous investors, Mr Hughes suggests the **Legg Mason RARE Global Infrastructure Income fund** that offers a yield of nearly six percent: "It invests in infrastructure equities around the world and has a big focus on gas and electricity generators, as well as other infrastructure investments such as ports, toll roads and water companies. These areas all pay attractive yields with many backed by government contracts with inflation-proofed increases built in."

High yielding equity investment trusts

Research conducted by Stifel in May identified 31 equity investment trusts that had a dividend yield of four percent or more. Many of them have also built up meaningful revenue reserves that can be used to smooth out the distributions as and when there are dividend cuts at the portfolio companies in which they invest.

One such is the £560m **Murray Income Trust (LON:MUT)**, which has been recommended by the analysts at Investec Securities and which is currently paying four percent annual income. The manager aims to identify good-quality companies, with strong competitive positions and robust balance sheets that are under the stewardship of experienced management teams, while remaining disciplined about valuations.

It has now increased its dividends for 46 consecutive years and has revenue reserves that are more than sufficient to pay out a whole year's distribution. The company generated excellent performance in its latest annual results to the end of June and has strong income characteristics with an attractive yield.

Concerns over Brexit have pushed many UK share prices down to such low levels that they now pay extremely attractive yields. If you want to benefit you could try the £472m **Dunedin Income Growth (LON:DIG)** trust, which is yielding 4.7% and trading on an eight percent discount, or the £949m **Perpetual Income and Growth (LON:PLI)** trust with a 4.5% yield and a 12% discount, both of which have been recommended by the analysts at Winterflood Securities.

"RESEARCH CONDUCTED BY STIFEL IN MAY IDENTIFIED 31 EQUITY INVESTMENT TRUSTS THAT HAD A DIVIDEND YIELD OF FOUR PERCENT OR MORE."

"EVEN THOUGH INTEREST RATES ARE LIKELY TO STAY LOWER FOR LONGER, IT IS STILL POSSIBLE TO PUT TOGETHER A DIVERSIFIED PORTFOLIO OF FUNDS AND INVESTMENT TRUSTS THAT WILL GENERATE A DECENT LEVEL OF INCOME."

Other high yielding trusts

There are also plenty of investment trusts operating in other parts of the market that pay a decent yield, with a good example being the £565m **TwentyFour Income (LON:TFIF)** fund, which has been recommended by Winterflood Securities.

TFIF was launched in March 2013 and invests in European asset-backed securities. These pay attractive floating-rate coupons, which enables the fund to target a net total return of six to nine percent per annum, with quarterly dividends totalling at least six pence a year. This gives the shares a prospective yield of 5.5%.

Winterflood says that the fund has performed well since launch and has achieved its annual net asset value (NAV) total return and dividend targets. It has an experienced management team and has typically traded at a premium to NAV, although the shares are currently available on a small discount.

The analysts at Investec Securities have recently issued a buy note on the £118m **Middlefield Canadian Income Trust (LON:MCT)**. This is a unique fund that gives investors exposure to a broadly diversified portfolio of North American equity income securities, with the main focus on Canada, where the minimum allocation is 60%. It pays an attractive yield of 5.1% and is available at an 11% discount to NAV.

Manager Dean Orrico believes that the Canadian economy is gradually becoming more diversified and less dependent on natural resources, but says that this is generally under-appreciated by international investors. To guard against the global economic slowdown, he has tilted the portfolio to being more defensive, with an emphasis on real estate, utilities and pipelines. Gearing has also been reduced.

Attractive alternatives

The analysts at Numis recommend the £1.4bn **BioPharma Credit (LON:BPCR)**, which aims to generate sustainable income distributions from exposure to the life-sciences industry. It mainly invests in corporate and royalty debt securities secured by cash flows derived from sales of approved life-sciences products.

BPCR targets an annual dividend of seven cents per share and a net total return on NAV of eight to nine percent per annum in the medium term. The shares are currently yielding seven percent with equal quarterly dividends.

Some of the real estate investment trusts (REITs) are interesting at the moment as they are out of favour because of fears over Brexit. A good example is the £1.4bn **BMO Commercial Property Trust (LON:BCPT)**, which is yielding five percent with equal monthly distributions. It has a 34% weighting in the struggling retail sector, but this is already reflected in the discount of 10 percent.

Another is **Real Estate Investors (LON:RLE)**, a £101m Midlands-focused REIT that is yielding 6.5% and trading on a 20% discount to the latest published NAV.

The peer-to-peer sector has had a tough time of it with one fund after another running into difficulties, yet the £1.1bn **Pollen Street Secured Lending (LON:PSSL)**, formerly known as P2P Global Investments, might be worth a look.

Its new manager is repositioning the legacy portfolio (now down to 10 percent of the assets) into more specialist and secured asset classes, which experience lower volatility and a better ratio of income to expected credit losses. At the end of June, two-thirds of the fund had been moved into property-backed and structured loans where the originator has first loss equity.

PSSL has been recommended by the analysts at Investec Securities, who think that the current discount of 14% would narrow in the event of an improvement in the underlying performance. They also say that any such pickup should ultimately enable the fund to increase its quarterly dividend from 12p to 15p, which would give the shares a future prospective yield of 7.2% on the current share price.

Even though interest rates are likely to stay lower for longer, it is still

FUND OF THE MONTH

The £1.7bn **City of London Investment Trust (LON:CTY)** is yielding an attractive 4.5% and has built up revenue reserves that are equivalent to about 10 months of the annual dividend. It has been managed by Job Curtis since 1991, during which time the NAV total return is 1,100% versus a FTSE All-Share total return of 828%.

Portfolio construction is based on a valuation-focused stock-selection process, although the manager also takes into account macroeconomic factors. He has a conservative approach and aims to identify companies that can generate cash to support dividends and capital expenditure, but that also have strong balance sheets and can offer a margin of safety.

CTY has now increased its dividend every year for the last 53 years and has extremely competitive fees with ongoing charges of just 0.39%. The analysts at Investec Securities have recently issued a buy note on the fund and say that it has justifiably established itself as a core holding for investors.

Mr Hughes also likes it and says that it is a good option for those with a more defensive mindset: "City of London currently yields 4.5% from a portfolio predominantly made up of high-quality UK equities and has a remarkable 53 years of consecutive dividend increases. While higher yielding trusts are available, this one benefits from long-term management and a real commitment to income."

Fund Facts

Name:	City of London (LON:CTY)
Type:	Investment Trust
Sector:	UK Equity Income
Total assets:	£1.7bn
Launch date:	January 1891
Current yield:	4.5%
Gearing:	10%
Ongoing charges:	0.39%
Website:	www.janushenderson.com

"CTY HAS NOW INCREASED ITS DIVIDEND EVERY YEAR FOR THE LAST 53 YEARS AND HAS EXTREMELY COMPETITIVE FEES WITH ONGOING CHARGES OF JUST 0.39%."

possible to put together a diversified portfolio of funds and investment trusts that will generate a decent level of income. The key is to do what you can to make sure that the distributions are sustainable and don't get drawn into the higher yields if you are not comfortable with the risk to your capital.

About Nick

Nick Sudbury is an experienced financial journalist who has written extensively for a range of investment publications aimed at both private and institutional investors. Before moving into journalism he worked both as a fund manager and as a consultant to the industry. He is a fully qualified accountant and has an MBA with finance specialism.

BY JOHN KINGHAM

DIVIDEND HUNTER

WHAT TO DO WHEN A COMPANY SUSPENDS ITS DIVIDEND

Should I stay or should I go? John Kingham talks us through his thought processes when considering whether or not to sell one of his least successful investments.

In mid-2018, I invested in **Xaar (LON:XAR)**, a pioneer in the world of digital inkjet printheads for a range of commercial and industrial applications.

The company was founded in Cambridge during the early 1990s and had grown to produce revenues of around £100 million, selling primarily to the graphic arts, industrial and packaging markets. It had a 10-year track record of consistent and rapid dividend growth, zero debt and a dividend yield of 3.3%. It was a little smaller than my usual investments, being listed as a small cap and having 10-year average profits of just £10 million. But I thought it was a good company and so I invested, expecting to hold the shares for the next five or 10 years.

However, Xaar's revenues and profits have collapsed and the dividend has been suspended. This is obviously bad news, so this month I want to review Xaar and, more generally, what to do when an investment goes seriously wrong.

Xaar's cash crisis

In its 2019 interim results, published in September 2019, Xaar announced that revenues were down by more than 36% and that losses of £52 million had been incurred.

More significantly, Xaar had effectively run out of cash to fund the development and industrialisation of its next-generation thin film printheads, into which the company had sunk many tens of millions of pounds over the last decade. All further thin film research and development (R&D) activities would end and the value of related machinery, stock and capitalised R&D expenses were being written down by £39 million.

> **"IT WOULD BE FAIR TO CALL THIS A DISASTER."**

To make matters worse, customers (printer manufacturers) had already signed up to use the Xaar 5601 (the company's flagship thin film printhead) in their new printers. This is likely to make the task of mothballing the thin film project much harder, as these customers have already invested in the development of printers to use Xaar's new printhead. Xaar must now license its technology to another manufacturer who can fulfil its obligation to these customers or come to some other arrangement which avoids Xaar being sued or suffering considerable financial and/or reputational damage.

Unsurprisingly the chief executive is on the way out, as is the chief

financial officer. The chairman will step down early next year.

It would be fair to call this a disaster. One response would be to sell the shares immediately, and a few years ago that's probably what I would have done. However, these days I prefer to work through the following questions with the goal of maximising the return on seemingly failed investments, as follows:

1) Why did this happen?

If we're to avoid a recurrence of unpleasant events, we need to understand what went wrong in the first place.

In Xaar's case, the root cause of this crisis was a mismatch between the amount of cash needed to fund the development and industrialisation of its next-generation thin film printheads, and the amount of cash generated by the company's existing operations. This mismatch has been driven by a rapid decline in Xaar's revenues and a far less rapid decline in its R&D investment. To understand this in more detail we can review the evolution of Xaar's R&D spend over the last decade.

In 2010, Xaar generated revenues of £47 million and spent £4.7 million (10% of revenues) on R&D. This is a reasonable amount for a research-driven cutting-edge technology company like Xaar. By 2013, revenues had exploded upwards to £127 million thanks to its groundbreaking inkjet printheads for the ceramic-tile market. Xaar then stepped up its R&D investment to £16.4 million, or 13% of revenues.

By 2016, revenues had fallen back to £76.2 million as the initial transition of the ceramic-tile market to digital inkjet printing came to an end. However, R&D continued to climb to £22.4 million. This left Xaar with an R&D to revenue ratio of almost 30%, which was clearly unsustainable.

When I bought Xaar in mid-2018, my assumption was that R&D would be scaled back as necessary, even if this meant delaying the launch of the 5601. But that isn't what happened.

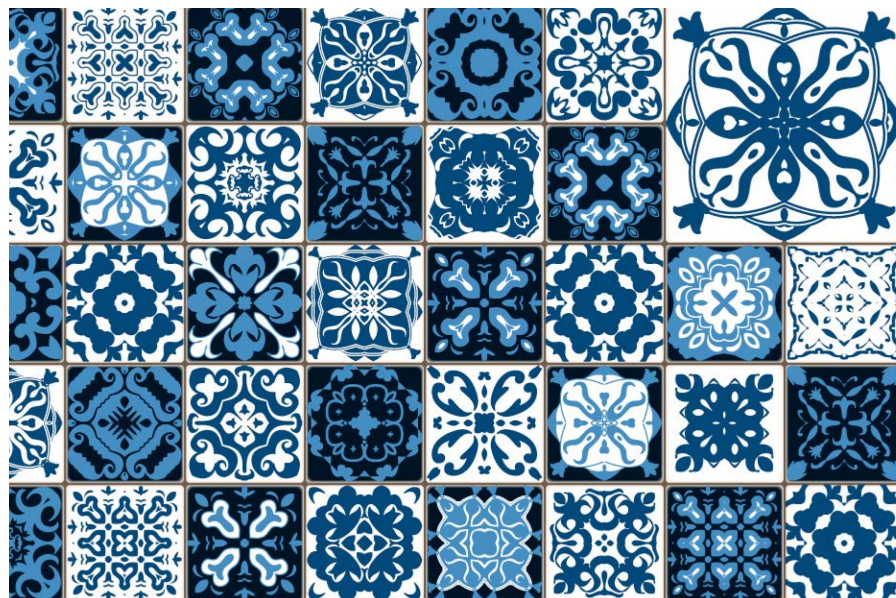
In my opinion, management became fixated on reaching their stated 'vision' of achieving £220 million revenue by 2020. To reach that goal, management knew the thin film 1201 and 5601 printheads would be absolutely necessary, and so they continued to fund thin film R&D even as it became clear that the company wouldn't be able to fund those products all the way to profitable scale.

In the 2018 annual results, published in March 2019, Xaar announced that it would need to tie up with a strategic partner to share the costs (and benefits) of bringing the thin film printheads to market. But as the months passed no strategic partner appeared; and yet the company continued to invest heavily in its thin film products. At the same time, and still without the strategic partner which was absolutely necessary to bring these printheads to full production, Xaar publicly announced three high-profile customers for the 5601 printhead. Soon after that, and still with no strategic partner, Xaar was forced to end the thin film programme to avoid running out of cash.

In my opinion, this could have been avoided if management had not been so focused on achieving their growth 'vision', which seems to have been based on little more than the fact that £220 million and 2020 share the same digits. I'm not a fan of this type of publicly stated top-down goal as it often leads companies to do (almost) anything, regardless of how risky it is, to achieve that goal. I much prefer bottom-up goals, where the goal is to provide the most value to customers in your niche over the long term, with growth being merely a side effect of doing a good job, rather than the primary goal.

I think Xaar's management should have scaled back their thin film expenses more or less in line with the company's post-2013 revenue declines. More importantly, management should never have

"WHEN I BOUGHT XAAR IN MID-2018, MY ASSUMPTION WAS THAT R&D WOULD BE SCALED BACK AS NECESSARY, EVEN IF THIS MEANT DELAYING THE LAUNCH OF THE 5601. BUT THAT ISN'T WHAT HAPPENED."



signed customers up for the 5601 printhead knowing that Xaar wouldn't be able to manufacture those printheads without a strategic partner. Management were, in effect, crossing their fingers and praying for a 'knight in shining armour' to appear. Unfortunately for Xaar's shareholders and employees, their prayers went unanswered.

"WHAT I DIDN'T THINK DEEPLY ENOUGH ABOUT WAS THE RISK ASSOCIATED WITH THE ONGOING COLLAPSE OF DEMAND IN THE CERAMIC-TILE MARKET, WHICH BACK THEN WAS STILL XAAR'S CORE MARKET."

2) Were any red flags missed?

With at least a broad understanding of why the dividend was suspended, the next step is to see if we missed any red flags that, with hindsight, were clearly visible if we knew what to look for. In Xaar's case, there were two main drivers of the dividend suspension: declining revenues and management's decision not to cut R&D funding. I'll start with declining revenues.

In the years leading up to my mid-2018 purchase, Xaar had seen its revenues rocket and then decline, due to the rapid transition of the ceramic-tile printing market to digital inkjet printing.

In my purchase review I wrote about this, saying that the ceramic-tile boom and bust could lead to "... massive investment in supply capacity (factories, machinery, etc.) which is then left underutilised once demand collapses, with the risk that it becomes an expensive white elephant". This is a pretty good description of what eventually happened. While Xaar's massive investment in supply capacity wasn't enough to cause a crisis by itself, it did suggest that management were possibly over-optimistic, short-sighted or too focused on their growth vision. This verged on being a red flag and perhaps I should have paid more attention to it.

A more obvious red flag was the declining revenues. My investment checklist (as it was then) included the question: "Does the company operate in markets where demand is expected to grow?" I answered 'yes' and said that in aggregate I thought it was likely that Xaar's various end markets would grow over the next 10 years. I still think that's right. But what I didn't think deeply enough about was the risk associated with the ongoing collapse of demand in the ceramic-tile market, which back then was still Xaar's core market.

With hindsight, I should have deconstructed Xaar's component markets (graphic arts, industrial and packaging) to see how each of them had performed over the previous 10 or 15 years. This would have given me a better insight into how its markets and its market share were evolving.

For example, graphic arts was Xaar's first major market, growing rapidly to peak revenues of £35 million in 2007. That boom was followed by a long bust to almost zero revenues in 2019 as the company struggled to maintain its share of this maturing market.

The industrial market has been dominated by the ceramic-tile printing market, and it followed the same pattern as the graphic-arts market but on a much larger scale. There was a substantial jump in revenues from £6 million in 2009 to £98 million in 2013, and then a substantial drop back to £18 million in 2018 as the market matured.

A prudent assumption would have been that revenues from the ceramic-tile market were heading close to zero, as they had in the graphic-arts market. If I'd made that assumption, then it would have made sense to look at how the rest of the industrial market (ie excluding ceramic tiles) had fared over the past decade or so.

In the 'other' industrial (excluding ceramic tiles) market, revenues had grown fairly steadily, from around £1 million in 2010 to £10 million in 2018. The packaging market had

also produced fairly steady revenue growth, rising from around £8 million in 2006 to £17 million today.

To summarise, revenues from what had once been Xaar's two largest markets (graphic arts and industrial ceramic tiles) were in decline and two smaller markets ('other' industrial and packaging) were producing reasonably steady revenue growth.

This was a major red flag. It was a warning that the bulk of Xaar's past revenues and earnings were based on a one-off boom and bust in the graphic-arts market and then the ceramic-tile market. It would have been reasonable to assume that revenues from those markets were unlikely to recur in future on the same scale. And if that was the case, then those past revenues and earnings should be excluded from any estimate of the company's value.

This would have completely changed my opinion on Xaar's price at the time of purchase in mid-2018. When I bought Xaar it had 10-year average profits of about £10 million. Excluding profits from the ceramic-tile boom would have reduced those profits to an average of about £3.4 million. This is the earnings power I should have used when valuing Xaar, rather than including earnings from a one-off boom. This reduces average earnings per share from 18p to about 6p. With a purchase price of 312p, this would have changed the price to 10-year average earnings ratio (PE10) from a reasonable 17 (the FTSE 100's PE10 at the time was 17.6) to a not very reasonable 67. The most I'll pay for a company is 30-times its 10-year average earnings, so Xaar was clearly way above that once the one-off profits from the ceramic-tile boom had been stripped out.

"AMAZINGLY ENOUGH, I STILL LIKE XAAR BECAUSE IT HAS TWO BUSINESSES (INDUSTRIAL AND PACKAGING) WHICH HAVE FAIRLY STEADY TRACK RECORDS OF GROWTH."

As a result of this missed red flag, I have already updated my company review checklist to include a simple but very powerful question: has the company demonstrated consistent earnings power? This will hopefully prompt me into analysing the company's earnings record in more detail, with the goal of understanding what's going on in more depth, rather than just at the headline level.

The second driver of Xaar's dividend suspension was management's decision to maintain thin film R&D funding in the face of declining revenues and profits. Having looked at this again, I don't think there were any obvious red flags. In other words, I don't think it was obvious that management would effectively drive Xaar off a cliff in pursuit of their "£220 million revenues by 2020" goal. A different management team could easily have put the thin film project to sleep in 2018, which would probably have avoided the current crisis.

3) Should the company be sold immediately?

At this point we would understand (broadly) why the dividend suspension occurred and the red flags that had been missed. We should have also updated our investment checklist or other written process so that those red flags are more likely to be spotted in future. The next question is whether the company should be sold immediately or held for, perhaps, the longer term.

The answer to this question depends on a variety of factors, such as whether the company is good enough, whether the price is low enough and whether you can learn anything useful by staying invested.

Amazingly enough, I still like Xaar because it has two businesses ('other' industrial and packaging) which have fairly steady track records of growth.

Also, the ceramic-tile boom gave Xaar enough cash to acquire Engineered Printing Solutions, a printer manufacturer in the US, which is growing and seems to produce reasonably consistent results. The ceramic-tile boom also allowed Xaar to launch a 3D printing joint venture with Stratasys, the global leader in 3D printing. While this venture doesn't make any money (yet), it doesn't suck funds out of the core business either. And Stratasys has stated that it might buy out Xaar's share within the next three years, for $33 million or more.

So Xaar does have several reasonably steady growth businesses and a potential cash windfall from the 3D printing business. However, I still wouldn't buy Xaar today for several reasons. First, Xaar's average profits (excluding the ceramic-tile boom) are below £4 million, and that's far too small for my liking. Also, Xaar is a young company and only really reached some sort of scale in the early 2000s. That's fine if you like that sort of thing, but with hindsight (and what

"I THINK XAAR COULD POTENTIALLY PROVIDE USEFUL LESSONS OVER THE NEXT FEW YEARS ABOUT HOW FUNDAMENTALLY SOUND COMPANIES MANAGE THEIR WAY THROUGH SELF-INFLICTED PROBLEMS."

should have been foresight) it just isn't for me. I prefer larger, older, more established companies with proven track records of market leadership.

So, while I like Xaar, it isn't the sort of company I would buy today. But I already own Xaar, so let's move on to the next question.

Is the price attractive? If I were looking to buy Xaar, then I think its current share price of 50p is interesting. With historic average earnings of 6p (excluding ceramic tiles) that's a PE10 ratio of just over 8, which is very low. The market's assumption must be that Xaar is either not going to grow, ever, or something worse. I will admit that Xaar's future is very uncertain, but I still think it's an interesting opportunity at the current price.

Could you learn anything by staying invested? Xaar is a mistake that has already led to a significant re-write of my investment checklist, with an emphasis on the basics of consistent earnings power, good profitability and a strong balance sheet. Just as importantly, I have changed my mindset from one which was (unintentionally) looking for reasons to buy a company to one that is now focused on looking for reasons not to buy a company (I have, in effect, become the 'abominable NO-man').

However, I think there could be more to learn if I continue to hold Xaar while it works through its current crisis. Xaar currently makes up less than 1% of my portfolio, having dropped from around 4%, so even if it goes bust the loss would be quite small. More positively, I think Xaar could potentially provide useful lessons over the next few years about how fundamentally sound companies manage their way through self-inflicted problems.

In short, I think the potential benefits of learning about difficult environments, management mistakes and turnarounds outweigh the potential benefits of selling Xaar and reinvesting that 1% of my portfolio into something else.

Making lemonade from lemons

Here's a final recap: while it's important to try to avoid making investment mistakes, it's inevitable that some will be made. And when a mistake is made, don't just close your eyes, sell and run in the other direction.

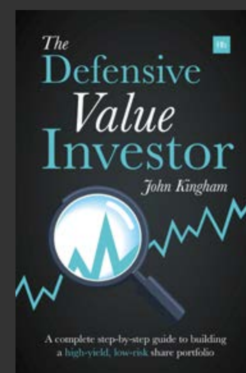
Try to understand the root causes of the problem, whether there were any red flags you should have spotted, and whether you should sell the company or keep holding, based on a review of the company, its current share price and the potential for any further lessons.

About John

John Kingham is the managing editor of UK Value Investor, the investment newsletter for defensive value investors which he began publishing in 2011. With a professional background in insurance software analysis, John's approach to high yield, low risk investing is based on the Benjamin Graham tradition of being systematic and fact-based, rather than speculative.

John is also the author of *The Defensive Value Investor: A Complete Step-By-Step Guide to Building a High Yield, Low Risk Share Portfolio*.

His website can be found at: www.ukvalueinvestor.com.



BY DAVID JONES

FORENSIC FOREX

IS THE LOW FINALLY IN FOR THE POUND?

Veteran trader David Jones speculates that the pound's long decline could be over, despite the apparent impasse over Brexit.

Politicians dragged their feet for much of October over deciding just what to do about Brexit and that 31 October deadline. But had the market already voted with its wallet on the next major move for the pound, over the months ahead?

Historical lows bolster the pound once again

One of my favourite cynical quotes particularly relevant to financial markets is: "avoid predictions – particularly those involving the future". In this day and age, we are plagued by experts on all sorts of media giving their carefully considered views about just what will − or will not − happen on a whole range of topics and markets. I think plenty of these can be taken with a large pinch of salt – and probably none more so than the various opinions over the past three years on what would happen with the next stage of the Brexit discussions.

I am writing this not long after Parliament's so-called "Super Saturday" – a description that only proved to be half true. And with Brexit progress (or lack of it) so hard to anticipate, pity the poor City analyst who has to try to forecast just what the UK's currency might do next.

But more than a month before not-so-Super Saturday, had the market already voted with its wallet? Here's a chart of the pound versus the US dollar (GBP/USD) over the past few years, including that fateful referendum day in June 2016.

> "WHAT IS INTERESTING HERE IS THAT THE TURN STARTED LONG BEFORE IT LOOKED AS IF THE BREXIT DISCUSSION WAS ACTUALLY GOING TO MOVE ALONG BY THE END OF OCTOBER."

GBP/USD June 2016 to present (GBP1)

I think most of us know the pound crashed as the EU referendum results came in – it moved around 10% in very short order, which is a significant level of volatility for a major world currency. But this weakness was not just a one-day wonder. After some stability at lower levels during the summer of 2016, it moved lower again in October and in early 2017, pushing below the 1.20 level. So, the proud British pound, which less than six months earlier had been worth a dollar and a half, was now struggling to buy much more than one dollar and 20 cents.

But as can be seen from the first highlighted box on chart GBP1, this did prove to be a major turning point in terms of sentiment towards the pound. Over the next 15 months, the exchange rate recovered and had pushed almost back to 1.44. Anyone buying the pound and selling the dollar in January of 2017 saw a near 20% return by April of the following year.

And that level has once again proved to be a turning point for this latest bout of weakness – so far at least. It is a clear 'line in the sand' where the market perceives 'value' for the pound. I don't want to say "I told you so" but this was exactly the same level I was focusing on when we last looked at this currency pair two issues ago.

What is interesting here is that the turn started long before it looked as if the Brexit discussion was actually going to move along by the end of October.

I thought it would be appropriate to show what GBP/USD has done since March of this year (GBP2), as that was the previous deadline date for the UK leaving the EU. By August the pound had lost around 10% against the US dollar, but it is clear that into September the first green shoots of optimism towards the currency were starting to emerge. GBP/USD was probing that 1.2000 level but there was no follow-through selling – the first sign that perhaps traders were becoming less pessimistic.

At the time of writing, it was still not clear exactly what was going to happen with Brexit – but financial markets would seem to have made another line in the sand down at these historical lows. I think it has shifted from a 'sell the rallies' market

GBP/USD March 2019 to present (GBP2)

"GIVEN WHAT WE HAVE SEEN SINCE THE SUMMER, I DO FEEL THAT 2020 COULD BE A DIFFERENT STORY FOR THE POUND."

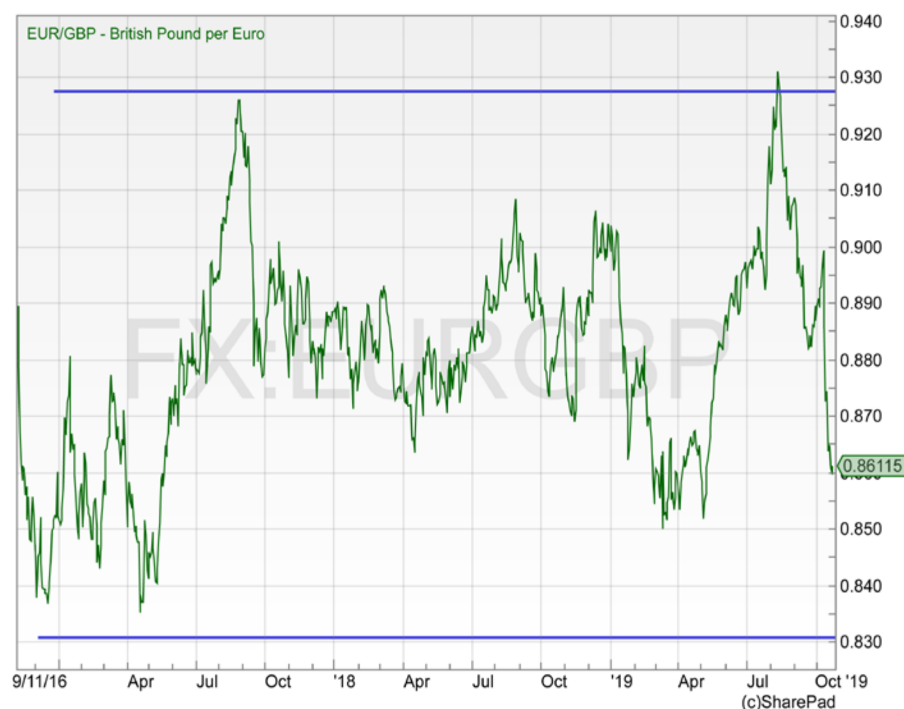
to 'buy the dips'. The pound rocketed higher from the 1.22 zone in October and is looking somewhat overdue a correction. This is what I think will be the real test here – where do the buyers come back in after a bout of weakness? For now, the 1.20/1.22 zone is seen as solid support. Buying after a sell-off has seen a couple of days of stabilisation would therefore seem an interesting opportunity, as there does appear to be more of a mood of optimism despite ongoing parliamentary differences.

What about the euro?

The euro/sterling rate (EUR/GBP) has been somewhat directionless over the last three years, although there has been plenty of volatility as it has swung around in its wide sideways range. Clearly Brexit has an impact on the EU economy as well as the UK – and the European economy is not having the best of times anyway at the moment, with Germany for example slowing significantly during 2019. The pound strength in recent months has pushed the euro, as seen in chart GBP3 below, back towards its lowest point for the year so far, where one euro is worth about 86 pence.

It is difficult to see any significant change to this range in the short term – the euro recently hit a two-year low against the US dollar so remains under some pressure on the wider foreign-exchange market. The US dollar has had a strong run against many currencies over the past 18 months but with the global economy showing signs of slowing at least slightly, perhaps the dollar will give up some recent gains, which should only help the euro and the pound.

The UK's currency is still the best way to gauge what financial markets feel about the whole Brexit process – and how the economy may look after an exit. Pessimism has undeniably been the dominant tone over the past six months but, given what we have seen since the summer, I do feel that 2020 could be a different story for the pound. As much as I should follow my own advice and avoid predictions whenever possible, it looks like it could be a year where we see the currency continue to recover.



About David

David Jones qualified as a technical analyst in 1995 and started his City career as a currency analyst. He then went on to work for trading companies CMC Markets and IG Group as Chief Market Strategist. Since leaving the industry in 2013 he has been a presenter on BBC Radio 5 Live's Wake up to Money programme and the Chartist for Shares magazine. He is an active trader and private investor.

BY ANDREW LATTO

QUALITY INVESTOR

UNILEVER'S BEAUTIFUL FUTURE

Andrew Latto, CFA, explains why Unilever's shift away from food, in favour of beauty and personal care, could mean its share price has a lot further to run.

Unilever is a major player in the beauty and personal-care market, which generates 42% of its revenue and is the group's most profitable division. The ninety-year-old business just wants to make you look and feel good.

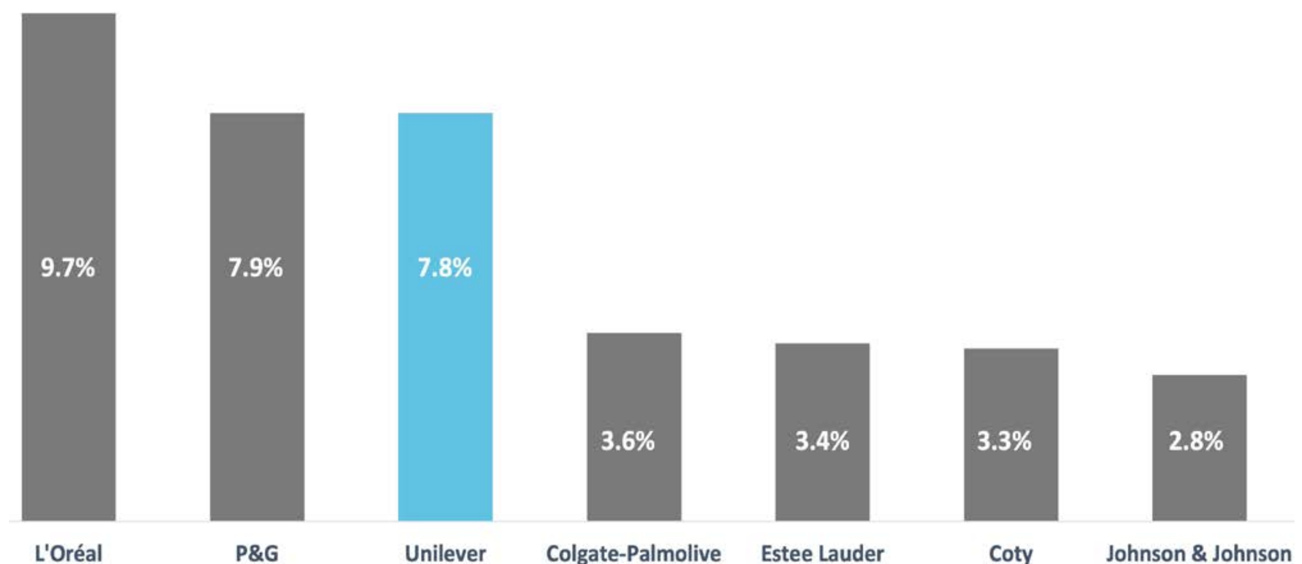
According to Women's Wear Daily, Unilever is the second-largest player in the beauty market, with $21.5bn revenue in 2017. This puts it behind L'Oréal's $29.4bn revenue and well ahead of Estee Lauder's $12.8bn.

In the broader beauty and personal-care market Unilever is in third place with a 7.8% share of the market. L'Oréal has the leading share at 9.7% and Procter & Gamble is in second place with 7.9%.

Unilever used to be focused on food and refreshment, but this segment now generates only 38% of revenue. The group's stock-market subsector changed to personal products in September 2014, having previously been food products.

Unilever's change of leadership at the start of 2019 also highlighted the change in focus; Alan Jope became chief executive, having previously led the beauty and personal-care division.

Unilever's 2017 market share in beauty and personal care



Source: Unilever

monticello / Shutterstock.com

Quality investors

Unilever was the largest position in the Lindsell Train Global Equity Fund at the end of September 2019, at 8% of assets. The second-largest holding was Diageo at 7.7% of assets and Heineken was in third place at 7.6% of assets.

The main threat to consumer-staple companies is the loss of pricing power. Fund manager Nick Train has stated that, of the stocks held in the Finsbury Growth & Income Trust, Unilever is the:

"... most challenged by changes in consumer tastes because it has the most mass or mid-market brands."

Train is nevertheless optimistic on Unilever's shift towards beauty and personal care. Unilever has historically been a sound investment with the shares increasing nineteen-fold since 1988.

Unilever's brands

Unilever has more than 400 brands, with many of them unique to local markets (eg Suave and Pureit). Three quarters of Unilever's recent revenue growth has been driven by 28 sustainable-living brands.

The group says it enjoys "number 1 or 2 positions in 85% of the key markets and categories in which we compete." Twelve key brands generate over €1bn in annual revenue in comparison with Unilever's total revenue of €51bn in 2018.

They include the beauty and personal care brands Axe, LUX, Rexona (also known as Sure), Dove and Sunsilk. The €1bn food and refreshment brands are Knorr, Hellman's, Magnum, Lipton and Wall's.

Beauty and personal-care brands

Unilever's beauty and personal-care division enjoys the leading global position in hair care, skin cleansing and deodorants. Prestige brands, such as Dermalogica and Hourglass, generated 2.4% of the division's revenue in 2018.

Unilever is the leader in the Indian beauty and personal-care market with top positions in hair care, make-up, skin care and skin cleansing. The group is in second-place position in the oral-care market and third place in deodorants.

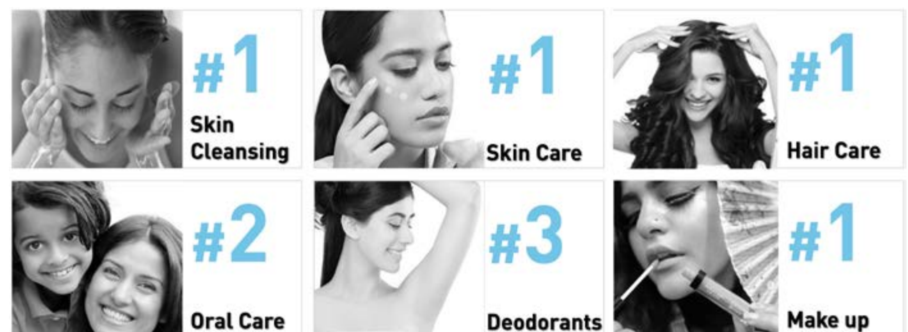
"THREE QUARTERS OF UNILEVER'S RECENT REVENUE GROWTH HAS BEEN DRIVEN BY 28 SUSTAINABLE-LIVING BRANDS."

Unilever's 12 €1bn revenue brands

	Beauty and personal care	Food and refreshments	Home care
€1bn revenue brands	Axe, Dove, Lux, Rexona, Sunsilk	Knorr, Hellman's, Magnum, Lipton and Wall's	Dirt is Good (eg Omo and Persil), Surf

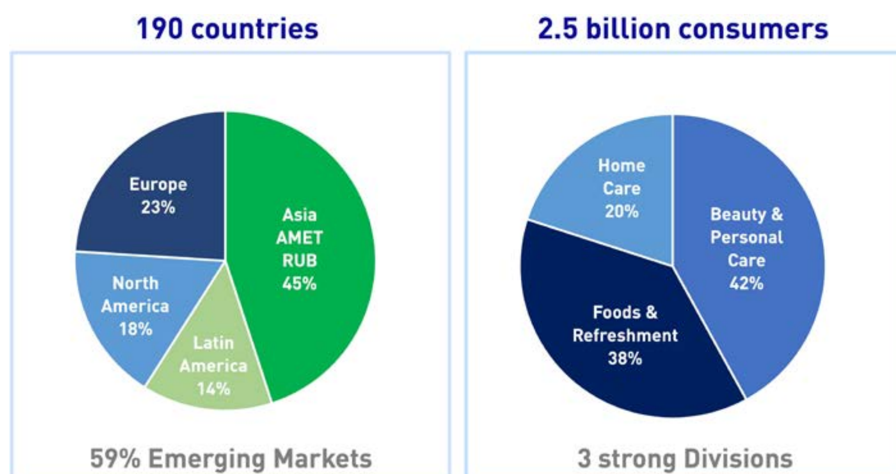
Source: Unilever

Unilever in India: the beauty and personal-care leader



Source: Unilever

Unilever's revenue in 2018: a diversified business



Source: Unilever

Unilever's investment case

Companies that can stand the test of time like Unilever are few and far between. The business is also resilient, with demand for fast-moving consumer goods (FMCG) holding up during downturns.

The shift towards beauty and personal care has helped to improve group profitability. The ongoing premiumisation of Unilever's brand portfolio will improve brand loyalty.

Emerging markets generate 59% of Unilever's revenue and underpin the long-term growth outlook. Unilever may be one of the most attractive ways to buy into the emerging-market consumer class.

The stock is an attractive holding for investors seeking a reliable and growing dividend income. The company pays quarterly dividends and has a long track record of increasing the payout.

Unilever since 2009

Unilever was primarily a food and refreshment business in 2009, with this division generating the majority of revenue and operating profit. It is unsurprising that we continue to associate Unilever with Marmite and Magnum ice cream.

The beauty and personal-care division has seen its share of group profit increase from 37% in 2009 to 46% in 2017. This has helped improve Unilever's underlying operating profit margin from 14.8% in 2009 to 18.4% in 2018.

Emerging markets have become a larger share of revenue at 59% in Q3 2019 versus 57% in 2013. The key emerging markets in 2018 were India at 9% of revenue, Brazil at 6%, China at 5% and Indonesia at 5% of revenue.

India, Brazil, China and Indonesia collectively account for a quarter of Unilever's turnover. There are not many Western companies with both long-established and profitable footholds in these countries.

Acquisitions

Unilever has shunned mega deals of the type favoured by Reckitt Benckiser. It has instead acquired successful brands that can improve revenue growth, innovation and group know-how.

Large consumer-goods companies often fail to spot new-product opportunities, but they are good at rolling them out and marketing them. Much of the recent acquisition activity has focused on premium brands and on-trend product categories.

Beauty and personal care

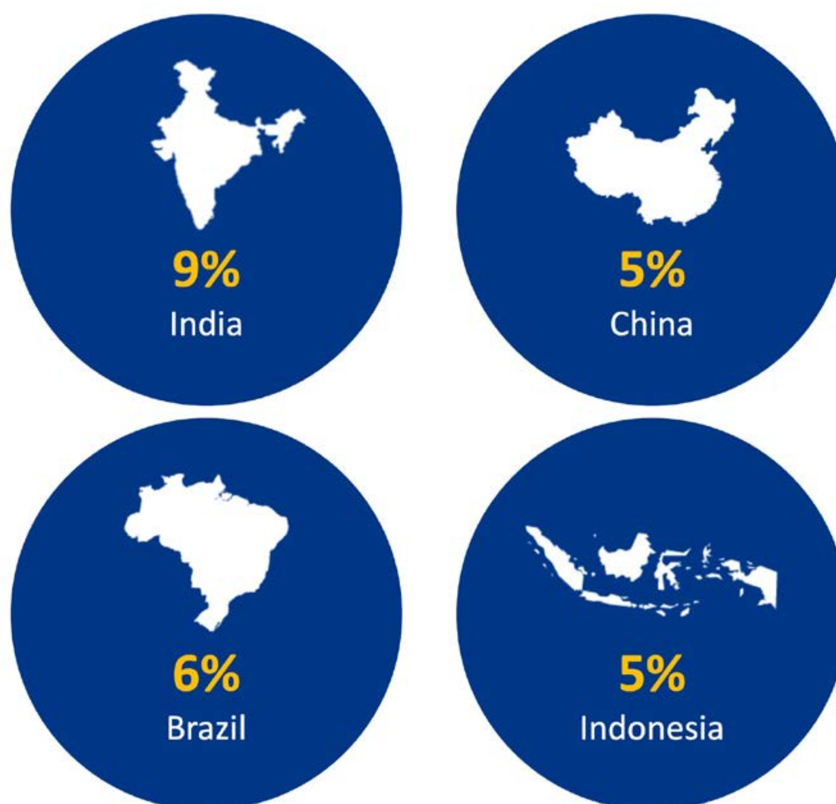
Unilever acquired Dermalogica, Murad, Kate Somerville and REN in 2015 with the combined price tag estimated at €1.2bn. Dollar Shave

Divisional share of operating profit

	2009	2017
Beauty and personal care	37%	46%
Food and refreshment	51%	41%
Home care	12%	13%

Source: Unilever

Share of Unilever's 2018 revenue



Source: Unilever

Beauty and personal-care acquisitions 2015-2017

Source: Unilever

Club was bought for an estimated €0.9bn in 2016 along with Living Proof for €0.2bn.

Dollar Shave Club grew in the US on the back of low pricing with the business loss-making from 2011 to 2016. US market share has remained static since Unilever's takeover, calling into question the merits of the deal.

In 2017, the group bought the skin-care brand Carver Korea for €2.3bn, Sundial Brands for €0.6bn and the cosmetics brand Hourglass. The following year saw the purchase of the personal-care brands Quala and Equilibra.

In 2019, the French derma-cosmetic brand Garancia was purchased alongside the Japanese inspired skincare brand Tatcha. The beauty and personal-care division has clearly been the main focus of acquisition activity.

Food and refreshments

Acquisitions in this segment include the Italian gelato business GROM in 2015, which at that time had 60 Gelato shops. The Pukka Herbs tea business was bought in 2017 and is benefiting from growing demand for herbal teas.

The Sir Kensington condiments brand was bought in the same year; its products include vegan mayonnaise. Brazilian natural and organic-food business Mae Terra was also bought in 2017.

Home care

Acquisition activity has been relatively light in the home-care division. The Seventh Generation natural home-care brand was bought in 2017 and the Blueair purification brand was bought in 2016.

Blueair is a Swedish group that develops air-purification products for the home and business market. It appears odd for an FMCG company to buy an electronic-goods business.

Unilever buys Horlicks

Unilever's most recently announced deal is to acquire the health-food drinks portfolio of GlaxoSmithKline (GSK HFD) in India for €3.3bn. Horlicks is one of GSK HFD's key brands and was first introduced into India in the 1930s.

India accounts for 90% of GSK HFD's revenue with the rest generated from countries in southeast Asia. GSK HFD generated €550m revenue in 2018, which equates to 1% of Unilever's turnover in 2018.

When the transaction completes, it will mean that revenue from India will contribute approximately 10% of Unilever's total revenue. The deal is in line with Unilever's objectives to increase its exposure to health-food categories and high-growth markets.

Business disposals

Corporate activity highlights the direction of travel for a business. Unilever's most significant disposal in recent years was the €6.8bn sale of the spreads business on 2 July 2018.

Spreads generated 5.7% of group revenue in 2016 and included the brands Flora, Becel, ProActiv, Bertolli and I Can't Believe It's Not Butter. Western consumers have shifted from toast for breakfast to yogurt and porridge.

Other exits include the AdeS soy beverage sale to Coca-Cola in 2016 for US$575m. The Slim-Fast diet brand was sold in mid-2014 and the Ragu and Bertolli brands were sold in the same year for $2.15bn in cash.

Skippy peanut butter was sold in 2013 for $700m and the North American frozen-meals business was sold in 2012 for US$267m. Unilever has been transitioning away from mature food and beverage brands.

Unilever's underlying sales growth (USG)

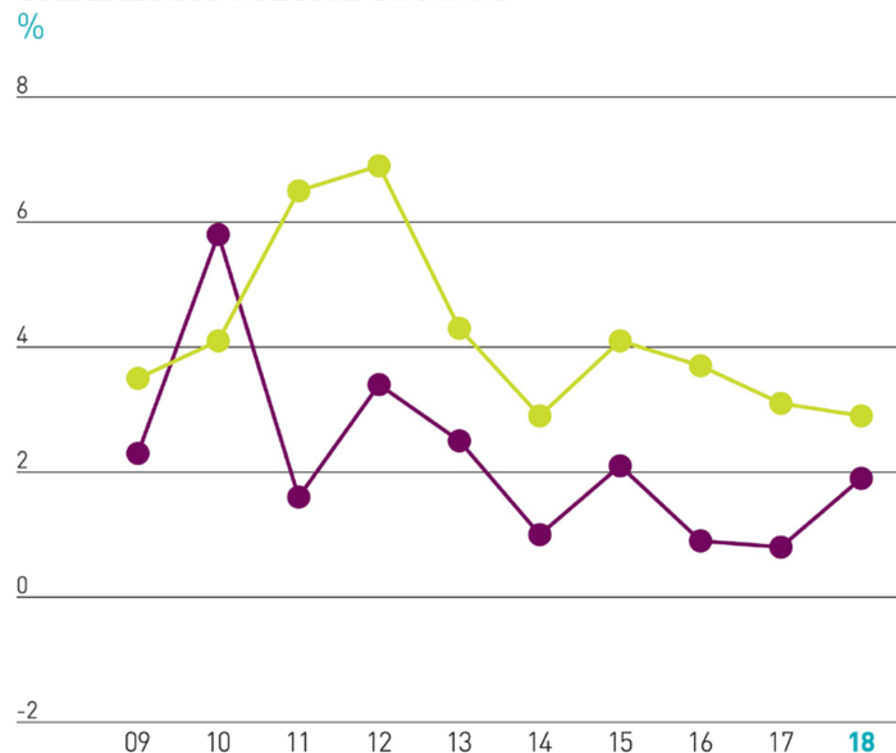
	2015	2016	2017	2018	9m 2019
Emerging markets	7.1%	6.5%	5.9%	4.6%	6.1%
Developed markets	0%	(0.2%)	(0.6%)	0.5%	(0.5%)
Group result	4.1%	3.7%	3.1%	2.9%	3.4%

Unilever's underlying volume growth (UVG)

	2015	2016	2017	2018	9m 2019
Emerging markets	2.7%	6.5%	1.1%	2.8%	3.6%
Developed markets	1.2%	0.6%	(0.2%)	0.7%	(0.3%)
Group result	2.1%	0.9%	0.8%	1.9%	1.3%

Darios / Shutterstock.com

Unilever's pace of growth has slowed



Source: Unilever

Unilever's growth backdrop

Consumer-staple groups like Unilever are finding it harder to deliver organic growth (excluding acquisitions and disposals). This is due to the emergence of new competitors and weak demand in developed markets.

Unilever's underlying sales growth hit a high of 6.9% in 2012 but has declined since then. Underlying sales growth was 2.9% in 2018 and improved to 3.4% in the first nine months of 2019.

Underlying volume growth hit a high of 5.8% in 2010 but fell to only 0.8% in 2017. Volumes improved by 1.8% in 2018 and in the first nine months of 2019 increased by 1.3%.

Developed market headwinds

Developed markets have been a headwind, with underlying sales growth negative from 2016 to 2017 and the first nine months of 2019. Sales volumes in developed markets fell in 2017 and in the first nine months of 2019.

In the four years and nine months to September 2019 we have seen only a 2% increase in sales volumes in developed markets. Unilever is struggling to sell more of its products in Europe and North America.

20% margin by 2020

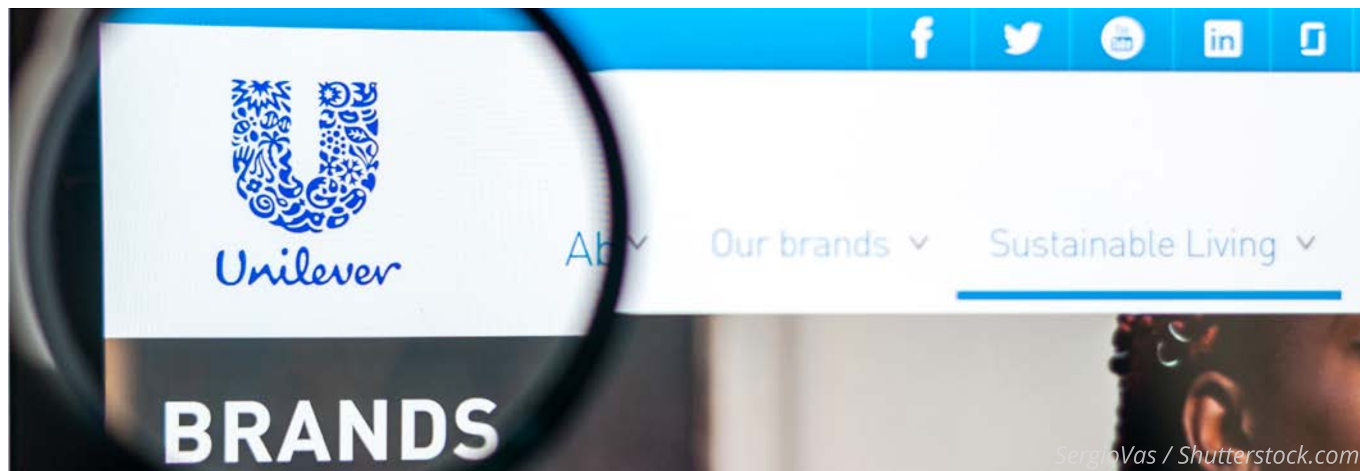
Alan Jupe has left in place the targets set by his predecessor, Paul Polman, in April 2017. This was in large part a response to the failed $143bn takeover attempt from Kraft Heinz.

Unilever aims to hit an underlying operating profit margin of 20% in 2020, up from 15.5% in 2014. This has in part been driven by cumulative cost savings, which are on track to hit €6bn this year.

The targeted net debt to EBITDA ratio for the business is 2x, which leaves scope for further acquisitions and/or share buybacks. The 2020 target for underlying sales growth is 3-5% in comparison with the average over the last five years of 3-3.5%.

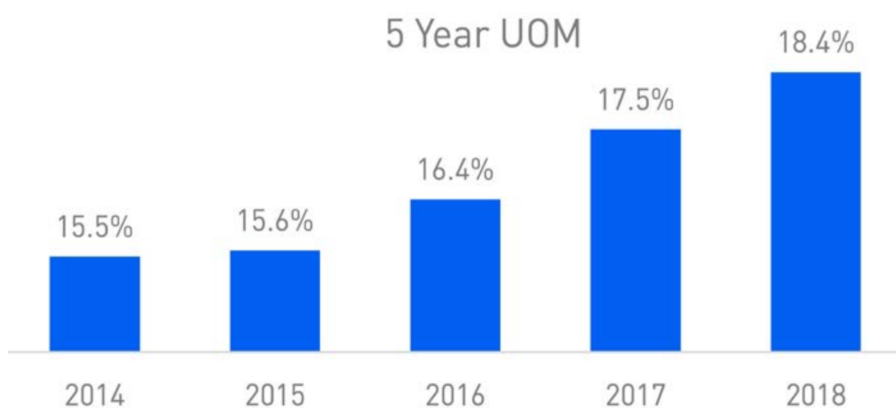
Risks

Supermarket own brands products continue to make inroads, with Tesco even offering a version of Marmite. Consumers are willing to switch when it comes to staple products like margarine and bread.



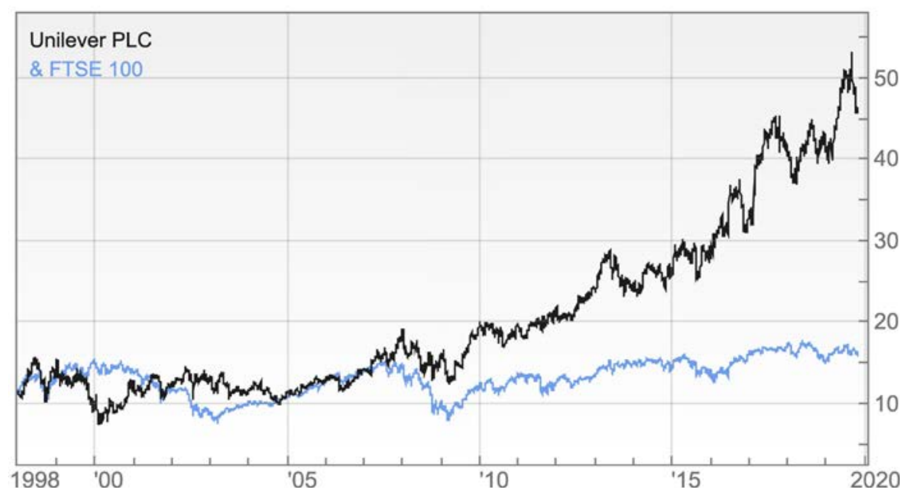
SergioVas / Shutterstock.com

Unilever's underlying operating margin (UOM)



Source: Unilever

Unilever versus the FTSE 100



Source: SharePad

About Andrew

Andrew Latto, CFA, is an independent analyst and the founder of www.fundhunter.co. Fund Hunter's mission is to identify the best investment funds. The Fund Hunter model portfolio has meaningfully outperformed the All-Share index since inception. Andrew previously worked for an investment management company and a research company. He also contributes to www.cube.investments.

Discount supermarkets are growing rapidly and have been aggressively taking on established brands (eg Aldi has its own version of Pimms). Unilever also has to contend with the emerging-market brands that it is not able to acquire.

Online retailers are able to offer a range of brand substitutes and can use their data to target consumers. Low-cost online marketing has also allowed new brands to emerge, such as Halo Top in the US ice-cream market.

Valuation

The P/E multiple of Unilever, based on the last 12 months' reported earnings, has been increasing since 2011. Investors appear to be putting slowing sales growth to one side and instead focusing on improving margins.

The forecast p/e for 2019 is 21x but this falls to 19x in 2020 and 18x in 2021 (based on a share price of £46.3 on 25 October). The forecast dividend yield in each year is 3.2%, 3.4% and 3.7% (1.5x covered).

Unilever has seen its share price increase by almost 200% from the high of £15.7 that it reached in 1998, before the dotcom crash. This resulted in significant outperformance against the FTSE 100.

Summary

Unilever is on track to increase its operating profit margin from 15.5% in 2014 to 20% in 2020. This reflects the shift from the low-margin food division towards beauty and personal care.

However, the pace of underlying sales growth has declined since hitting a high of 6.9% in 2012. Investors will continue to focus on underlying sales to gauge whether Unilever is delivering on its growth potential.

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BY ROBERT STEPHENS, CFA

STOCKS IN FOCUS

BURBERRY

WHY GROWTH OPPORTUNITIES COULD CATALYSE THE SHARE PRICE

Robert Stephens discusses why Burberry could produce strong capital returns, as it implements an updated strategy.

The rise of the middle class across Asia could stimulate Burberry's financial and share-price performance over the long run. The luxury fashion house generates a large proportion of its income from the region, with rising wages in emerging economies such as China likely to boost demand for its products.

In addition, the company is making a variety of changes to its business model in order to capitalise on changing customer tastes. For example, it is seeking to attract a larger proportion of younger shoppers through its investment in digital channels, while its focus on social and environmental issues may resonate with a broader range of consumers.

Alongside this, Burberry is refreshing its store estate in order to boost customer-service levels and increase personalisation. Its cost-reduction progress could enhance margins, while new products may enhance its sales growth.

The ongoing global trade war presents a risk to the company's short-term outlook. Downgrades to growth forecasts in Burberry's key geographical markets could cause investor sentiment to deteriorate after what has been a period of strong share-price growth. However, with a sound growth strategy and a possible tailwind from emerging markets over the long run, its investment potential seems to be high.

Middle-class growth prospects

Burberry's store estate is dominated by its exposure to the Asia Pacific region. It currently has 431 stores across the world (including concessions and outlets), with 194 (45%) of them located in the Asia Pacific region. Therefore, it is well-placed to capitalise on the expected rise of middle-class consumers across the region over the long run.

For example, the number of middle-class consumers in Asia is forecast to rise from 1.4 billion in 2015 to 3.5 billion by 2030. By the end of the next decade, two-thirds of the world's middle-class consumers are expected to live in either India or China. This could lead to an increase in the proportion of total global luxury spending in each of these countries, with the figure for China already standing at 33%.

Burberry's focus on offering more regularly updated products, which are typically sold through limited-edition releases, is likely to cater increasingly to Chinese consumers who often purchase products relatively frequently. This could maintain Burberry's position as a fashionable brand that is 'on-trend', which may lead to higher sales from China's middle-class

NeydtStock / Shutterstock.com

> **"BURBERRY'S STORE ESTATE IS DOMINATED BY ITS EXPOSURE TO THE ASIA PACIFIC REGION."**

consumers. This strategy contributed to a mid-teen percentage rise in its comparable store sales in China in the first quarter of the current financial year.

Updated store strategy

The company's focus on the Asia Pacific region is set to increase, as it embarks on a store-closure programme across the US. This is part of its shift towards becoming an increasingly luxury-focused brand. Thirty-eight stores in the US deemed to be 'non-luxury' are expected to be rationalised as part of its overall growth strategy.

Those stores that survive closure are being updated. This is aimed at providing an improved customer experience, with new architectural and visual concepts such as a 'floral room' and an 'under construction' room being included in some of its stores. This could increase customer engagement and lead to a higher conversion rate among consumers.

In addition, the company is investing in providing digital tools for its sales associates, as well as greater training, as it seeks to improve the in-store customer experience. This is being implemented alongside a new programme to improve front and back of house capabilities across its store estate. The end result is expected to be a faster and more personalised in-store experience that helps to improve the company's competitive advantage.

Digital opportunities

Changes are being made to the company's online presence; it is increasingly seeking to resonate with consumers through social-media channels. Over the last couple of years, for example, it has increased the frequency of its posts on social-media platforms, launched tailored social-media campaigns and adopted an increasingly product-focused emphasis across its marketing channels.

This has led to many heavily followed Instagram influencers engaging with the brand in recent months, which could help to increase Burberry's appeal among Generation Z and millennial consumers. Its partnership with Instagram and WeChat to launch social shopping channels could further increase the size of its total addressable market, while improvements to its website could improve customer-conversion rates.

For example, it launched a one-to-one service for customers on its mobile app in the 2019 financial year. This seeks to dovetail with an increasingly personalised service in its stores. It is using an increasing amount of data to provide recommendations for online customers that could boost conversion rates, while offering exclusive opportunities for selected customers, which may promote a higher degree of brand loyalty.

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A changing business

Burberry is seeking to resonate with changing consumer tastes through its increasing focus on social and environmental issues. For example, it is seeking to procure 100% of its energy from renewable sources, and aiming to ensure that all of its products have a positive social or environmental impact. Since 88% of US and UK consumers would like brands to help them become more environmentally friendly and ethical in their daily lives, a shift towards sustainability could catalyse the sales prospects of the business.

Changes are also being made to the products sold by the fashion brand under chief creative officer Riccardo Tisci. For example, Burberry is enhancing its leather-goods offering and expanding the range of handbag styles offered across its retail network. Its first-quarter update highlighted that its mainline offer was made up of 50% new products, which is a significant increase on the 15% figure reported at the end of the previous quarter. New products contributed to an overall rise in comparable sales of 4% in the first quarter. As they gradually replace older products, the company's new products could further enhance its sales-growth prospects.

Global growth outlook

A possible risk facing Burberry's near-term growth outlook is uncertainty surrounding the prospects for the world economy. A continued, strained relationship between the US and China has contributed to a general slowdown in the growth prospects for a variety of the company's key markets. For instance, the growth forecast for Asia's economy in the current year, which is expected to contribute two-thirds of global growth in 2019, has been reduced by 30 basis points to 5.4% in recent weeks.

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"BURBERRY IS SEEKING TO RESONATE WITH CHANGING CONSUMER TASTES THROUGH ITS INCREASING FOCUS ON SOCIAL AND ENVIRONMENTAL ISSUES."

Even though the stock may face a period of uncertainty due to macroeconomic factors, its focus on becoming increasingly efficient could offset a more challenging operating environment.

For example, in recent quarters it has invested in improving its supply chain through the adoption of new technology to simplify its management of contingent labour and increase the amount of automation used in its buying, payment and administrative process tasks. This has contributed to £105 million in cumulative operating expenditure savings, with the company on track to meet its target of £120 million in cost savings by the end of the 2020 financial year. This could help to mitigate potential short-term weakness in operating conditions, as well as improve margins, over the long run.

Investment potential

Following its 12% share-price rise in the last year, Burberry trades on a forward price-earnings ratio of around 21. This indicates that the stock market has priced in a degree of its future growth potential, with its margin of safety having been eroded as progress in implementing its strategy has continued.

However, its long-term growth prospects suggest that it offers investment appeal. The expected rise of middle-class consumers across emerging economies in Asia, such as India and China, could allow the company to capitalise on global economic trends. Its store-closure programme in the US means that around 50% of its total stores will be situated in Asia, which may enable it to post a relatively high rate of sales growth over an extended time period.

The investment being made by the business in its physical stores and online presence could enhance the customer experience. It may provide a greater level of personalisation that ultimately delivers a higher customer-conversion rate. Its increasing presence on social media also seems to be broadening its customer base to include Generation Z and Millennial consumers who will make up an increasing proportion of consumer spending in the long run.

Burberry's investment in becoming increasingly socially and environmentally conscious could further resonate with consumers. The strategy may help to maintain the relevance of the brand as consumer tastes change, while its updated products appear to be stimulating its growth performance in the short term.

The stock faces near-term risks from an uncertain global economic outlook. But the changes it is making to its business model could enhance its growth opportunities, while its geographical exposure may provide it with a tailwind over the next decade. Therefore, in spite of a relatively high valuation compared to many of its index peers, the stock could offer investment appeal.

About Robert

Robert Stephens, CFA, is an Equity Analyst who runs his own research company. He has been investing for over 15 years and owns a wide range of shares. Notable influences on his investment style include Warren Buffett, Ben Graham and Jim Slater. Robert has written for a variety of publications including The Daily Telegraph, What Investment and Citywire.

BY RICHARD GILL, CFA

BOOK REVIEW

ONLY THE BEST WILL DO

THE COMPELLING CASE FOR INVESTING IN QUALITY GROWTH BUSINESSES

BY PETER SEILERN

Richard Gill, CFA, reviews *Only The Best Will Do*, in which author Peter Seilern shares the secrets of quality growth investing.

A constant theme in my book reviews over the past few years has been how bad fund managers are at their job. This is particularly the case for active managers – those who try to outperform the market or specific index, rather than the passive managers who simply try to follow the market.

As we head towards the end of another year, the numbers have once again suggested this theme is continuing. The latest *S&P Indices Versus Active Funds* report, covering the year to end June 2019, recently revealed that 81.49% of active UK equity strategies failed to outperform their benchmark over the period. Can you imagine any other industry where four out of five people fail to deliver but still keep their jobs?

While the UK market saw some turbulence over the year to June 2019, isn't that exactly the time when active managers should show off their skills and prove their perceived worth? Yet, the equal-weighted average return for a UK equity strategy was a loss of 2.82%, against a modest 1.2% gain for the benchmark S&P United Kingdom BMI. According to S&P, over 10 years, an astounding 74.33% of UK equity strategies have failed to outperform.

If that wasn't bad enough, the troubled UK fund-management industry has been hit even harder over the past few months, with former investment 'rock star' Neil Woodford forced to suspend his flagship funds after a number of high profile bets went against him and investors clamoured for their money back. Woodford has now suffered the indignity of being booted out of his own business, but few will shed a tear, especially given investors were still being charged management fees during the funds' suspension. The BBC's recent *Panorama* programme on the subject depicted a sad man who will likely never work in financial services again.

Simply the best

Fortunately, there are still some funds and managers investors can rely on. Peter Seilern is chairman, director and the controlling shareholder at fund-management firm, Seilern Investment Management. Founded in 1989, the

The compelling case for investing in quality growth businesses

ONLY THE

WILL DO

PETER SEILERN

Foreword by Jonathan Davis

Hh

company now has $1.5 billion of funds under management, focusing exclusively on managing portfolios of quality growth stocks for institutions and high-net-worth individuals.

The funds have performed pretty well over the years, with the flagship Seilern World Growth up by 242% since July 2006. That's an impressive compound annual return of 9.7%, with major holdings including the likes of stock stalwarts Mastercard, Alphabet, Nike and Accenture.

Seilern's first book is *Only The Best Will Do*, in which he shares with investors the secrets of quality growth investing. Contained within is advice on how to filter the many thousands of listed equity investment opportunities so you can create a portfolio of reliable and steady, long-term growth assets. These shares are so reliable that Seilern claims they can be safer than bank deposits or government-issued bonds. "Only the Best Will Do" isn't just an attention-grabbing headline but reflects the author's approach to finding only the most exceptional stocks.

"QUALITY GROWTH INVESTING IS, '...THE MOST RELIABLE AND EFFECTIVE STRATEGY YET DEVISED BY MAN FOR ACHIEVING ABOVE AVERAGE RETURNS WITH MINIMAL RISK OF THE PERMANENT LOSS OF CAPITAL'."

A superior way to invest

The introduction to the book makes a pretty big claim, with Seilern stating that quality growth investing is, *"... the most reliable and effective strategy yet devised by man for achieving above average returns with minimal risk of the permanent loss of capital"*. But, despite being backed by empirical evidence, only a minority of professional investors practise the style. The core of the book, divided into three parts, goes on to explain exactly what quality growth investing is, why it delivers consistent returns, how it can be implemented and why conventional investment thinking is badly flawed.

Part One, entitled *Why*, looks at what quality growth investing is and why it has the prospect of delivering superior returns while having below-average risk. The quality part of the equation is defined by the strength of a company's balance sheet, track record and quality of management, while growth is measured by the company's ability to increase its sales, margins and cash flow. Seilern believes that quality growth businesses should be seen as a distinct asset class, such as bonds or private equity, given their unique set of characteristics. They are rare however, with the author believing only 60 or so companies, out of a global universe of 50,000, will qualify at any one time.

Part Two, *How*, looks at these characteristics in more detail by providing a set of investment rules. Seilern has 10 golden rules which set out how to discover quality growth stocks. These include having a scalable business model, superior industry growth, a sustainable competitive advantage, transparent accounts and a solid financial position. For a company to qualify it must meet all 10 criteria; after all, only the best will do. The rest of Part Two looks at how to build a portfolio of quality growth stocks, along with a discussion of the art of valuation.

Finally, Part Three, *When and Where*, looks at how quality growth investing compares against other popular investing methods. Seilern cautions against income investing, warning that the payment of dividends takes away capital that can be reinvested in the business and that it could be a sign a company could be about to go ex-growth. He also shuns investing in fads and trends due to their inevitable decline. He is a fan of family businesses, which often exhibit quality growth features, being run to ensure survival to the next generation. However, the author warns that corporate governance can sometimes be an issue.

Conclusion

Overall, *Only The Best Will Do* is a unique manual on a style of investing that doesn't really get the attention it deserves. Value and growth investing may dominate the active investment landscape but quality growth investing has time and again shown that it beats these philosophies. For investors looking for companies which will deliver consistent long-term returns, while also minimising the risk of capital loss, *Only The Best Will Do* is the ideal guide.

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About Richard

Richard Gill is an investment analyst with over a decade's experience of analysing small/mid cap equities. He is the Head of Research at Align Research. Richard qualified with the Chartered Financial Analyst (CFA) designation in 2012 and was awarded PLUS Markets Financial Writer of the Year at the 2008 PLUS Awards. He has been a judge at the Small Cap Awards from 2013 to 2018.

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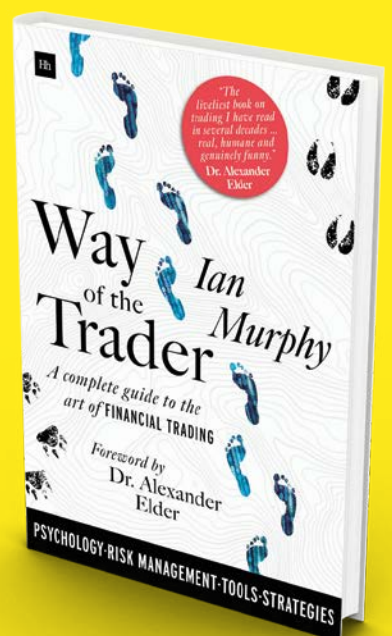

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BY TIM PRICE

THE FINAL WORD

SURVIVAL OF THE FITTEST

In evolutionary terms, human beings have not yet learned how to cope with financial markets, writes fund manager Tim Price.

"Zero. This is the third time that Warren and I have seen our holdings in Berkshire Hathaway go down, top tick to bottom tick, by 50%. I think it's in the nature of long term shareholding of the normal vicissitudes, in worldly outcomes, and in markets that the long-term holder has his quoted value of his stocks go down by, say, 50%. In fact, you can argue that if you're not willing to react with equanimity to a market price decline of 50% two or three times a century you're not fit to be a common shareholder, and you deserve the mediocre result you're going to get compared to the people who do have the temperament, who can be more philosophical about these market fluctuations."

— Charlie Munger, Warren Buffett's vice chairman at Berkshire Hathaway, asked in a BBC interview in October 2009 how concerned he was about the recent decline in Berkshire's share price.

Why do the autumnal months always seem to generate so much stock-market volatility? I have a pet theory. The problems get stored up in the summer months, when the sun is hot and the mood among investors generally upbeat.

Then autumn sets in. The optimism of summer is followed by a mood of retrospection and introspection. As our 'animal spirits' start to wane with the weakening sun, problems that developed during the heat of summer finally start to come to the fore. Buyer's remorse sets in. Investors start to question decisions made in sunnier, happier times. This year, we have had the extra frisson of Halloween coinciding with Britain's putative departure from the EU. Months, perhaps years, of pent-up shadowy errors – made by politicians, central bankers and investors of all stripes – may now start to walk abroad in the markets.

Stock markets fell sharply at the start of October and the mainstream media were quick to identify culprits. The *Financial Times* went with a motley amalgam of "poor US jobs data… weak manufacturing reports and geopolitical fears". Ah yes, "geopolitical fears" – the catch-all protagonist when market falls need to be explained away quickly.

Newspapers trying to explain away market volatility tend to demonstrate the Gell-Mann Amnesia effect. This theory is named after the US Nobel-Prize winning physicist Murray Gell-Mann. The best-selling author Michael Crichton explains:

> “FUND MANAGERS ARE MISSING THE WOOD FOR THE TREES.”

"Briefly stated, the Gell-Mann Amnesia effect is as follows. You open the newspaper to an article on some subject you know well. In Murray's case, physics. In mine, show business.
You read the article and see the journalist has absolutely no understanding of either the facts or the issues. Often, the article is so wrong it actually presents the story backward – reversing cause and effect.
I call these the 'wet streets cause rain' stories. Paper's full of them.
In any case, you read with exasperation or amusement the multiple errors in a story, and then turn the page to national or international affairs, and read as if the rest of the newspaper was somehow more accurate about Palestine than the baloney you just read. You turn the page, and forget what you know."

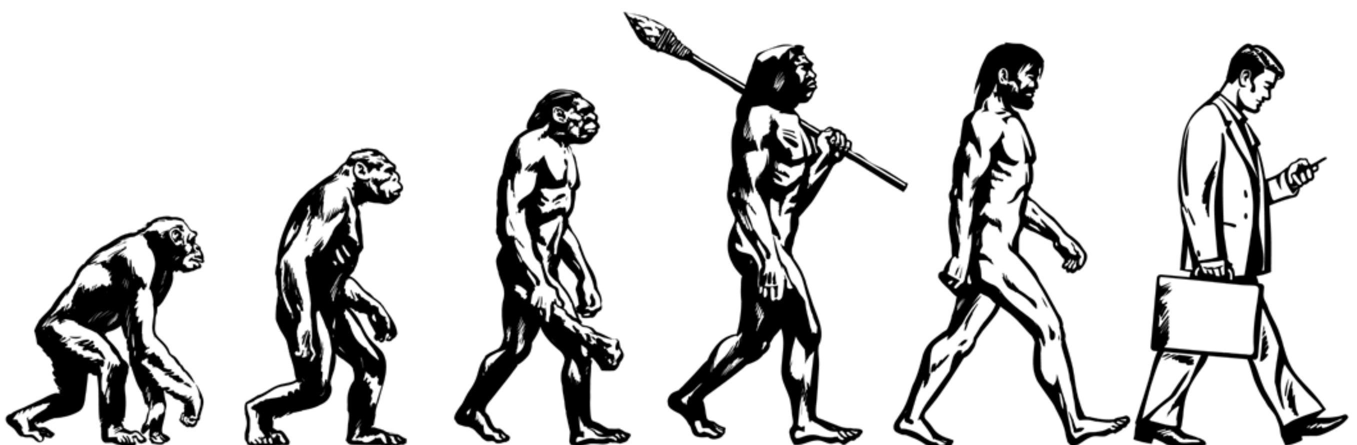
"WE ARE WARY OF UK STOCKS NOT SO MUCH BECAUSE OF BREXIT BUT MORE BECAUSE OF THE RISK OF WHAT WE MIGHT CALL AN ACCIDENTAL CORBYN GOVERNMENT."

For once, "geopolitical fears" may actually have something to do with it, but not necessarily in a way that chimes with conventional thinking.

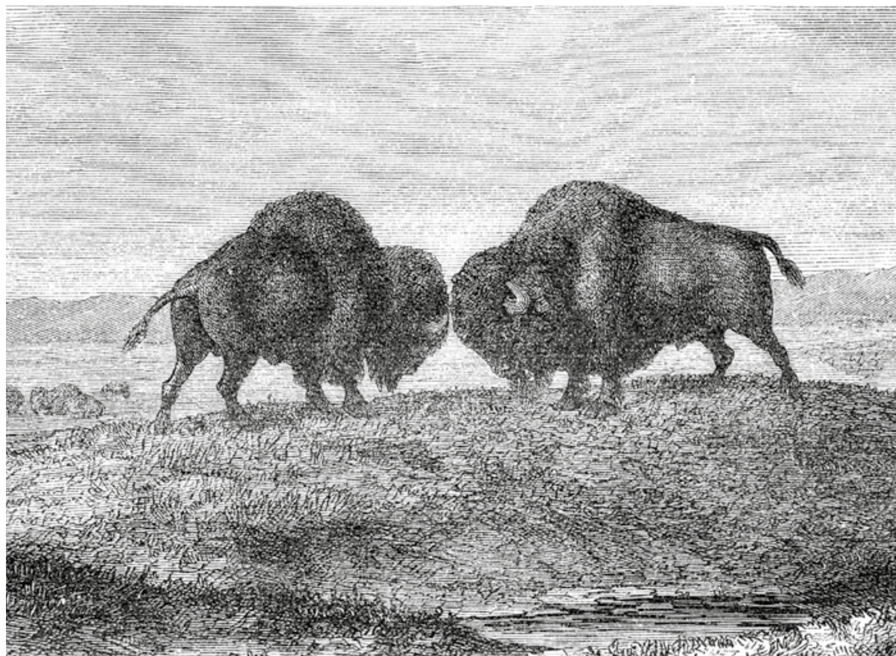
The analyst and financial historian, Russell Napier, has recently been visiting institutional clients and has experienced a remarkably consistent viewpoint when it comes to the ongoing trade battle between President Trump and China. His experience is that nine out of 10 fund managers believe that Trump will secure a trade agreement with China because that will underpin his chances of winning the next election. In Russell's *The Solid Ground* newsletter, he writes:

"I was sitting in the sunshine on Park Lane last Friday admiring Mies van der Rohe's Seagram Building when I got a notification from Bloomberg to let me know that 'White House Weighs Limits on US Portfolio Flows into China'.
It would be difficult to imagine a clearer signal of a move to a China containment [as opposed to engagement] policy. Apparently not, however, as this is still just seen as another attempt to gain leverage on a trade deal, at least based upon the follow-up flurry of emails from investors! Well, perhaps, but when one considers there is now a capital, trade, intellectual property and military escalation against the Chinese Communist Party, one does wonder if this may be part of something bigger than a drive to sell more soya beans.
This news on possible restrictions on the free movement of capital to China will come to be seen as a crucial turning point in the history of this century. It will be seen as a turning point of a magnitude commensurate with the free movement of capital across borders that ultimately defined what globalisation is, rather than the free movement of goods.. Since the Global Financial Crisis, *The Solid Ground* has argued that this era is coming to an end and for many people, primarily those living in emerging markets that have now imposed capital controls, it has already come to an end.
I left for North America puzzled as to why almost everyone thinks that President Trump will strike a trade deal with China. However, that puzzlement has lifted somewhat during the week as I increasingly realised that the opinion on the likelihood of a trade deal is being reinforced by every major bank that issues investment research. Given these institutions' investments in China, and their hope for business from China, one should not expect a full and frank assessment of the outlook for US / China relations from that quarter. Companies and executives expressing too frank a view on the appropriate relationship between the People's Republic of China and Hong Kong have already paid a heavy price for voicing such opinions."

In other words, fund managers are missing the wood for the trees. Because they tend to think almost exclusively about the world in purely monetary terms, they tend to think that everybody else does, too.
Russell argues that in the context of a politician like Trump (who, to be fair, has achieved more over recent years than just about anybody



"A PROBLEM WITH HUMAN BEINGS IS THAT, WHILE HOMO SAPIENS HAS BEEN EVOLVING FOR ROUGHLY 350,000 YEARS, THE FINANCIAL MARKETS HAVE ONLY BEEN WITH US FOR TWO OR THREE CENTURIES, WHICH IN EVOLUTIONARY HISTORY IS NO TIME AT ALL."



thought possible), simple economic judgements can sometimes appear to matter far less to the electorate than appeals to even more basic issues, such as the emotion that underpins patriotism. This is not just about a trade war with China, then; it includes, or could potentially include, capital controls, intellectual property and a military escalation.

That changes everything. In my own fund-management business, we have no exposure to China. Taking Russell's warnings at face value, I'm now not sure that we ever will. But the world's a big place, and the primary driver of what we do buy is bottom-up value, which companies and their share prices either offer or they don't. In China, they don't, and that's before even considering wider issues like corporate governance or political or currency risk. We have a significantly stronger preference for markets like Japan (cheap but undoubtedly a developed economy) or Vietnam (outrageously cheap, albeit a frontier economy – but one going like a train, and hugely competitive relative to the rest of south-east Asia). We are wary of UK stocks not so much because of Brexit but more because of the risk of what we might call an accidental Corbyn government, which would be hugely destructive not just to capital but to our country's economic prospects for perhaps a generation.

The phrase "survival of the fittest" was coined by Herbert Spencer on reading Charles Darwin's *On the Origin of Species* in 1864. Darwin postulated that, working over the course of thousands and millions of years, natural selection would tend to favour "...survival of the form that will leave the most copies of itself in successive generations". Nature would come to reward a mixture of inherited "improvement" and the benefits of random genetic mutation.

A problem with human beings is that, while homo sapiens has been evolving for roughly 350,000 years, the financial markets have only been with us for two or three centuries, which in evolutionary history is no time at all. We have not, yet, learned how to cope with financial markets or things like listed company shares – especially when their prices move violently. Our brains are equipped at a mammalian level to distinguish between responses consistent with either fight or flight – neither of which is necessarily appropriate to volatile stock markets. The answer, I suggest, is to arrange your financial affairs such that you can deal with the inevitable fluctuations to which markets fall prey without even having to think about them. In other words, true diversification – across asset classes, and across individual stocks – remains, to me, the last "free lunch" in finance. Either that, or you develop the sort of stoic temperament that Charlie Munger so wonderfully displays. Sadly, I suspect that is beyond almost all of us.

About Tim

Tim Price is manager of the VT Price Value Portfolio (www.pricevaluepartners.com) and author of 'Investing Through the Looking Glass: a rational guide to irrational financial markets'.

NOVEMBER 2019

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EVERY WEDNESDAY | 12:30

Event:	SR Live webinar
Organiser:	SyndicateRoom
Place:	Webinar
Tickets:	www.syndicateroom.com/events/sr-live

TUESDAY, 12 NOVEMBER | 08:00-10:30

Event:	Ready Steady Grow!
Organiser:	EISA
Place:	Clarion Solicitors, 13-19 Queen Street, Leeds
Tickets:	https://eisa.org.uk/events

TUESDAY, 12 NOVEMBER | 12:00-19:30

Event:	Investment Conference
Organiser:	Business Funding Show
Place:	TBC
Tickets:	www.businessfundingshow.com/events

WEDNESDAY 13 NOVEMBER | 10:00-17:00

Event:	Investing in the age of Longevity
Organiser:	Master Investor and Longevity Forum
Place:	Science Gallery, Great Maze Pond, London SE1 9GU
Tickets:	50% discount using code: MIF071 https://milongevity.eventbrite.co.uk

THURSDAY, 21 NOVEMBER | 08:00-10:30

Event:	Ready Steady Grow!
Organiser:	EISA
Place:	Engine Shed, Bristol
Tickets:	https://eisa.org.uk/events

SATURDAY, 21 NOVEMBER | 08:30-16:30

Event:	The VCT & EIS Investor Forum
Organiser:	AngelNews
Place:	Leonardo Royal Hotel Tower Bridge, 45 Prescot Street, London E1 8GP
Tickets:	www.thevctandeisinvestorforum.com

FRIDAY, 22 NOVEMBER | 08:30-19:00

Event:	MoneyWeek Wealth Summit
Organiser:	MoneyWeek
Place:	Etc. Venues, St Paul's, 200 Aldersgate, London EC1A 4HD
Tickets:	Code: Master20 www.moneyweekwealthsummit.co.uk

TUESDAY, 26 NOVEMBER | 08:00-10:30

Event:	Ready Steady Grow!
Organiser:	EISA
Place:	Tramshed Tech, Cardiff
Tickets:	https://eisa.org.uk/events

WEDNESDAY, 27 NOVEMBER | 14:00-21:00

Event:	Future Forward: UKBAA Winter Investment Forum
Organiser:	UKBAA
Place:	CMS, Cannon Place, 78 Cannon Street, London EC4N 6AF
Tickets:	www.futureforwardukbaa.org

WEDNESDAY 27 & THURSDAY 28 NOVEMBER 10:00-18:00

Event:	Going Global
Organiser:	PRYSM Group
Place:	ExCeL London, Western Gateway, Royal Docks London E16 1XL
Tickets:	www.goinggloballive.co.uk/tracker.asp?code=MasterInv

THURSDAY, 5 DECEMBER

Event:	Plan to Grow: The essential event to bring you up to date on trends in the EIS & BR markets
Organiser:	EISA
Place:	The Great Hall, ICAEW, One Moorgate Place, London EC2R 6EA
Tickets:	https://eisa.org.uk/events

WEDNESDAY, 11 DECEMBER | 18:00-20:30

Event:	Funders & Founders; Christmas Networking Reception
Organiser:	Business Funding Show
Place:	WeWork Paddington
Tickets:	www.businessfundingshow.com/events

THURSDAY, 12 DECEMBER | 09:30-17:30

Event:	The Sustainable and Social Investing Conference
Organiser:	Investor Conferences (UK) Ltd
Place:	Novotel London West, 1 Shortlands, London W6 8DR
Tickets:	Code MI2019 for £20 off. www.eventbrite.co.uk/e/the-sustainable-social-investing-conference-tickets-65928069631

THURSDAY, 20 FEBRUARY 2020 | 10:00-17:00

Event:	The Business Funding Show
Organiser:	Business Funding Show
Place:	East Wintergarden, 43 Bank St, London E14 5NX
Tickets:	www.businessfundingshow.com/events/the-business-funding-show-2020

FRIDAY, 28 FEBRUARY 2020 | 09:30-17:00

Event:	The London Trader Show
Organiser:	Investor Conferences (UK) Ltd
Place:	Novotel London West, 1 Shortlands, London W6 8DR
Tickets:	www.eventbrite.co.uk/e/london-trader-show-2020-tickets-59881575404

SATURDAY, 28 MARCH 2020 | 09:30-17:00

Event:	Master Investor Show
Organiser:	Master Investor
Place:	Business Design Centre, 52 Upper St, London N1 0QH
Tickets:	50% discount using code: MAG10 https://masterinvestorshow.eventbrite.co.uk

MARKETS IN FOCUS

OCTOBER 2019

GLOBAL EQUITIES

Index	Last Month %	YTD%	52-Week Strength
Russian TSI	6.7	35.7	
Nikkei 225	5.4	14.2	
NASDAQ 100	4.3	28.7	
DAX Xetra	3.5	22.8	
Hang Seng	3.1	4.9	
FTSE All-World	2.7	18.0	
Bovespa	2.4	22.0	
S&P 500	2.0	22.1	
CSI 300	1.9	29.1	
Swiss Market	1.4	21.7	
CAC 40	0.9	21.9	
Dow Jones	0.5	17.0	
Euronext 100	-0.1	20.5	
S&P/ASX 200	-0.4	18.1	
FTSE 100	-2.2	8.4	

COMMODITIES

Commodity	Last Month %	YTD%	52-Week Strength
Palm Oil (Crude)	15.2	16.6	
Natural Gas	13.0	-11.0	
Bitcoin	11.6	155.0	
Cotton	7.7	-10.7	
Palladium	6.6	46.6	
Silver	6.3	16.1	
Platinum	5.0	16.5	
Gold	2.8	17.9	
Copper	2.3	0.3	
Crude oil (Brent)	1.7	10.7	
Coffee	0.8	0.1	
Crude oil (Light Sweet)	0.2	18.3	
Sugar (No. 11)	-1.3	3.7	
Cocoa	-1.6	-0.5	
Iron Ore	-2.9	25.6	

FOREX

Pair/Cross	Last Month %	YTD%	52-Week Strength
GBP/USD	5.3	1.6	
GBP/AUD	3.1	3.5	
EUR/USD	2.4	-2.6	
EUR/JPY	2.3	-4.0	
AUD/USD	2.1	-2.0	
EUR/CHF	1.2	-2.1	
USD/JPY	-0.1	-1.4	
USD/CAD	-0.6	-3.3	
USD/CHF	-1.1	0.2	
EUR/GBP	-2.8	-4.1	

CENTRAL BANKS – RATES & MEETINGS

Central Bank	Key Rate	Next	After
Bank of England (BoE)	0.75%	Nov 07	Dec 19
European Central Bank (ECB)	0.00%	Dec 12	Jan 23
Federal Reserve System (FED)	1.75%	Dec 11	Jan 31
Bank of Japan (BoJ)	-0.10%	Dec 19	Jan 21
Bank of Canada (BoC)	1.75%	Dec 04	Jan 22
Reserve Bank of Australia (RBA)	0.75%	Nov 05	Dec 03
Swiss National Bank (SNB)	-0.75%	Dec 12	---
Banco Central do Brasil (BCB)	5.00%	Dec 11	---
Central Bank of Russia (CBR)	6.50%	Dec 13	Feb 07
Reserve Bank of India (RBI)	5.15%	Dec 05	Feb 06

FTSE 350 TOP RISERS

Company	Last Month %	YTD%	52-Week Strength
Sophos Group PLC	41.8	49.4	
Rank Group (The) PLC	28.4	77.8	
GVC Holdings PLC	19.7	33.2	
Virgin Money UK PLC	19.6	-23.8	
On The Beach PLC	17.5	32.7	

FTSE 350 FALLERS

Company	Last Month %	YTD%	52-Week Strength
Ted Baker PLC	-58.0	-73.2	
Sirius Minerals PLC	-27.9	-85.5	
AA PLC	-26.5	-39.8	
Riverstone Energy Ltd	-25.5	-57.2	
Ferrexpo PLC	-21.8	-32.9	

FTSE 350 SECTORS RISERS

Sector	Last Month %	YTD%	52-Week Strength
Fixed Line Telecom	13.6	-14.4	
Real Estate Inv Trusts	5.3	19.9	
Software & Comp Serv	5.2	17.1	
Life Insurance	4.9	11.8	
Real Estate Inv & Serv	4.1	13.4	

FTSE 350 SECTORS FALLERS

Sector	Last Month %	YTD%	52-Week Strength
Industrial Metals	-21.5	-22.6	
Automobiles & Parts	-12.8	-40.3	
Health Care Equipment & Service	-10.4	14.0	
Oil Equipment, Services & Distrib	-9.8	-28.1	
Tobacco	-9.6	-1.3	

IA SECTORS RISERS

Sector	Last Month %	YTD%	52-Week Strength
UK Smaller Comp	1.2	11.6	
Japanese Smaller Comp	0.5	15.3	
UK Equity Income	0.4	12.5	
£ High Yield	0.3	9.3	
UK Direct Property	0.0	0.1	

IA SECTORS FALLERS

Sector	Last Month %	YTD%	52-Week Strength
UK Index Linked Gilts	-8.7	6.6	
UK Gilts	-2.9	8.8	
North America	-2.2	20.3	
Global Bonds	-2.1	6.1	
Global	-1.7	17.6	

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