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MONEYWEEK

MAKE IT, KEEP IT, SPEND IT

7 JUNE 2019 | ISSUE 950 | £4.25

Fallen star

What Neil Woodford's crash landing means for your money

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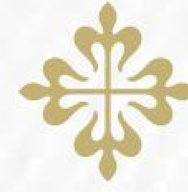

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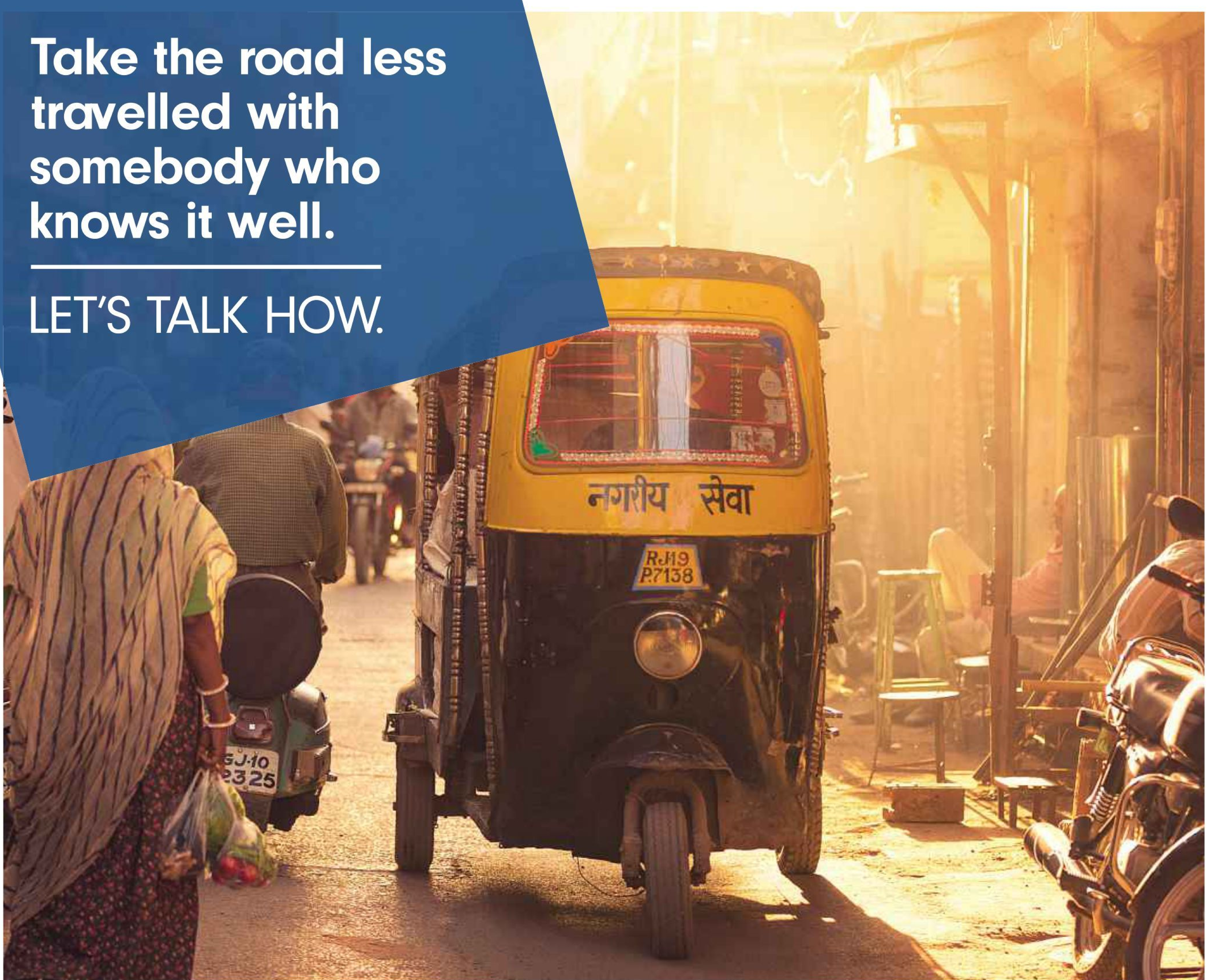

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PAST PERFORMANCE

	Mar 14– Mar 15	Mar 15 – Mar 16	Mar 16 – Mar 17	Mar 17 – Mar 18	Mar 18 – Mar 19
Fidelity Asian Values Net Asset Value	27.9%	1.5%	43.2%	0.4%	8.8%
Fidelity Asian Values Share Price	29.8%	0.1%	57.5%	-0.6%	15.7%
MSCI AC Asia ex Japan	24.4%	-9.0%	35.0%	12.2%	2.0%

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 31.03.2019, bid-bid, net income reinvested. ©2019 Morningstar Inc. All rights reserved. The comparative index of the Investment Trust is MSCI AC Asia ex Japan.

So, if you want to explore a road less travelled, then Fidelity Asian Values PLC could be just what you're looking for.

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MoneyWeek

7 June 2019 | Issue 950

Britain's best-selling financial magazine

From the editor-in-chief...

Between 2000 and 2018 the number of private equity-backed companies in the US rose from around 2,000 to more like 8,000. At the same time the number of publicly listed companies fell from 7,000 to more like 4,000. The listed firms are still worth more than ten times the private-equity backed ones (being rather bigger).

The number of companies listed on stock exchanges is dwindling

But you get the idea. These days, if you want to be in the growth game you need to be invested in private markets. That's why every pension-fund manager you talk to is muttering about getting into private infrastructure, property and bit more private equity. It's why more and more retail funds are looking to add some unlisted companies to their portfolios (if you want to do this alone and in a small way, incidentally, see our EIS feature on page 22).

It is one of the main reasons why Neil Woodford has come a cropper (see page 28 for the details of his disaster). He noted the trend (like everyone else), but rather than dipping his toe into the pool of opacity, manipulation and impossible valuation that is the private market, he dived in very deep. And not just with the cash in his Woodford Patient Capital Trust (majority-invested in unquoted stocks,) but with his income fund too (there is roughly a 70%-80% holding crossover between the two funds. It has not gone well (so far – it could come good of course, see page 29).

"Public markets are the best way to create participatory and democratic capitalism"

But it is also why policymakers need to start paying attention to the trend. I've written about this several times here, but Gillian Tett picks it up in the Financial Times this week too. We are both worried because we both believe that public markets are the "best way to create participatory and democratic capitalism" and the policymakers should therefore support them as much as possible.

How? Tricky one. Companies don't list as much, or as soon, as they used to – partly because there is plenty of cash sloshing about off-market (so they don't need to) and partly because sticking to the regulatory requirements of listing is boring and expensive (so they don't need to).

Neither of those things can be easily reversed. We might, however, chuck in an incentive to list. I'd go for lower corporation tax for public companies over private ones over a certain size. All other ideas on this are very, very welcome – email address below – but financial incentives do have a long and happy history of working very well.

That said, on page 18 Matthew Lynn offers up an exception: fund managers' performance fees. Turns out they hardly ever work (another black mark against the poor Woodford Patient Capital Trust, which only charges an administration fee and a performance fee).

Why? Because whatever anyone pays you to do it, beating the market on a regular basis is extremely difficult. With that in mind, you might turn to page 24, where Sarah looks at the best dividend-paying investment trusts.

They might not always bring you the greatest of capital gains, but their structures make them default long-term investors; they are unable to limit your access to your own money Woodford Income Fund-style; and they have solid records of raising their dividends year after year after year. Which is nice.

Merryn Somerset Webb
editor@moneyweek.com

Loser of the week

De La Rue, which designs and manufactures 7.3 billion of the world's banknotes every year, has taken an £18.1m hit in its accounts because of "outstanding accounts receivable" from the Central Bank of Venezuela, which is "currently unable to transfer funds due to non-UK related sanctions". Venezuela – where inflation hit 130,000% last year, had previously been a "very good" customer, said chief executive Martin Sutherland. Helen Willis, De La Rue's chief financial officer, added that "they really do want to pay that debt". It's been a bad year for De La Rue, which also lost the contract to print post-Brexit British passports to a Franco-Dutch company, and has seen profits fall by 74% and the share price by 30%.

Cover illustration: Adam Stower. Photos: Getty Images; Johan Persson

Good week for:

An anonymous Edinburgh family could be quids in after a small warrior figure bought for £5 in 1964 and since left in a drawer was identified as one of the lost "Lewis chessmen". It could fetch up to £1m at auction. A hoard of 93 ivory figures was found buried on a beach on the Scottish island of Lewis in 1831. They are believed to have been made in Trondheim in the 12th century.

Rapper Jay-Z, real name Shawn Carter, has become the world's first hip-hop billionaire, says Forbes. The 49-year-old has had 14 number-one albums and won 22 Grammys. He is also a shrewd businessman, with a $310m champagne brand, a $100m cognac label and a $100m music streaming service – plus a $220m investment portfolio, $70m of artwork and $50m of property, among other assets.

Bad week for:

Italian billionaire **Pier Luigi Loro Piana** was hoping to show off "My Song", his new £30m superyacht, at a regatta in Sardinia. But disaster struck when the yacht, which had previously competed in transatlantic races, fell off the cargo ship transporting it from Mallorca to Genoa and sank. "It is as if my home has burnt down," he said.

Britain's triple heavyweight champion **Anthony Joshua** is nursing his pride after a shock defeat to hitherto unknown Mexican-American boxer Andy Ruiz Jr. Ruiz, who only agreed to the fight five weeks earlier after Joshua's original opponent failed a drugs test, was given little chance of winning, with odds of 25 to one against. Joshua can't be too downhearted, though. Despite losing, he took home £20m from the fight. Ruiz pocketed £5m.

©Getty Images

Trump turns his guns on Mexico

Alexander Rankine
Markets editor

Donald Trump's trade policies display "all the finesse of an elephant attempting embroidery", says The Economist. Locked in an impasse with China, the White House has now also initiated a major trade escalation with Mexico. America's neighbour and largest trading partner has until 10 June to clamp down on the flow of migrants into the United States or face tariffs of 5% on all imports. The levy could eventually rise to 25%.

The move surprised markets, which had thought that US-Mexican disputes had been settled. Mexico's peso slid to five-month lows against the US dollar. America's S&P 500 has had its second-worst May since the 1960s, losing almost 7%. The Trump administration has also ended India's special trade status, which had eliminated some tariffs on Indian imports, although the impact is expected to be limited for now.

Car parts cross the US-Mexican border up to eight times as vehicles are assembled

©Getty Images

More damage to come

Washington's decision to drag immigration into the trade arena will disrupt ties between two closely aligned economies, says Jim Tankersley in The New York Times. Car parts "often cross the border as many as eight times as they travel through the supply chain", so a 5% tariff on each crossing will compound quickly. Meanwhile, official statistics estimate that recent tariffs announced on China could cost the average American household up to $831 per year, erasing the impact of 2017's tax cuts for all but the richest. For the "lowest-earning fifth" of taxpayers, who spend a higher proportion of their incomes on imports, the tariffs amount to an "effective tax increase of 1.1%". Markets expect the Federal Reserve to step in if things get too dire. But as Michael Mackenzie points out in the Financial Times, with the US economy still looking reasonably healthy that may not happen soon, presaging a "tough summer" for stocks unless the White House suddenly reverses course.

"The optimistic view" is that market weakness could prod Trump back to the negotiating table, says Tom Stevenson in The Daily Telegraph. He regards the level of the Dow as "the scorecard of his presidency". Yet this "Trump put" argument ignores China's "deep-seated aversion" to being told what to do by foreigners. If it has concluded that Trump's real aim is to keep China in "a state of permanent inferiority" then it may be loath to cut a last-minute deal.

A convenient excuse

The direct effect of the trade war on global GDP has been negligible so far, says Capital Economics. A lot of trade has just been redirected to other countries. Even when you factor in the hit to confidence, the standoff only accounts for a quarter of the past year's global growth slowdown. Trade antics are a convenient excuse for other problems, agrees Daniel Moss on Bloomberg. China's crackdown on debt, not tariffs, is responsible for its long-term slowdown. Some foreign businesses appear to be using tariffs as a long-awaited pretext to "reduce their China footprint". Trump's "trade war needs to fire its PR team".

Nowhere to hide from the trade war

A few weeks ago, "I suggested Mexico as a haven from the trade war", says John Authers on Bloomberg. But the abrupt targeting of Mexico shows that there may not be any reliable sanctuaries from Trump's tariffs. Ironically, the US and China may be less badly affected than elsewhere by their own trade war, says Tom Holland of Gavekal Research. US exports account for just 12% of GDP and there is room for the Fed to cut rates in the case of a slowdown. China also enjoys similar "policy room" for manoeuvre.

By contrast, about 45% of Europe's GDP comes from exports, leaving the continent's economies exposed to a global trade slowdown. Interest rates are already negative. Japanese and European carmakers earned a reprieve from Trump on new car tariffs last month, but his capricious decision to penalise Mexico is a reminder that US policy can change at any moment.

South Korea is already showing signs of strain

©iStockphotos

That unpredictability is a problem for emerging markets too, says Udith Sikand, also for Gavekal Research. Vietnam has been a popular play for those looking for a trade-war winner, but it could soon find itself being labelled a "currency manipulator" by Washington. That threat, coupled with the sheer scale of China's manufacturing industry, makes it unlikely that there will be a "wholesale shift of manufacturing away from China", as some have predicted. South Korea is one Asian economy already showing signs of strain. Slowing global demand for semiconductors helps explain why GDP shrank 0.4% in the first quarter. The Korean won has fallen to its lowest levels in two-and-a-half years, says Sotaro Suzuki for Nikkei Asian Review. With overseas shipments accounting for more than 40% of GDP, worsening trade relations have prompted foreign funds to flee the country.

The flight into dodgy debt

German bond yields are down to all-time lows as market turmoil causes investors to pile into fixed income, no matter how overpriced. The yield on the benchmark ten-year bond touched –0.219% on Monday, with investors apparently unperturbed by the negative yield. Bond yields move inversely to prices, so when yields fall – even below zero – that still implies a capital gain for bond holders.

Bond bullishness was not limited to Europe's most rock-solid country. Investors have even been lapping up Italian debt, notes Nikou Asgari in the Financial Times. Rome issued €4.6bn of bonds last week, with "demand for the five-year bond" at its highest level since August last year. Ten-year Italian yields hit a two month-low of 2.48% this week.

Yet Rome's borrowings have reached an eye-watering €2.4trn, or 132% of GDP. Far-right League leader Matteo Salvini recently announced plans to spend a further €30bn on a flat tax, a clear provocation at a time when the European Commission has already warned Rome about its profligacy. "Italy's debt is less sustainable than that of Greece," says Simona Gambarini of Capital Economics. "If growth in Italy deteriorates, concerns about its debt sustainability are likely to intensify." That means that, extraordinarily, "it may now be more risky to hold Italian bonds than Greek ones", writes John Ainger on Bloomberg.

Has Bolsonaro blown it?

Brazil's Ibovespa stockmarket benchmark has given investors a thrilling ride over the past few months, but reality is now beginning to set in. Local equities, which account for about 7.5% of a typical emerging markets exchange-traded fund, rallied almost 20% after the election of President Jair Bolsonaro last October. Yet poor recent data and a succession of political missteps have cast doubt on whether he can pass promised structural reforms.

©Getty Images

Brazil's president has proved a disappointment

Brazil endured a severe recession in 2015 and 2016 and a tentative recovery has now gone into reverse, says Jeffrey Lewis for The Wall Street Journal. The economy contracted 0.2% in the first quarter, the first fall since 2016. A deadly dam accident in January weighed on the mining industry, which saw output fall a whopping 6.3% quarter-on-quarter.

Early signs suggest that the second quarter has also been "very weak", writes William Jackson for Capital Economics. "There is now a real risk that the economy will slip into a technical recession".

Crucial change

Tackling long overdue reforms would bolster confidence, but there has been scant progress on that front. Brazil's unsustainable public-pensions system – many people retire in their fifties on as much as 70% of their final salary – is a key concern for investors. More than 40% of the federal budget is devoted to social security. Unchecked, the growing national debt will be equivalent to the size of the entire economy by 2023.

Bolsonaro wants to shore up the system with measures that could save one trillion Brazilian reais (£203bn) over a decade. Yet getting anything through "the political juggernaut of the Brazilian Congress is not for beginners", says Esther Solano on theglobalamericans.org. "There are 513 deputies from 30 different parties".

The trouble is that instead of playing the diplomat, the combative Bolsonaro has managed to offend key power brokers. Amid government infighting, "Bolsonaro's political ineptitude has started to dominate the narrative". Even the country's conservative press is turning against him.

Investors have also rapidly become disillusioned with the new regime, notes David Biller on Bloomberg. A survey of money managers, economists and traders found that approval of the government fell to just 14% in May from 86% in January.

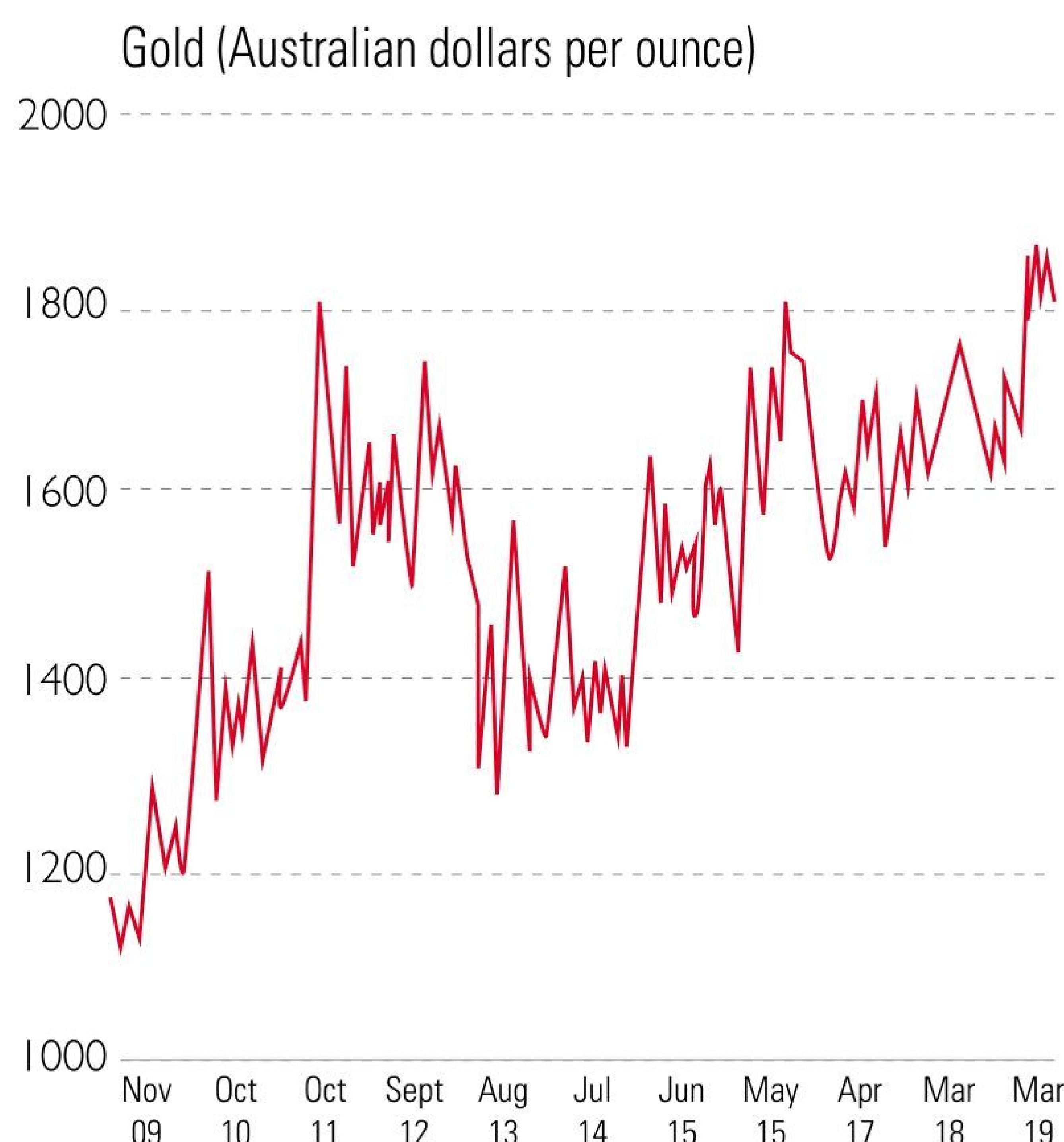
There is still much to like in Brazil for long-term investors: soft and hard commodities, a large population, and an expanding middle class. A cyclically adjusted price/earnings ratio (Cape) of 16, among the lowest in the world, suggests that much of the political turbulence has been priced in. The next few months, however, are unlikely to prove especially lucrative.

Viewpoint

"On 31 May, 1999... Barron's... was warning about market risks, especially in the technology sector... Over the next few years, Amazon's stock would drop 95%, eventually falling to below $6 in 2001... [yet] Amazon has [also] risen 4,606% since Barron's published [that] column, with an annualised average return of 21.1% — about quadruple what the S&P 500 returned over the same period... [So] anytime some company is said to be 'the next Amazon' (or Apple or Microsoft), keep in mind that most people would be unable to withstand the sort of pain and wealth destruction that goes along with investing early, even if the ups and downs are temporary. Only if investors can withstand the subsequent drawdown – in Amazon's case, 83% in 2000; 73% in 2001; 41% in 2004; 46% in 2006; 64% in 2008 — will they be amply rewarded."

Barry Ritholtz, Ritholtz.com

■ The yellow metal is shining in Oz



Investors seeking promising gold miners should look Down Under, says Markus Bussler in German business weekly Der Aktionär. Unlike their North American counterparts, local producers didn't binge on acquisitions at the peak of the gold bull market in 2010 and 2011, so their balance sheets are virtually debt-free, helping them take over peers in North America now. The gold price expressed in Australian dollars has climbed to a new record peak above $1,800 an ounce as the Australian dollar has declined in foreign-exchange markets. Australian producers make their sales in the local currency, while operating costs are around $1,200 an ounce, so margins are healthy. Northern Star and Saracen Mineral are worth researching.

MoneyWeek's comprehensive guide to this week's share tips

Three to buy

RM
Money Observer
This educational products supplier sells IT equipment and footballs to schools, and e-marking software to examination boards. The group took a major hit when the government's Building Schools for the Future programme was axed in 2010, but the hangover has left the shares cheap even as it has managed an impressive turnaround to become "highly profitable" once more. A price/earnings (p/e) ratio below 12 looks good value for "a decent business". *236p*

The Renewables Infrastructure Group
The Sunday Times
This FTSE 250 green investor, known as "Trig", owns wind, solar and battery farms across Europe. Last year its assets generated enough electricity to power more than half a million homes, with most earnings coming from reliable fixed-price contracts and subsidies. The shares trade at a 12.9% premium to net asset value, but that is similar to peers and there is a 5.6% dividend yield to boot. *126p*

Royal Dutch Shell
Shares
A market cap of more than £200bn makes the Anglo-Dutch oil major by far the largest company on the UK stockmarket, accounting for about 10% of the FTSE 100 index. That makes its performance and generous dividend – it yields 5.7% – a crucial consideration for most British investors. Some worry that the long-term shift to renewable energy will leave it obsolete, but the world will not wean itself off fossil fuels overnight. That means Shell, which has not cut its dividend since World War II, should remain a core income play for some time. *2,552p*

Three to sell

AA
Investors Chronicle
Shares in the AA have lost more than three-quarters of their value since they listed in 2014. Paid personal membership continues to decline, slipping 2% in the year to the end of January to 3.21 million. That has prompted more spending designed to "attract and retain" customers, which in turn has put pressure on margins. The group is "drowning in debt" and a Financial Conduct Authority study of insurance pricing practices could generate regulatory problems. Avoid this "value trap". *58.8p*

Marks & Spencer
The Mail on Sunday
Investors in M&S have endured yet "another set of disappointing results". A faltering turnaround has left the shares at a ten-year low and down more than 40% since Steve Rowe took charge three years ago. The retailer is pinning its hopes on a tie-up with unprofitable Ocado, which is to be funded by a one-for-five rights issue at £1.85. All but diehard "loyalists" should sell their rights in the market rather than take them up, and consider opting for some "higher growth and better-value retailers". *225p*

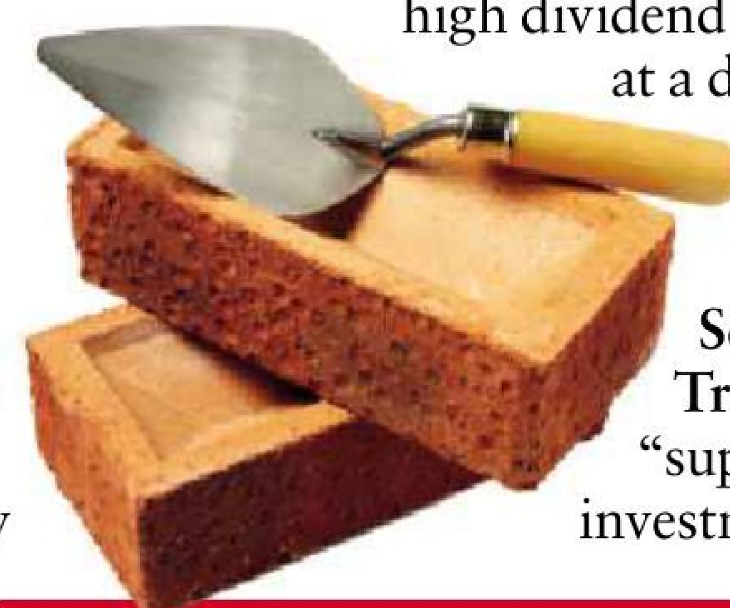
Restaurant Group
The Sunday Telegraph
The recent collapse of Jamie's Italian is a reminder that high-street dining can make for a perilous investment. Restaurant Group operates more than 650 sites in an overcrowded market. The group's "tired formats", such as Frankie & Benny's, are too often to be found in bad locations, such as struggling leisure parks. Last year's pricey £559m Wagamama acquisition was meant to correct that, but it may not make up for weakness in other brands. Given the risks, this firm "is a long way from being dish of the day." *130p*

...and the rest

The Daily Telegraph
Impressive loan-book growth at specialist lender **OneSavings Bank** suggests that the "death of buy-to-let has been greatly exaggerated" *(407.4p)*. Shares in investment platform **AJ Bell** have enjoyed strong price momentum since listing in December, but on 44 times forecast earnings it would be wise to take profits *(423p)*.

Investors Chronicle
Some of the best returns come from early stage tech firms. Venture capital business **Draper Esprit** offers a ticket into a world that is difficult to access for retail investors and boasts an excellent record *(461p)*. Specialist IT training and consultancy business **FDM** is delivering steady growth and pays a 4.2% forward dividend yield *(943p)*.

The Times
Energy, healthcare and technology distribution specialist **DCC** is highly disciplined and its different business lines offer diversification *(6,668p)*. **SANNE Group** is a funds administrator carrying out back-office paperwork for firms. Growth has been strong, but with the shares more than tripling since listing in 2015 they now look fully valued – avoid *(685p)*. New government subsidies for offshore electricity generation could "put the wind back" into energy firm **SSE's** "sails after a torrid year" – buy *(1,044.5p)*. The brick market is structurally undersupplied, so market leader **Ibstock** could make for a "useful building block" in any portfolio *(242.7p)*. Motor-finance lender **S&U** offers the "winning combination" of a high dividend yield and growth at a decent price *(2,220p)*. Technology giant-focused **Scottish Mortgage Trust** looks a "superb" long-term investment *(507.5p)*.



A German view

Building materials are a long-term growth market, says WirtschaftsWoche. Population growth, urbanisation and investment in infrastructure are boosting global demand for concrete, cement and aggregates by 2%-3% a year. That bodes well for LafargeHolcim, the industry's biggest player with a market capitalisation of €28bn. It is heading for a record year. The building booms in North America and Europe, which jointly comprise 49% of sales, are keeping order books full, while rising cement prices in India are also fuelling growth. Sales climbed by 6% year-on-year in the first quarter while operating profits jumped by a fifth. The stock yields almost 4%.

IPO watch

The online rail and bus ticket sales platform Trainline is set to float in London next month, says Elizabeth Burden in The Times. The group, which now sells tickets for 220 rail and bus brands in 45 countries, was founded by Virgin Trains in 1997. It was subsequently owned by two private-equity companies. The second, KKR, is now taking it public after acquiring it for £500m in 2015. Trainline plans to raise around £75m to fund future growth. Its initial public offering (IPO) could see it reach an overall value of £1.5bn. Business is booming: sales have doubled since 2015, reaching £3.2bn in the 12 months to February 2019. Operating profits jumped to £10.5m after three years of losses.

Taking on Big Tech

US regulators have launched a concerted attack on the Silicon Valley giants. Could their glory days soon be over? Matthew Partridge reports

America's antitrust police are on the warpath

Investors have "pummelled" technology stocks, says The New York Times. Facebook shares fell by more than 7% last Monday, while Google and Amazon shares were also sharply lower. US regulators are reportedly "divvying up antitrust oversight of the Silicon Valley giants", with the Justice Department agreeing "to handle potential antitrust investigations related to Apple and Google, while the Federal Trade Commission will take on Facebook and Amazon". At the same time, lawmakers are investigating "whether they have stifled competition and hurt consumers", and are even considering updating antitrust laws "to keep up with an industry that didn't exist when antitrust laws were written".

It's "hard to deny" that the big tech companies enjoy a huge degree of market power, say Robert Cyran and Gina Chon on Breakingviews. For example, Amazon "controls about half of the US e-commerce market" while Alphabet dominates internet advertising thanks to a 95% share of mobile search. An antitrust investigation is a "no brainer". Still, the agencies will "struggle to prove that consumers are being harmed by their huge scale" especially since Internet users are "lavished with free services" by Google, while Amazon provides "countless products at generally low prices". After all, a previous investigation into Google "ended with a whimper" in 2013.

Regulators "would do well to remember that past crackdowns on tech behemoths have come only after good old competition did their job for them" says Dan Gallagher in The Wall Street Journal. For example, Google, and its parent company Alphabet, "is showing – on its own – that it is far from invincible". For instance, its search dominance has failed to translate into other markets, such as smartphones, where Google Pixel has a mere 1% share.

Is the sector's time up?

But things could be different this time. The tech giants "should be quaking in their fleece vests", says Shira Ovide on Bloomberg. This is because any investigation "will no doubt be broad, lengthy, messy, and impossible for Google and its investors to predict", especially "once the US government pores over every internal email and business... contract". This "will also be an open invitation for every company or individual with a gripe against Google to pile on". Of course, if the Feds discover anything this will "embolden critics of Facebook, Amazon and other tech giants as well". What's more, for the first time, tech is facing "political heat" from both sides of the political spectrum, says Edward Helmore in The Guardian. Overall, experts agree that the latest move confirms that "the days of the essentially unregulated 'Wild West' for big tech could be nearing an end".

Fiat Chrysler and Renault: a doomed deal?

"Disquiet" over a proposed €33bn merger with Fiat Chrysler (FCA) has caused the Renault board to postpone a key vote on starting talks, says Adam Sage in The Times. Nissan, which currently has an alliance with Renault, and owns 15% of the French carmaker, has displayed "a conspicuous lack of enthusiasm" for the tie-up.

If both sides want to remain competitive, they have "little choice" but to go ahead with the deal, says John Gapper in the Financial Times. Owing to the "escalating costs of software and hardware", which can reach $2bn to develop for each new car platform (a shared set of design, engineering and production

efforts and major components), the key to staying profitable is to join forces. Moreover, the global industry plans to invest $61bn in autonomous vehicles on top of $255bn in electric vehicles by 2023, and here again there is strength in numbers. The car industry may still be "nationally divided", but car companies are realising that "the cost of independence is prohibitive".

It won't work, says Jeremy Warner in the Daily Telegraph. Electrification and self-driving cars pose a "monumental challenge" . But "however much the car firms merge and cut their costs, it's very unlikely to be them that makes the weather in the brave new world of electrification". Besides, the "challenges of marrying very different cultures, ways of operating and legal frameworks" will negate "any supposed synergies and cost benefits". The current turbulence between Renault and Nissan, as well as Chrysler's 1990s merger with Daimler-Benz, which "descended into acrimony ", presage failure this time, too.

City talk

Hopes that new chief executive Andrew Davies could deliver a period of stability for investors in Kier Group have been "summarily consigned to the kitchen bin", says Alex Ralph in The Times. The engineering group, which is working on HS2 and Crossrail, warned that annual profits would be £25m lower than expected. At the same time, restructuring costs will now be £15m higher than expected. The shares have plunged 41% to a 20-year low. Analysts now warn that "the company could be heading for the same fate as Carillion", which went into liquidation in January.

But comparisons with Carillion are a bit overblown, says Matthew Vincent in the Financial Times. Kier doesn't rely on "a few huge low-margin construction contracts". However, the recent announcements go beyond simple "kitchen sinking". The losses stem from "a circa-£250m collapse in revenue from Kier's day-

to-day highway, home maintenance and building operations". If Davies can't cut costs further, he will need to sell assets to pay down more debt, "before investors, or lenders, pull the plug".

German chip giant Infineon has announced a $10bn bid for Cypress Semiconductor, says Stephen Wilmot in The Wall Street Journal. Shareholders aren't buying it: Infineon's stock has fallen by 10% on the news. No wonder. Infineon is set to end up borrowing $7bn, more than twice the companies' combined operating earnings. While there may be some cost savings, they "aren't huge" and are dwarfed by the premium Infineon is paying. Even the fact that the combined company "would be the world's largest semiconductor supplier to the automotive industry," is a "mixed blessing"as car sales are "flat or sliding in major markets".

©Getty Images

Who will be the next PM?

That will be decided by 124,000 Tory party members. But will it change anything? Emily Hohler reports

Donald Trump may have been elected by just 46% of 63 million Americans, says Simon Jenkins in The Guardian. But Britain's next prime minister will be chosen by 124,000 members of a "benighted Conservative party". And those members must choose between two candidates selected by their party's 314 MPs. Theresa May resigns on Friday, and her successor is expected to be selected by the week starting 22 July. At the moment, the most likely outcome is Boris Johnson and Michael Gove being offered to members, and Johnson being chosen. Eleven MPs are currently in the running, but the numbers are expected to be whittled down fast as a new ruling by the 1922 Committee means that an MP now requires the support of eight MPs in order to enter the contest, say Patrick Scott, Ashley Kirk and Asa Bennett in The Daily Telegraph. At present the frontrunners are Johnson, who has the publicly declared support of 40 Tory MPs, and Gove, who has the backing of 26. Jeremy Hunt and Dominic Raab have the support of 25 and 22 respectively.

Johnson leads the field

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The Michael Jackson strategy

If you look at the parliamentary numbers for May's leadership challenge and three Brexit deal defeats, the majorities "provide a good rough estimate between the centre – loosely defined as former May loyalists and Brexit deal backers – and the right among Tory MPs, which is now broadly 62:38," says Martin Kettle in The Guardian. With around 180 of 314 Tory MPs yet to publicly back a candidate, centrist candidates are "fishing in a significantly bigger pool of votes". This is not the impression you get from the media coverage, which "depicts the contest as one in which the Tory centrist candidates are jockeying to appeal to the parliamentary party's right-wing hard-Brexit minority, and to the millions of voters who flocked to" Nigel Farage's Brexit Party during the European elections. This will be the first time grassroots members have chosen a prime minister. This is a serious responsibility. And a lot can happen on the campaign trail. Johnson "blew up on the launchpad" in 2016. The contest is much more open than many people think, and it's not impossible that an outsider such as Rory Stewart, who seems to have grasped that this election isn't a "race to appease the hard right", could surprise us.

It is notable that Johnson now has the backing of Robert Jenrick, Rishi Sunak and Oliver Dowden, all seen as "sensible centrists" whose decision will encourage other One Nation rising stars to "get on board", says Matt Chorley in The Times. In a piece for the paper, the trio warn that the Tories face an "existential threat" and that only Johnson can save them. At his first major set of hustings this week, Johnson insisted he was "best placed to beat Jeremy Corbyn and put Nigel Farage back in his box", and said it was critical to deliver Brexit by 31 October. While acknowledging that most centrist Tories will not countenance a no-deal exit, he said that any government should prepare for one. "The more determined we are to pursue no-deal, the less likely we will have to deploy it."

And there you have it, says Daniel Finkelstein in The Times. Unfortunately, no candidate, Johnson included, has a "brilliant but secret" solution to Brexit. "If he hasn't already gone public with a startling scheme," he hasn't got one. Quite, says Marina Hyde in The Guardian. Ultimately, "a 'new face' is going to solve the Tory party's underlying problems about as much as a 'new face' used to solve Michael Jackson's underlying problems". My advice is to start drinking as soon as you see the opening credits for this election's TV debates. "Then keep doing it until the mid-2030s."

Trump: sparking uproar

©Getty Images

Trump dangles a post-Brexit trade deal

Even before arriving in London on Monday for a three-day state visit, Donald Trump was causing controversy, "weighing in with views" on Theresa May's possible successor, says The Economist. He told The Sun that Boris Johnson would be an "excellent" leader. He also criticised the UK's Brexit negotiating strategy, suggested that Nigel Farage should assist in negotiations, and urged a clean break if the EU refused to meet its demands, saying he would go "all out" for a rapid trade deal with the UK. Meanwhile, protestors were out in force with their giant inflatable baby Trump, and prominent figures including Jeremy Corbyn and Vince Cable refused invitations to a state dinner on Monday.

Trump will always attract critics, but he'll also attract "plenty of love", says Peter Foster in The Daily Telegraph. However, Brexiteers and pro-Trumpians who think he is offering a trade deal as well as America's "hand of friendship" have "completely overlooked what the Trump doctrine is all about". When Trump says "America First", that is what he means. On Tuesday, he "sparked uproar" after telling reporters that the US should have market access to "every sector" of the UK economy, including the NHS, says Matthew Weaver in The Guardian. He later backtracked on this. But there are "widespread concerns" about US firms promising to provide "cost-cutting health services" and selling food produced to lower standards, such as chlorine-washed chicken.

The problem for any new PM is that a US trade deal would be the single biggest way to offset lost EU trade post-Brexit, say George Parker and James Blitz in the FT. In 2017, the US accounted for 18% of UK exports and 11% of its imports; the EU represented 45% and 43% respectively. Downing Street insists that it will not accept any lowering of food or environmental standards, but Washington will expect, and demand, "big concessions".

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The anniversary of a massacre

It's been 30 years since the Tiananmen protests and reform looks as distant as ever. Matthew Partridge reports

On the 30th anniversary of the "bloody crackdown" on protesters in Tiananmen Square in 1989, a top Chinese official has attempted to justify the action, says Alessio Perrone in The Independent. During a speech in Singapore, defence minister Wei Fenghe said that the massacre, which resulted in the deaths of thousands of unarmed protestors, was the "correct policy" to deal with "political turmoil". Even acknowledging that the massacre took place is rare for the regime, and reports on what took place are "heavily censored" on the mainland. Every year, police detain "dozens of activists, journalists and critics in the run-up to the anniversary" of the protests.

Wei Fenghe: a rare admission of an unpleasant truth

> *"The anniversary is an ice-cold reminder that China is still ruled by a regime ready to use force to stay in power"*

Locked in a virtual cage

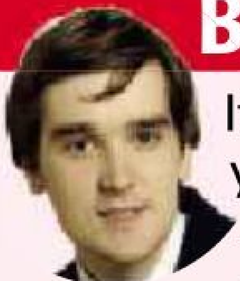
The government's refusal to apologise is an "ice-cold reminder" that China "is still ruled by a regime ready to use force to stay in power", says The Times. There were hopes in the West that economic reform would "endow the regime with a sense of global responsibility" and it would reform along liberal lines, but the country has instead simply "developed a version of the autocrats' social contract" – where people give up their freedom in return for a promise of improving living standards. So, politically, China remains "a Leninist state afraid of challenge from the dead as much as the living" – where dissidents are "locked away", Uighur Muslims "incarcerated in sinister re-education camps", and a surveillance state set up that "places people in a virtual cage".

While political reform seems as distant a prospect as ever on the mainland, things also seem to be getting increasingly worse in Hong Kong, the former British territory handed over to China in 1997, says The Wall Street Journal. In theory, the 1997 handover agreement guarantees that the Chinese government will respect civil liberties until 2047. Tens of thousands of Hong Kong citizens take advantage of the more liberal atmosphere to attend vigils to mark the massacre. However, China's "growing economic and political clout" has "increased fears about eroding freedoms decades before that deal expires". Indeed, there are worries about proposed laws making it easier to extradite people to China, as well as future plans to outlaw "seditious remarks and actions against Beijing".

Despite the political repression, however, the Chinese people seem willing to put up with the regime as long as it delivers economic prosperity, says Lucy Hornby in the Financial Times. Indeed, if 30 years has taught us anything, it's that "a prosperous middle-class China" will not necessarily turn against the ruling Communist party, as many outside observers had expected. Chinese people in their teens and 20s "have no direct experience of the inflation, shortages and corruption that brought their parents' generation on to the streets", and a sense that China is finally the equal of the US has dampened demands for democracy.

Still, things could change quickly, and there are signs that "the social compact in which obedience is secured by better living standards is fraying as growth slows", says Peter Sweeney for Breakingviews. Rising inequality, low wages and long hours are creating the conditions for mass protests, especially considering China's government "is again asking youth to bear the brunt of the economic burden, from bad debts to the trade war". The legacy of its repressive one-child policy also means that, while China still has lower living standards than Russia, it nevertheless "has the demographic profile of a far richer country", storing up problems for the future.

Betting on politics: how my tips have fared



It is just over three years to the day since I launched this column by predicting (correctly, as it turned out) that Remain would get between 45% and 55% of the vote in the EU referendum. Since then I've expressed my views on everything from the post-referendum challenge to Jeremy Corbyn to the recent Australian general election. I've also had a look at the available research on various betting strategies, from backing "steamers" to the issue of whether favourites or long shots offer better value.

As you might expect, I've had both successes and failures. Like most people, I was taken by surprise by Donald Trump's victory in the 2016 US presidential election and the hung parliament that resulted from the 2017 UK general election. But at the same time I correctly predicted Emmanuel Macron's victory in the 2017 French presidential election and I predicted that the Democrats would retake the House of Representatives in the 2018 US midterm elections. I've also had a strong record in Australia, with all but one of my ten bets on the region paying off.

Overall, I've recommended 138 bets (or 214 if you count each individual tip separately in a combined bet). Two of those, on the cancelled 2017 Manchester Gorton by-election and the postponed December vote on the Withdrawal Agreement, were voided, while others are still pending. Of those that have been resolved, 76 out of the 113 combined bets paid off for an average profit of 19.8%; 83 out of the 160 individual tips paid off, for a profit of 10.9%. This is above our target of 10% for the individual tips and 15%-20% for the combined bets.

So, what lessons have I learned from the three years? The biggest one is that the true value frequently lies in relatively obscure markets, or the submarkets on bigger contests. While a lot of these markets are novelty bets that are a waste of time, the discerning punter can root out some hidden opportunities. For example, my most profitable individual tip was the 18/1 on Elaine Duke (pictured) being the first to leave Trump's cabinet. This came about as a result of noticing that her replacement had already been announced and was awaiting confirmation, something the bookies had overlooked.

Another useful lesson is to bet only when you feel that you have an edge. Bookies usually protect themselves by arranging things so that the collective odds of all possible events add up to more than 100% (usually 110%-120%). This means that if you just bet blindly, you're going to lose a good chunk of your money.

While I have tried to strike a balance between frequent tips and good returns, it's noticeable that my best returns have been when there have been plenty of bets on offer.

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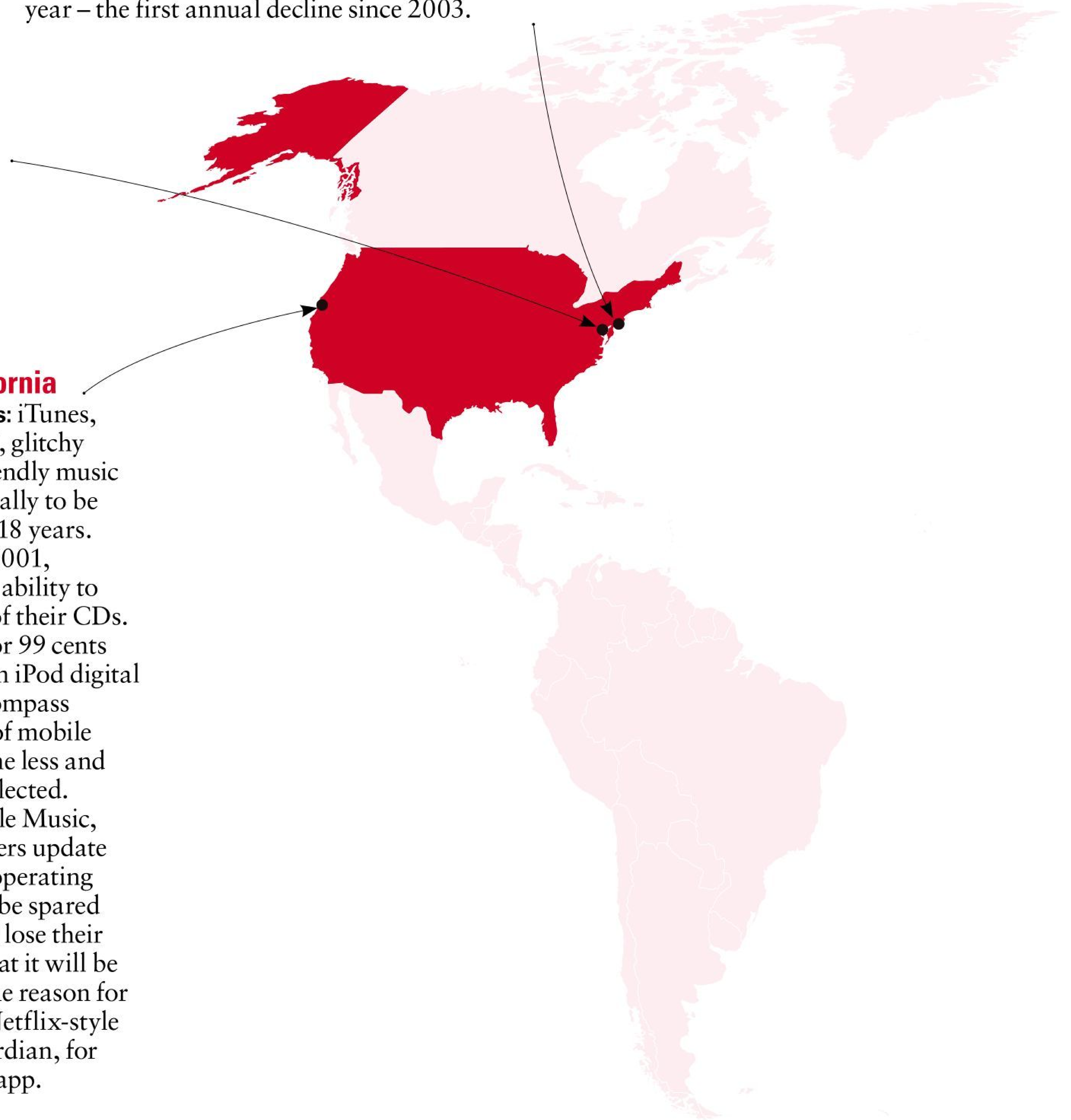
Washington DC

Global industry slows sharply: Slower growth and trade tensions are denting confidence among manufacturers across the world. The US purchasing managers' index (PMI) tracking the manufacturing sector has slipped to 52.1, the lowest level in Donald Trump's presidency, reports Bloomberg. It is still above the 50 mark separating contraction from expansion; other countries' PMIs have fallen below it. Output in Europe fell to a six-year low of 43.2. Japan's PMI slipped to 49.8 while both China and Korea slipped below 50. UK manufacturing output fell for the first time since July 2016; the index decreased from 53.1 in April to 49.4 in May. The sector had previously been artificially inflated and manufacturers are now having trouble shifting goods because their customers had been stockpiling supplies in advance of the UK's proposed withdrawal from the EU on 29 March. The global manufacturing PMI declined to 49.8, a seven-year low.

New York

Trade war hits Tiffany: US jeweller Tiffany & Co. became a prominent victim of the Sino-US trade dispute this week. It trimmed its full-year earnings growth forecast to a low-to-mid single-digit percentage range, having previously predicted mid-single-digit growth, because it expects Chinese tariffs on its goods to climb to 25% from 10%-15% now. Meanwhile, global sales slipped by 3% year-on-year in the quarter to the end of April; sales to tourists in the Americas fell by 25%, with sharper declines among Chinese tourists. The Chinese are being encouraged to spend more at home with reductions in import duties and VAT. Nor will it help matters that trade hostilities are intensifying and the Chinese Ministry of Culture and Tourism has issued a warning against travel to the US because of the "frequent" shootings, robbery and harassment by law-enforcement authorities, a statement that left Tiffany's chief executive Alessandro Bogliolo "not happy". The number of Chinese tourists visiting the US slipped to three million in 2018, down from 3.2 million the previous year – the first annual decline since 2003.



Cupertino, California

Apple kills iTunes: iTunes, Apple's bloated, glitchy and user-unfriendly music software, is finally to be killed off after 18 years. It began life in 2001, offering users the ability to make digital copies of their CDs. In 2013 it offered songs to download for 99 cents each (99p each in the UK) and add to an iPod digital music player. It eventually grew to encompass podcasts and videos. But with the rise of mobile phones and streaming services it became less and less relevant, and development was neglected. Apple will replace the service with Apple Music, Apple Podcasts and Apple TV when users update their machines with the new Catalina operating system – although Windows users will be spared for now. Anyone worried that they will lose their downloaded music has been assured that it will be transferred to the Apple Music app. One reason for iTunes' death is the launch of Apple's Netflix-style video-streaming service, says The Guardian, for which Apple needed a dedicated video app.

The way we live now: the revolt against smart locks

What if you just want a key?

Tenants in a New York building are celebrating after their landlord was ordered by a court to provide a traditional lock and keys so they can enter their building, says Alfred Ng on cnet.com. Mary Beth McKenzie and her husband, Tony Mysak, led a group of five tenants who sued after the landlord had installed "smart locks", which required them to use a smartphone app to open the door. The app comes with "an extensive privacy policy" that allows it to collect data for marketing purposes and track people with a satellite navigation system. Tenants who didn't want to or couldn't use the app were allowed in a side door that didn't have access to the building's lift or their postboxes. Mysak, who is 93, blind in one eye and lives on the third floor, can't use a smartphone so he became a prisoner in his own home. The smart locks are installed on more than 1,000 apartment buildings in the city; this settlement made physical keys a "required service". Linda Rosenthal, a member of the New York State Assembly, has proposed legislation to restrict the data that landlords can gather and ensure that tenants have "a traditional method of getting into their homes".

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Portsmouth

P2P lender goes bust: Lendy, the peer-to-peer (P2P) platform that lends money to property developers, has collapsed after intervention from the Financial Conduct Authority. Lendy was set up in 2013, and was one of the bigger P2P property lenders with around 22,000 investors tempted by advertised returns of up to 12% and assurances that they could hand their money over with "complete peace of mind". But with borrowers repaying late or not at all, arrears had been mounting – one observer told James Hurley in The Times that it was like "watching a slow-motion car crash". When Lendy went bust it had £160m of outstanding loans; more than £90m was in default. With the group "dogged by questions over the quality of its borrowers... [and] management", says Hurley, investors should "brace themselves for a significant hit". More P2P groups could go under, Roger Gewolb of FairMoney, a loan broker, told The Daily Telegraph. He expects "at least one large player" to go in the next year ", along with up to a dozen smaller firms.

Lendy has been sunk by bad borrowers

Khartoum

Sudan's counter-revolution: Sudan's armed forces have attacked pro-democracy protestors who had staged a sit-in outside the army's headquarters in Khartoum, killing at least 60, says The Economist. It was the "worst violence" since demonstrations toppled Sudan's "brutal dictator", Omar al-Bashir, in early April. The Sudanese Professionals Association, which "spearheaded" the uprising last December, has declared a campaign of "total civil disobedience" to oust the junta that took power in al-Bashir's place. Although the army and the protest movement had agreed on some issues, they had not "reached an agreement on the most contentious one of all: who would be in charge of the sovereign council that would oversee the move towards democracy". Now that the generals have won the support of autocrats in Egypt, Saudi Arabia and the United Arab Emirates, they are no longer even bothering to "disguise their reluctance to cede power". So the Sudanese revolution "is fighting against four governments", says Nesrine Malik in The Guardian. The international community, so appalled by Bashir's human rights abuses that it subjected the country to years of crippling economic sanctions, "has now moved on".

Pretoria

South African economy shrinks: South Africa experienced its worst quarterly slump in a decade in the first three months of 2019, with GDP shrinking by an annualised 3.2% and "ratcheting up the pressure on President Cyril Ramaphosa to revive the continent's most industrialised country", says Joseph Cotterill in the Financial Times. The contraction, blamed on a wave of recent power cuts, reflects poorly on the president's economic stimulus and recovery plan, launched in September 2018. In November, Eskom, the state power utility, was forced to ration electricity for the first time since 2008 to ease pressure on the national grid, which is creaking after years of poor maintenance. This has caused particular problems in power-intensive industries such as mining and manufacturing. South Africa hasn't expanded at more than 2% annually since 2013: corruption, cronyism and overspending under Ramaphosa's predecessor Jacob Zuma undermined confidence. The International Monetary Fund warns that the country's economic growth outlook "will depend critically on the pace of implementation of reforms that address long-standing structural constraints", says IOL Business Report. These include strengthening governance, increasing labour market flexibility and improving public-enterprise efficiency.

Canberra

Interest rates cut to record low: Australia's central bank, the Reserve Bank of Australia, has cut its key interest rate to 1.25%, a record low. Governor Philip Lowe (pictured) said the move should cut unemployment and bolster subdued inflation of 1.3%. It seems unlikely to do the trick, however. Australia has set a record for a developed country by growing for 27 years without a recession, and a downturn looks long overdue. It's also hard to see where more growth can come from, given that a credit and housing bubble were key to the long expansion and they are now hissing air. Consumers owe 121% of GDP, compared with 78% in the US and 57% in Japan, so they will have little appetite for further borrowing. They are also rattled by sliding house prices and a recent uptick in unemployment to 5.2%. Household spending accounts for 60% of GDP. Meanwhile, China's slowdown is another headache, as the Middle Kingdom buys 30% of Australia's exports. Demand for iron ore, the biggest export, is set to decline over the medium term as China cuts back on infrastructure spending to rein in debt.

What is 5G and why does it matter?

The next-generation system for delivering data to mobile phones promises to be better and faster in every way. But will it change how we do things? Simon Wilson reports

What's happened?
5G stands for "fifth generation", meaning the latest, once-in-a-decade upgrade to the wireless systems that deliver data to mobile phones – an upgrade that will ultimately bring much faster connection speeds, better connections, and greater capacity. Strictly speaking, 5G means the updated set of international standards – ie, the technical ground rules – that govern how cellular networks operate, the details of which were hammered out last May. These standards cover all aspects of the working of a cellular network, including the radio wave frequencies used and how components such as computer chips and antennas handle radio signals and exchange data.

Next-generation technologies can be cumbersome to start with

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What were the previous "G"s?
1G refers to the first generation of wireless mobile-phone technology in the 1980s, introduced in 1979. 2G arrived in 1991, and the next decade saw mobile phones go mass-market, handsets get smaller, and text messaging take off. The first 3G networks were launched in 1998, but it was slow to catch on, and only really found its killer app with the advent of smartphones from 2007 onwards. Indeed, it was only with the advent of much-faster 4G, from 2008 on, that mobiles lived up the promise of 3G.

Why is 5G such a big deal?
Partly, it's about speed. A typical decent download speed on 4G is about 20 Mbps (megabytes per second). EE reckons its 5G users will achieve ten times that, and as the technology matures it's expected to get even faster. So an HD film that takes 30 minutes to download now will in future be done in under a minute. In practice, says Alex Hern in The Guardian, "almost everything you would do with a 5G connection would be instant, or limited by factors other than connection speed". But while speed might be the way to get early adopters to shell out premium prices, the real advantages are less flashy, but arguably more important: capacity, coverage and latency.

> *"The investment required is estimated at several hundreds of billions of pounds"*

Why more important?
Take capacity. A typical 5G tower will be able to handle 100 times more unique devices, according to Huawei's Paul Scanlan, meaning that overloaded base stations become a thing of the past (and potentially make separate home broadband connections redundant). Moreover, 5G standards mean that those base stations can be far smaller than previously possible (about the size of a mini-fridge). That means that masts can be put up much more cheaply in far more locations than were previously possible – boosting coverage, and connecting at least one million devices per square kilometre. Together with latency of virtually zero, these factors promise a far more reliable network – and open up new (and as yet unimagined) uses for 5G, with the ability to expand beyond computers and phones to encompass the cloud and a whole new universe of "internet of things" devices.

What is latency?
Latency refers to the fraction-of-a-second time lag between issuing a command on a device and the device responding.
In practice, it's a measure of the speed at which a bit of data can do two legs of a journey. With 4G, a lag of between 50 and several hundred milliseconds is common, in part because signals must pass between different switching centres. 5G uses radically new networking technology that will cut latency to as little as a millisecond – a crucial factor in key 5G applications, which are expected to include virtual reality, augmented reality and mobile gaming, as well as fields such as remote surgery and driverless vehicles.

When will all this happen?
In the UK, EE (owned by BT) launched its first 5G service on 30 May, with its lowest price deal at £54 a month plus £170 for a compatible handset. But this only buys 10GB of data a month, and is only available in certain big cities. Vodafone starts a rival offer in early July, and other countries rolling out 5G this year include South Korea, the US, Germany, Switzerland, South Africa, Australia and China. The slightly mundane reality, though, is that 5G could be like 3G – and "fly low" for several years before it takes off. That's partly because there are too many unknowns about how 5G will develop. And it's also because the infrastructural investment required by operators is so massive (estimated at several hundreds of billions, at least). That invites some caution, given that telecoms companies – especially European ones – have generally underperformed in recent years and are wary of getting burnt.

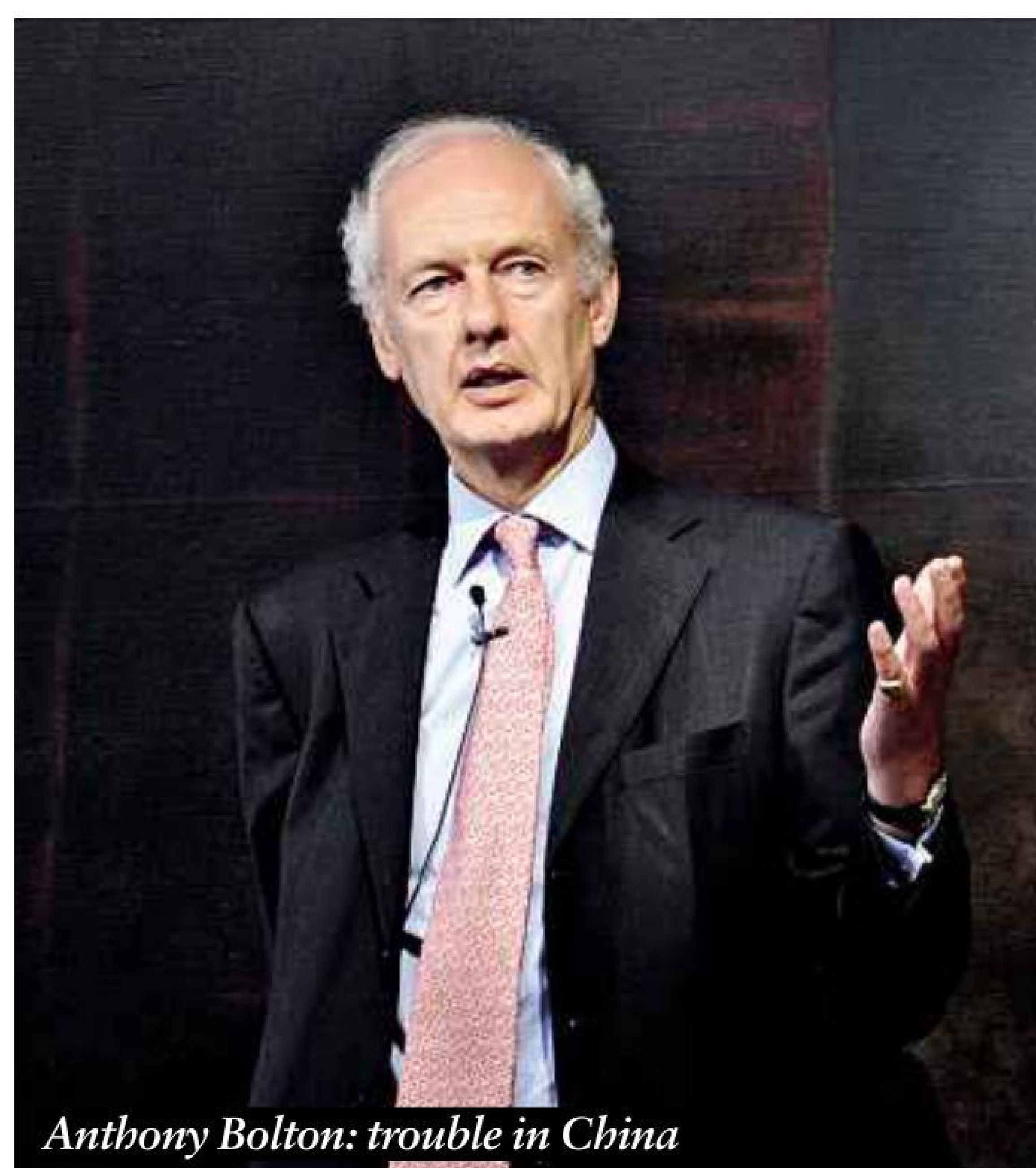
Will China dominate 5G?
China began planning its upgrade to 5G in 2013, and some analysts believe it has taken an unassailable lead. It also has 800 million users of mobile internet, with three-quarters of them using mobile-payments technology. That will provide a ready-made market to target with high-tech services. Yet there is no reason why the US, or even Europe, could not catch up, says Rana Foroohar in the Financial Times. China's market leader, Huawei, is bogged down in struggles with the US, and many other countries. By contrast, the US firm Qualcomm has settled its battle with Apple, and can build on its status as the first company to launch a 5G chip set.

But China is ahead?
It's important which countries build their networks first, says Foroohar, but it's not the only factor (and, in fact, South Korea will be the first country to have an operational 5G network). But the real commercial/strategic advantages of 5G are going to come from the ways in which individual enterprises and industries exploit the potential gains it will open up, not least when it comes to data-mining. "Just as no one predicted that one of the major uses of 4G would be a new way of calling taxis, the most important uses for 5G technology are also difficult to predict before they're actually available," noted analyst Dan Wang of Gavekal Dragonomics recently. "The battle for 5G isn't set – and it doesn't have to be a zero-sum game".

Avoid being hit by a falling star

Three ways to shield your portfolio from the fallout when a celebrity fund manager takes a tumble.

John Stepek
Executive editor


Anthony Bolton: trouble in China

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The trouble with celebrity fund managers is that it's always hard to know if they're good – or just plain lucky. Active managers who consistently beat the market over time are vanishingly rare, to the point where even those with lengthy records may simply be the equivalent of a lottery winner who imagines that their numerology "skills" have led them to the "right" numbers. Now that Neil Woodford's winning streak has come to an end (see page 28), here are three tips to help you avoid being struck by fallen stars.

1. Watch for style drift: Woodford made his name taking broadly contrarian bets on big blue chips, with the backing of a large institution to keep him in check. But when he launched his own funds, he decided to dabble in tiny, illiquid companies in exotic areas of the market. It was a major departure and not one that went terribly well, as his followers have learned to their cost. Another well-known British manager – Anthony Bolton – earned his reputation by taking contrarian bets on struggling UK companies. Similarly to Woodford, he made a fortune for his investors (turning £1,000 invested at launch in 1979 into £147,000 by 2007). But when he came out of retirement in 2010 to try to repeat his success in China, he failed to do so.

"Consistently successful fund managers are rare"

2. Don't believe the hype: once a fund manager has become a celebrity, their name becomes a bankable asset – one that can make a lot of money for any company associated with their brand. That means that regardless of the manager's own integrity, the focus will almost inevitably turn to asset gathering, rather than asset nurturing. Bolton's China fund is a classic example – it drew a lot of criticism at the time for charging higher-than-average fees for an investment trust, thus capitalising on Bolton's appeal. And there's no doubt that Hargreaves Lansdown in particular benefited from Woodford's celebrity status (see page 28).

3. Times change, so diversify: even if a fund manager is able to stick to their knitting, and to avoid letting fame go to their head, it's important for investors to remember that times change. Today's big names, such as Nick Train and Terry Smith, have done very well by investing in "quality" stocks – big companies with reliable cash flows and strong brands. This has been an excellent strategy and we've long been fans of Train's investment trusts in particular. That said, even good stocks can grow too expensive and at some point this style of investing will fall out of favour. So don't put all your eggs in one basket. Diversify by style, as well as by asset class. And if you can't find a promising active manager, remember that passively tracking the market is both cheaper and more reliable.

I wish I knew what an open-ended fund was, but I'm too embarrassed to ask

Investors in an open-ended fund give a fund manager their money to invest on a collective basis. The term "open-ended" means that new shares can be issued in accordance with demand for them. When an investor wants to put money into the fund, new shares are issued. When they sell, the shares are "redeemed". The buying and selling price of an open-ended fund always reflects the value of the underlying portfolio (minus any costs involved).

One problem with using open-ended funds to invest in illiquid assets – such as commercial property, for example – is that if investors demand their money back in large numbers, then the fund will be unable to liquidate its holdings rapidly enough to satisfy redemption requests. This is why many commercial property funds had to halt redemptions during the panic that followed Britain's vote to leave the European Union in 2016. It's also the underlying problem behind the "gating" of Neil Woodford's flagship fund (see page 28).

This is not a pleasant experience for investors who rightly expect to be able to access their money as and when they want to. This is one reason why MoneyWeek prefers to use investment trusts – closed-end funds. An investment trust is simply a company whose business is investment. The trust lists on the stock exchange, and then uses the money raised to invest in a portfolio of assets. If an investor wants to invest in the trust, they simply buy the shares from another investor on the open market. As a result, the fund manager is never under pressure to sell out of the underlying portfolio purely to satisfy redemption requests.

This does mean that the share price of an investment trust will often trade at either a discount or a premium to the value of the underlying portfolio. But it also means that you can always get access to your money in a hurry if push comes to shove.

Guru watch

David Rosenberg, chief economist, Gluskin Sheff

Federal Reserve chairman Jerome Powell looks as though he is now getting ready to cut interest rates, says David Rosenberg. At his latest speech in Chicago this week, the head of the US central bank – who has tried so far to strike a tough tone on monetary policy – sounded far less "hawkish" than he has in the past. He made no effort, notes Rosenberg, to counter market expectations that there will be two rate cuts before the end of the year. Powell also noted that at some point in the future, US interest rates will once again hit the "ELB" (effective lower bound, or 0%), and that the central bank has to be ready for that.

The nod to lower rates helped markets rally strongly in the middle of the week. "Market-based odds of a move as early as July have shot up to 50-50 from just 20% a month ago." But while this "could certainly spark a brief rally," don't get too

excited, says the oft-bearish Rosenberg. The Fed typically only starts to cut rates when the economy is heading for (or is already in) recession. "Investors with long time horizons... know that you don't go long on the first rate cut; you go long on the last."

One big risk in the next recession is that lenders to companies now have far less protection than at any time in the past (because the conditions – "covenants" – attached to loans are so lax), which means that they will lose more money during the downturn, as corporations default on their debt. This is how the next economic recession could turn into a financial one. "Hold on to your hat," he warns.

©Getty Images

You pay peanuts, you get monkeys

In investment markets, however, it seems you get monkeys whatever you pay

Matthew Lynn
City columnist

The vogue within the investment markets has been to pay for performance. If you pay peanuts, you get monkeys, has become the mainstream view, and asset managers have started to change their fee structure to build in a performance element. It started with the hedge funds a generation ago, with 20% of the profits typically going straight to the manager, and since then it has shifted into more mainstream funds offered to smaller investors. In the UK, close on 100 unit trusts now have some form of performance fee built into them and so do many hundreds more across Europe. They are common among investment trusts as well. Each time, the argument for them is the same. Sure, they will cost some money, but the incentives will also improve performance, and so investors will come out ahead.

But what if you pay big money instead of peanuts, and still get monkeys? A study from the London Business School looked at all the mutual funds offered for sale across the European Union, plus Norway and Switzerland, over a decade. Of those, 7% charged some form of performance fee, typically 20% of any profits made in excess of a chosen benchmark.

And how did they do? Not terribly well. The performance-fee funds actually did worse than their rivals by between 50 and 70 basis points per year. The funds that did especially badly were those that either set no specific benchmark, or else one that was easy to beat. Just as seriously, those funds also had on average higher expense ratios than their rivals. To put it in simple terms, investors were paying a lot more money for results that were below average. That is hardly a great outcome.

Something similar has been observed over the years among the hedge funds as well. Although a few funds achieve spectacular results – at least for a few years – and get a lot of headlines, most have not done very well at all. According to the Credit Suisse Hedge Fund index, from 1994 to 2018 a passive S&P 500 tracker outperformed every major hedge-fund strategy by 2.25% in annualised returns. The hotshot managers may well have huge incentives to beat the market. But it generally doesn't happen. In fact, as with unit trusts and mutual funds, not only do they not justify the fee, but it was actually better to choose a fund with no incentive fees built into it at all.

Why the incentives don't work

Why is this? After all, in most walks of life, we expect incentives to work. There are two big reasons. First, from the study it appears that most funds with a performance fee gamed the system so that they easily met the performance target; or else they set a benchmark that was really easy to beat. Most fund managers can choose their own benchmark, so it's understandable that they are going to pick one they feel confident they can outperform. So the only real impact of the fee is to increase costs without making any real difference to returns.

Second, it is very difficult to beat the market. One or two investors can perform better for a few years, and the occasional exceptional one can do so for a whole career. But most will simply do a bit better than the index one year, a little worse the next. Markets are not perfectly efficient, but they are very close to it. An incentive might make a difference to a sales manager, who can simply work harder to beat his target and earn his bonus. But it possibly doesn't make any difference to an asset manager. He simply cannot beat the market, any more than he can walk on water.

The conclusion for investors, however, is a simple one. With a very few exceptions, it is never worth paying someone else to manage your money. Either do it yourself, or else choose a low-cost tracker fund, where at least you will replicate the performance of the index, and at very low cost. The asset-management industry is very good at coming up with new ways of charging its clients – there is plenty of "incentive" for that – but it never works. And it is always smarter to avoid it.

Who's getting what

● **The Queen** enjoys a day at the races. And over the last 31 years, she's done quite nicely out of her hobby, reports the Daily Mail. Her horses have won 534 races out of 3,205 run, bringing in prize money of £7.7m. Her most successful steed is Carlton House, which won £772,815 and was retired to stud in Australia at six years old in 2014. Her most lucrative year was 2016, when she raked in £772,815.

©Alamy; Getty Images

● GVC, the UK's largest gambling company and owner of bookmaker Ladbrokes, is facing a shareholder revolt over the size of its executives' pay. It has proposed a reduction of £150,000 in chief executive **Kenny Alexander**'s salary. But that is unlikely to be enough, says Rupert Neate in The Observer, as it doesn't touch his bonus. Alexander has been paid £64.3m in the last four years, including £19.1m in 2018. Chairman **Lee Feldman** has received £23.8m over the same period. Shareholder advisory firms PIRC and Glass Lewis described the payouts as "excessively disproportionate", adding that Alexander is paid more than 550 times the company's average wage.

● **Jean-Claude Juncker** is feeling hard done by. The president of the European Commission is upset that he does not live in a stately home, nor does he have a private jet. "The Nato secretary-general lives in a stately home," he complained to Germany's Bild magazine. "I have been living in a hotel apartment... for €3,250 [a month]... I can't talk to official visitors sitting on my bed."

Nice work if you can get it

David Brookman, a former steel worker and trade unionist who now sits in the House of Lords as Baron Brookman of Ebbw Vale, claimed £50,000 in attendance and travel expenses last year, despite never speaking in the House and never asking a single question, says The Guardian. Peers can claim £305 a day for travel if they sign in on arrival, although no record is kept of when they depart. Brookman was not alone in his silence: 88 peers (around one in nine) didn't speak, hold any government post or sit on any committee; and 46 didn't register a single vote. One non-voter claimed £25,000 while another peer voted just once and claimed £41,000. Two peers claimed more than £70,000. The median claim was £30,180; 116 claimed nothing at all. The biggest claim was from former Labour minister Jack Cunningham, Baron Cunningham of Felling, for £75,122, of which £23,108 was for air travel.

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Utopians will have to toe the line

Izabella Kaminska
Financial Times

Seasteaders believe that modern societies have become "monopolistic and coercive political systems" with excessive regulation and taxation, says Izabella Kaminska. To escape this, and because all existing landmass is already claimed, they are "engineering tiny floating countries". Unfortunately, this makes them look more like Bond villains attempting to "squirrel away unfairly extracted wealth from more co-operative societies" than pioneering homesteaders of old. By seeking "independent sovereign status for its facilities so that they cannot be taxed or influenced by other nations", the movement's Seasteading Institute is courting trouble. The stance is "tantamount to a security risk for established states". In practice, there are only two ways to opt out of the international consensus. Ideologues can either "trot off to live in low-tax jurisdictions", which limits their ability to re-enter the zones they are depriving of tax. Or, like Isis, they can deploy force to annex and maintain sovereign territory. Isis was dealt with by an international allied force. Seasteaders say their objectives are peaceful, but as long as they rely on the resources of sovereign states, they will be deemed hostile unless they toe the line.

China's new front in the trade war

Eugene Gholz
The Washington Post

The official People's Daily editorial following President Xi Jinping's recent visit to a rare-earth metals processing plant warned not to "underestimate China's ability to strike back", says Eugene Gholz. Foreign investors and politicians took this as a signal that China will suspend exports to the US of rare earths if the Trump administration "doesn't back down" in its trade war. The 17 elements are vital for many high-tech applications including magnets and lasers. In recent years, Chinese companies have mined more than 70% of the total global production of rare-earth ore and produced an even higher portion of the world's rare-earth oxides. However, it is not clear how an export ban would work. These oxides are generally turned into products, including Apple's iPhones, in China or elsewhere, before being sent to the US. To stop rare earths from reaching US consumers, China would have to "disrupt trade to many other countries" and "ban consumer-product exports". Beijing may even be playing into Trump's hands. The Pentagon has already started looking at domestic rare-earth magnet production "on national security grounds". Given the potential for damage, "let's hope" that cool heads prevail on "both sides of the Pacific".

Delusion won't save the planet

John Gray
UnHerd

Thinking on climate change has become "increasingly delusional", says John Gray. For one thing, as climate scientists have pointed out, global warming may continue for thousands of years after its proximate cause has been removed. Secondly, regimes that rely on fossil fuels could collapse without oil revenues. As for the belief that the end of capitalism would be good for the environment, some of the "worst ecological catastrophes of the last century" occurred in the former Soviet Union and Maoist Chia. "Surviving the climate crisis is not an inherently unrealisable goal", but it requires "sustainable retreat" rather than "sustainable development". That means using advanced technologies, including nuclear energy, and "abandoning farming in favour of synthetic means of food production". High-intensity urban living would allow rewilding of vacated land. Resources would be used to build climate defences. "Hubristic dreams" of saving the planet would be replaced by ideas of how we can adapt to live on a destabilised planet. If we fail to do so, the planet will reduce our numbers or render us extinct. Worryingly, this kind of programme is "the opposite of that proposed by Greens".

Scrap these worthless degrees

Roger Bootle
The Daily Telegraph

Britain's tertiary education system "combines the highest levels of achievement with abject failure", says Roger Bootle. Recommendations by last week's Augar Report "didn't go far enough". Many of our universities are outstanding, but "further down the list", you find worthless degrees and high drop-out rates. An estimated 50% of student loans are never repaid, and many graduates end up doing non-graduate jobs. This problem is particularly acute in the UK. This is partly thanks to the Blair government's objective of getting 50% of youngsters into university, a policy which merely served to "create qualification inflation" at "massive cost to society". It's also because our technical training is poor, which in turn has a "close bearing" on our skills shortage and low productivity. What is needed, therefore, is a "shake-out of Mickey Mouse degrees" and much better technical education, not replacement funding from the Treasury if the cap on student fees is reduced. Switzerland has one of the lowest percentage of university students. It is also one of the richest countries in the world. "Not for the first time", our leaders should be casting a "beady eye across the Channel" to find out what works.

Money talks

"Writing is an insecure job, but what isn't spoken about is the arrogance. You have to be arrogant to say, 'I've got an idea and I want you to spend £6m on making it.'"
Screenwriter and producer Russell T Davies (pictured), quoted in The Times

"I'm terrified of not having any money. Terrified. I worked out at a very young age, ten I think, that I was never going to inherit. So: self-reliance."
Jade Holland Cooper, founder of fashion brand Holland Cooper and wife of Superdry co-founder Julian Dunkerton, quoted in The Times

"I don't think either is as important as self-esteem, confidence and a sense of entitlement. That's something I've seen in my students: immense amounts of talent, but things that stop people expressing that talent."
Writer and poet Kate Clanchy on whether ambition or talent matters more to success, quoted in the Financial Times

"I have a disproportionate amount of money to share."
Mackenzie Bezos, the ex-wife of Amazon founder Jeff Bezos, has pledged to give half of her $37bn fortune to charity, quoted on the BBC

"At art college, one of the tutors said: 'You don't know what you want to do, do you?' And I thought: 'I just don't want to work.' When my mother died at the age of 95 she was still waiting for me to get a proper job. I think she would have loved me to have been a bank manager.'
Writer and illustrator David McKee, 84, author of *Elmer the Patchwork Elephant*, quoted in The Observer

"Make sure you sign a prenup."
Twice-divorced Spice Girl Mel B to a man who proposed to his partner at the pop band's concert last week, quoted in The Sunday Times

©Getty Images

The return of the unions?

resolutionfoundation.org

There have been big falls in the membership of unions in recent years, says Daniel Tomlinson. Could 2018 have marked a turning point? It looks possible.

The latest government figures show that the number of employees in trade unions rose by more than 100,000 last year. That is more than in any year since the turn of the century and the second highest single-year increase in the 23 years that the numbers have been published. In total there are now 6.7 million union members in the UK. There aren't many organisations that can claim a membership of similar size.

Still, the number remains considerably lower than when unions were at their peak in the 1970s (when there were 13 million members) and is 200,000 lower than in 2010, despite the number of people in work increasing by almost three million over that period. In other words, union membership as a proportion of the workforce has been in steep decline.

Yet even this may have levelled off. As a proportion of employees, union membership ticked up by 0.1 percentage points in 2018 and remained unchanged as a proportion of all those in work – 23.4% of employees or 20.8% of all those in work are union members. This is a very small improvement on the downward trend, but it may be a turning point given the growing sense in the union movement that recruitment of younger workers needs to be prioritised.

Private sector is left behind

Trade-union membership remains heavily concentrated in the public sector – more than half of public-sector employees are members, compared with just 13% of employees in the private sector and 7% of the self-employed. In fact, it is increasing membership in the public sector that has driven the overall increase, perhaps due in part to the civil service expanding in the wake of the Brexit result. Trade unionists dominate in higher-paid public-sector roles, but are rare in the lowest-paid private-sector ones. So unions are still weakest where they are most needed.

Worse, demographic trends suggest that union membership is more likely to fall than rise from here as older union members retire and younger workers remain less likely to join. If current trends continue, then membership could fall to as little as 16% by 2030.

This matters. Trade unions are the primary way in which workers exercise their power in the workplace. "Winning rights, improving conditions and getting a better deal in terms of pay and hours are all things that have been won for workers with the help, and leadership, of trade unions."

They're back – but it's a far cry from their heyday

©Getty Images

The trade war's biggest losers

bloomberg.com

The debate over who will suffer the most from the US-China trade war overlooks some of the biggest victims – the countries caught in the middle, says Tyler Cowen. Take Pakistan. It borrowed $6.5bn from China this fiscal year alone. China is Pakistan's biggest foreign investor and a major supporter of its infrastructure. It is also an ally in its rivalry with India. On the other hand, the US is the world's strongest military power with important links with Pakistan, the leading importer of Pakistani goods and the holder of the global reserve currency. Pakistan, therefore, has no interest in picking sides. But if it is forced to, at Trump's bidding, then there's no way it can afford to "thumb its nose" at China.

The US, in other words, is making it harder for many foreigners to be on its side, even partially. It is limiting its own soft power in the countries caught in the middle of the trade war, making them more likely to support measures that weaken US control over the global financial system and its ability to enforce sanctions. "Too often large nations think only in terms of other large nations. But many of the biggest losers in this dispute between China and the US are the smaller players, and America's relations with them. That may well be the biggest legacy of this trade war."

Be effective, not efficient

ofdollarsanddata.com

Much of the English language could disappear without our losing any essential information, says Nick Maggiulli. Language is not efficient. Yet this very inefficiency contributes to its effectiveness: it means we can still understand texts riddled with errors and conduct conversations in a noisy room. Similarly, the majority of wars have not been won with superior strategy or kit, but with brute force. Sometimes, just working hard is the best option.

This can apply to personal finance too. Paying your highest-interest debt off first makes the most sense rationally. But if you pay off your debts by balance (smallest first), then you "get a psychological win under your belt that will motivate you to pay off your other debt". This works because personal finance is "all about behaviour modification, not maths".

Sometimes you just need to work hard

©Alamy

So, those savings apps that charge high fees to round up the cost of your purchases and save the difference might be an effective way forward for some people. Most of your financial success is in the end going to come down to how much money you save. Anything that can get you to save more may end up paying for itself.

Timeless lessons for business success

fs.blog

In an interview, Amazon founder Jeff Bezos touches on the timeless lessons he's learned for business success, says Shane Parrish. The three "big ideas" are thinking long term, putting the customer first, and inventing. Experimenting is necessary because a lot of the things you try won't work, says Bezos. Just be clear with your customers about what it is you're trying to do. As Warren Buffett says, you can have great success putting on a ballet or a rock concert. Just don't hold a ballet and advertise it as a rock concert. "You need to be clear with all of your stakeholders... and then people get to self-select in," says Bezos.

Bezos's motto is *gradatim ferociter,* or "step by step, ferociously". You have to start small, and you can't skip stages. "Things take time, there are no short cuts, but you want to do those steps with passion and ferocity." In other words, it's important to love what you do. That doesn't mean that every single task will fill you with joy –"that's why they call it work". But work should be a passion and an interest. "Why would I go sit on a beach?"

How to tap the EIS

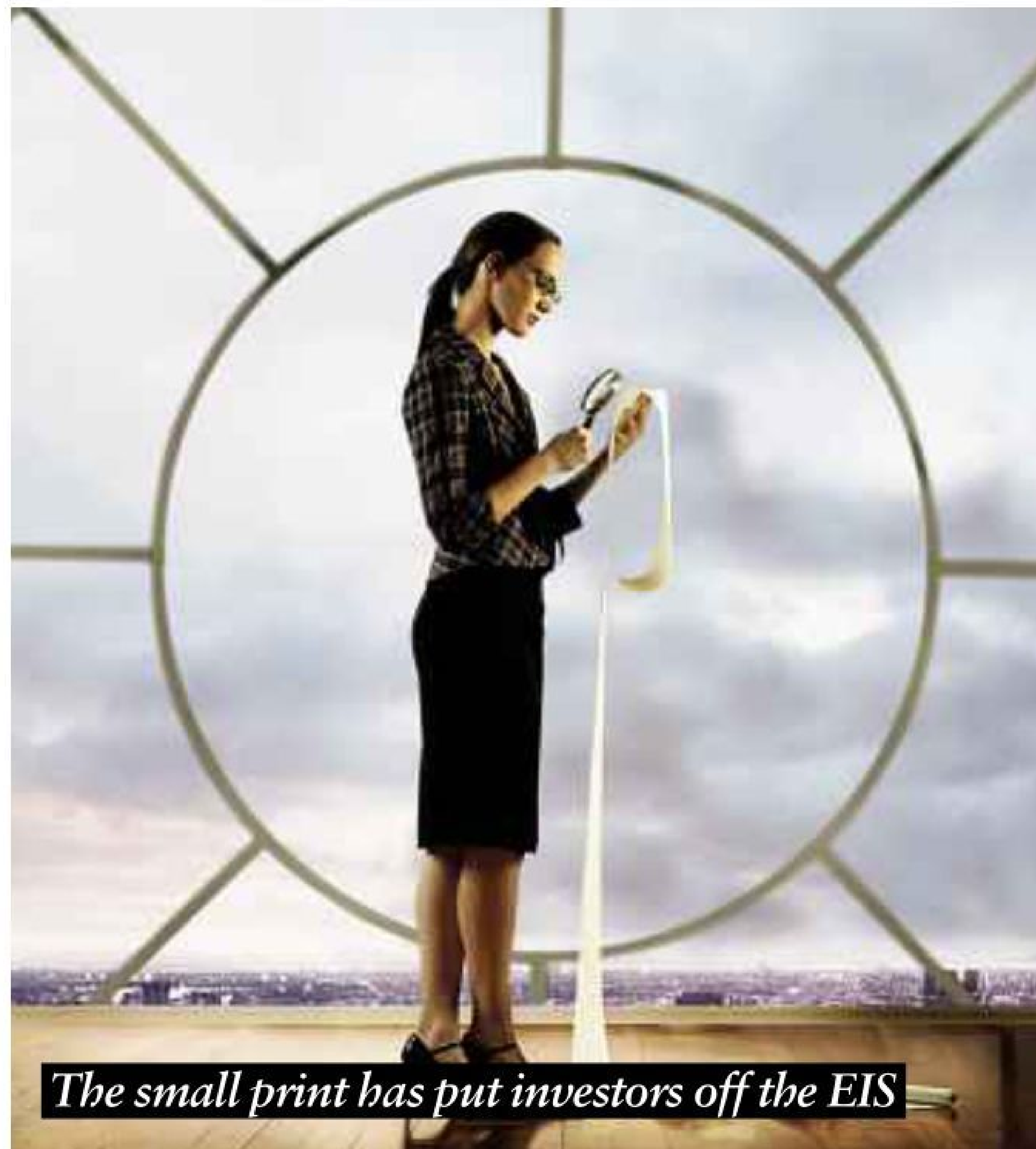
Small businesses can benefit from this scheme, but they must tread carefully

David Prosser
Business columnist

Some 3,920 small companies raised £1.93bn through the enterprise investment scheme (EIS) during the 2017-2018 tax year, according to HM Revenue & Customs. That marked a 1.5% rise on the previous year, but analysts say the EIS should be doing much better given recent restrictions on pension tax reliefs, which are prompting savers to find new tax-efficient investments.

Alex Davies, the founder of Wealth Club, a specialist EIS adviser, blames the "constant tinkering with the rules" for the tiny increase, pointing to a series of changes to the small print of the EIS in recent years. He predicts the data for 2018-2019 will show EIS capital raising slipping back.

In that case, small businesses hoping to use the EIS to raise much-needed funds will need to work hard to achieve their financing targets. In principle, however, companies with EIS status should find it easier to raise money from investors, who get very generous tax reliefs in return for stumping up. How, then, to exploit the potential of the EIS most successfully? The first step is to be sure your business qualifies for the scheme, particularly since the rules have been tightened. In most cases, your business must be less than seven years old, have less than £15m in assets, and employ no more than 250 people. Certain industries, including financial services, energy generation and property development, are excluded from the scheme. And you can't usually raise more than £5m in any one tax year.



The small print has put investors off the EIS

©Getty Images

Importantly, HMRC will not certify that a business meets its EIS criteria in advance: to secure EIS status, you will need to submit a compliance statement to the tax authorities once the share issue has been completed. This means you can't tell potential investors that EIS benefits are guaranteed. However, it is possible to apply to HMRC for "advance assurance", an official document that shows the business could qualify, providing investors with valuable reassurance. Even if you don't have this document, you are allowed to tell investors that you believe the business meets the EIS eligibility criteria.

Don't assume that your potential investors understand the value of the EIS, however, particularly if you're appealing directly to individuals through an equity-based crowdfunding platform. Your pitch to investors should make it crystal clear that you will be applying for EIS status and set out the detail of the tax reliefs they may qualify for as a result.

Keep it simple

Keep investors supportive by making it simple for them to claim their reliefs – not least because you may want to raise more capital in the future. Once you've successfully achieved EIS status, HMRC will supply you with the forms that investors need to claim their tax relief through the self-assessment tax system. You'll need to provide these forms to your investors.

The key is to be sure investors understand your business is EIS-eligible, that they know what this is worth to them, and that it's as easy as possible for them to secure the benefits. The more straightforward you can make the EIS process, the less investors will be put off by the potential complexities of the scheme's small print. Seeking advice from a professional tax specialist makes sense.

EIS or SEIS?

The seed enterprise investment scheme (SEIS) is aimed at the smallest and youngest businesses seeking to raise money. It offers investors significantly more generous tax reliefs than the main EIS, in return for the risk of backing such businesses, so it can be a very useful way for companies to raise growth funding following a start-up.

The application process for the SEIS is similar to that for the EIS, so you won't be able to guarantee investors that they'll qualify for the scheme's tax breaks. But you can still apply for advance assurance.

It's important to understand the much narrower eligibility criteria for this scheme, however. It's usually only an option for those businesses with assets of less than £200,000 and fewer than 25 employees. You can't use the scheme if you have already received investment from the EIS or through venture capital trusts, and you can raise a maximum of £150,000.

Five questions for... Joe Welstead, co-founder and CEO, Motion Nutrition

What does your business do?
We improve people's emotional, mental and physical strength with scientifically developed organic supplements for the brain and body, packed in sustainable, plastic-free materials. Imagine waking up after the best night's sleep since you were a child – that's what our supplement Unplug night-time nootropic does. Now picture nailing your day of work, without mood swings, and remembering all your colleagues' names – that's why our Power Up daytime nootropic was voted "smartest nootropic" by Men's Health in May. And our range of organic protein powders and workout boosters will keep you moving all day.

What's been your company's greatest achievement so far?
A few weeks ago we launched our daytime and night-time nootropic supplements nationwide at Holland & Barrett. After more than a year of talks, it's been fantastic to get the seal of approval from such a reputable retailer.

What has been your biggest challenge?
Although we successfully raised some finance, we have never spent a lot on marketing. Our biggest challenge has been to get in front of as many people as possible without huge advertising budgets. We've been able to achieve this through a combination of referrals, particularly with the backing of nutritionists, and the distribution network of our retail partners. Our products are loud, eye-catching, and easy to understand, so if you see our products for the first time you get it at once.

What are your plans for hitting your targets?
We continue to build brand credibility by partnering with names such as The North Face and New Balance and by leveraging the voice of our customers. We believe that hearing about the benefits of our products from your friend, colleague, or healthcare professional is worth a lot more than being spammed by banner advertisements.

What's the one piece of advice you'd give to fellow entrepreneurs?
If you have an idea, speak to as many people as possible and look for their responses, words and body language. People want to be supportive, so learn to listen for the real feedback. Don't keep your idea secret until it's perfect – this is a recipe for disaster.

What would a Jeremy Corbyn government mean for your business?

Photo: Chris McAndrew

The resignation of Theresa May as prime minister, combined with the poor showing for both Labour and Conservatives in the European Parliament elections, could pave the way for an early general election in the UK. If Labour wins control of the government, what can businesses expect?

What policies might a Labour government led by Jeremy Corbyn introduce?

It's clear that a Jeremy Corbyn-led government would take Britain in a political direction not seen since the 1970s – one involving far greater government intervention in the economy. As Paul Johnson of the Institute for Fiscal Studies put it in The Times last year, Labour is in effect, offering "an alternative to the form of market capitalism practised in this country for at least the past 40 years". Policies discussed or floated by Corbyn and his shadow chancellor, John McDonnell, include: renationalising water companies, energy utilities, and the railways; putting workers on corporate boards, and forcing companies with more than 250 staff to put 10% of their shares into "inclusive ownership funds" for employees and the public sector; and a rise in the minimum wage from the current £8.21 to £10 an hour – as well as scrapping the under-18s rate of £4.35.

What would it mean for businesses?

A more interventionist government would make the environment for business less predictable. There are concerns over exactly how utilities would be nationalised and whether the current owners would be sufficiently compensated – for example, a recently leaked paper on the renationalisation of water utilities suggested that Labour would pay less than £20bn for assets that water regulator Ofwat values at more than £70bn. That could potentially undermine investor confidence in British property rights, which would be bad for investment. Plans for a much higher minimum wage would also increase employment costs for many sectors and employers.

What about the opportunities?

Labour has big plans for spending on infrastructure projects via a £250bn National Transformation Fund. An upgrade of the national rail network, investment in superfast broadband, and more investment in renewable energy, are all on the cards, plus a focus on boosting regional economies and Britain's manufacturing base. So companies – particularly smaller companies – in related sectors could well see more government-mandated business coming their way. A Labour-led government also looks highly likely to result in either a very soft Brexit (one which maintains the Customs Union with the European Union) or no Brexit at all (depending on whether or not a second referendum is called, and the result of any such referendum). That would provide clarity on the future for every business involved in cross-border trade.

What would this mean for taxes?

All of these policies cost money: Labour's 2017 manifesto called for an extra £70bn in spending a year, and as Paul Johnson of the Institute for Fiscal Studies points out, that did not include plans to match Conservative spending on the NHS, nor any of the more recent policy initiatives. To pay for this, corporation tax is set to rise, while income tax will rise to 50% on those earning more than £123,000, and to 45% on those on more than £80,000. A financial transactions levy of 0.2% is on the cards, plus potentially a one-off wealth tax on assets over a certain level. Labour has however, pledged not to increase VAT or personal National Insurance Contributions. The party is also "committed to ensuring that the national debt is lower at the end of the next Parliament than it is today," according to its manifesto.

Ask the expert

Hamish Muress, Senior Currency Strategist at OFX

How might an early general election affect the pound?
The uncertainty of a general election alone is likely to hit sterling – even the news of Theresa May making plans for her resignation has been painful for the pound. The problem with a significant drop in the pound is that it could leave the Bank of England stuck between a rock and a hard place. A lower pound would drive inflation up, arguing for higher interest rates. But if growth is struggling amid confusion over Brexit and government policies, then that would be bad news for growth, which argues for lower rates – it's Catch-22.

What impact could this have on UK businesses?
It really depends – if your business is an importer, then a big devaluation in the pound would be bad news. It's a different scenario if you're an exporter and you're selling into Germany, for example – a fall in the value of the pound arguably makes your goods much more competitive in terms of price from a German business or consumer's point of view. The tricky thing, of course, is that lots of businesses are both importing and exporting - which makes it harder to estimate the damage that fluctuating exchange rates can do. This is where it can be useful to call on an expert - someone who can tailor your currency management plan.

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Britain's top trusts: the best sources of reliable income

Dividends are crucial to healthy long-term returns, so no portfolio should be without investment trusts offering dependable and consistent payouts. Sarah Moore explains how to find them

Investors often wish they had a time machine. Seekers of reliable dividend income in Britain would have been quids in if they had scooped up shares in three British investment trusts in the late 1960s. The City of London Investment Trust, the Bankers Investment Trust and the Alliance Trust are the only three in the UK to have increased their dividend payouts every year for more than half a century. But where should investors be looking for this sort of performance now?

An encouraging backdrop for income

Although we've been mired in an era of low growth and low interest rates for years, the overall outlook for income investors seems encouraging for now. The yield on the FTSE All-Share Index is around 4.8% – about the highest it has been since the financial crisis. Job Curtis, manager of the City of London Investment Trust, is optimistic about the level of income being generated from the UK equity market.

"We are seeing mid single-digit figure growth in dividends... so overall, the equity market is not a bad place to look." The main drivers of this growth recently have been British American Tobacco, as well as the banking and mining sectors. And with 70% of UK-listed company sales coming from overseas, this yield should be able to weather domestic turmoil.

But choose your stocks carefully. Companies making large payouts to the detriment of capital growth may find it becomes unsustainable, as Ben Lofthouse, manager of the Henderson International Income Trust, told The Times last week.

"If you get caught in a dividend trap, you might find the income you hoped for has no prospect of sustainable growth. This eliminates one of the main advantages of investing in equities. Dividend growth not only protects investors from inflation, it drives share prices higher over the long term, meaning investors can benefit from capital gains."

In a recent example of a promised dividend which failed to deliver, last month telecoms giant Vodafone cut its dividend by 40%, having told investors in November that it would maintain it for the financial year. Unfortunately, the high cost of investing in 5G technology thwarted this optimism. Before the dividend cut it had been yielding 9.3%.

Investors are keeping an eye on BT Group, which will also be thinking about the cost of 5G technology. The dividends of utilities SSE, Centrica and National Grid also appear shaky. Given the uncertainty surrounding dividend payouts at several individual companies, it's no wonder investment trusts with long records of increasing dividends are so popular.

"The yield on the UK stockmarket is around its highest level since the financial crisis"

Why investment trusts?

A unique characteristic that explains the appeal of investment trusts to income investors is managers' ability to hold back up to 15% of their gross annual income as revenue reserves. Managers can therefore build up a "rainy day fund" they top up in good years and draw upon in difficult ones.

This enables them to smooth out dividend payments, rather than axing them completely one year and reinstating them when markets have improved. This suits investors who are looking for a steady and reliable income.

Juggling income sources

However, there is another way that managers can juggle things so as to keep dividends on an even keel. As of 2012, investment trusts have been allowed to dip into their capital (as well as the income they make from their holdings) to top up or completely fund their dividend payouts, as long as shareholders agree.

This means that when they sell holdings, they can direct some of the profits to their dividend payouts, rather than just putting that capital to use in the future to buy new holdings. More than 20 funds have now changed their dividend policy to allow for this tactic, and this number is likely to go up in future. Private-equity funds are especially inclined to use this approach: they tend to invest in early-stage companies which do not yet pay dividends.

Is this a bad thing?

Not necessarily. Investors want income. These investment trusts are providing them with regular, reliable dividends. "However, we believe the jury is still out on the success of this strategy," says Sam Murphy of broker Numis. "In our view, boards of investment trusts need to consider whether an enhanced yield is sustainable over the long term."

Indeed, the approach has not yet been tested during a market downturn. When markets are going up, as they have been doing for the past few years, the occasional raiding of a trust's capital account might not be especially noticeable. But the practice would be "dangerous" during a bear market, says Curtis. If the market is down 10% and the manager then takes 1% out of the capital account, people will start taking note. "That is when the managers might start getting angry letters from shareholders."

Murphy gives the example of European Assets investment trust. The fund had been popular with individual investors, partly because of its high yield, which is funded largely through a distribution from capital. Helped by rising markets, it had grown its dividend over the past few years.

However, a 22% cut in the dividend for 2019, as a result of falling equity markets, shows that investors relying on funds paying dividends from capital are "likely to face greater income volatility than from traditional equity income funds that pay covered dividends supported by revenue reserves".

Discount control

With demand for income showing no signs of abating, broker Winterflood believes that more funds will consider paying so-called "enhanced dividends", particularly those trading on wide discounts. Indeed, some fund managers have taken advantage of their ability to convert capital into income in order to alleviate their discount, with five funds adopting this strategy in 2018 alone. Generally, shares in an investment trust trade at a discount to the value of

©Getty Images

The best investment trusts can be reliable cash machines

the fund's underlying assets (net asset value, or NAV) when investors don't think those assets are worth paying full value for. If the discount gets too wide, this can make the trust look unappealing to outside investors. However, if the trust maintains a stellar dividend record this may make people change their minds about buying in, therefore boosting the trust's share price and narrowing the discount.

This is good for those who have already invested, as they benefit from the capital growth. Examples of funds which have taken this approach include JPMorgan Global Growth & Income, Securities Trust of Scotland, JPMorgan Asian, BlackRock Latin American, JPMorgan Japanese Smaller Companies and International Biotechnology, as well as several private-equity funds.

"There is some evidence than an enhanced yield broadens the potential investor universe," admits Murphy. "However, simply adding a yield to a fund with a poor track record, or in an asset class that is out of favour, is unlikely to turn around investor sentiment."

For instance, asset manager JPMorgan has seen its Global Growth & Income re-rated following the adoption of an enhanced income policy, and it is now trading on a premium, notes Winterflood. However, its Asian fund, which operates in a sector that has fallen out of favour for now, remains on an 11% discount, despite a 4.5% yield and a superior performance record to Asian Income funds such as Schroder Oriental Income or Henderson Far East Income.

Lack of transparency

Winterflood takes a more relaxed view of the practice than some, and believes that paying so-called "enhanced dividends" is merely one of the advantages of the investment trust structure. There's also the argument that in being able to dip into capital, managers can avoid turning to riskier high-yielding companies merely to maintain their dividend.

The key issue here, though, is whether or not investors are actually aware of where their income is coming from. Many investors might not realise that this is what their fund manager is doing. Unless they're very interested in the inner workings of how a trust is run, it's unlikely that this subject will come up on most people's radar. And although the strategy is only permitted subject to shareholder approval, it is news to no one that many shareholders don't bother to participate in such votes, or have their vote cast by a nominee, their broker.

Charging fees to the capital account

One final thing to be aware of when looking at an investment trust's dividend history is that managers can take a proportion of fees and finance costs out of the capital account. This leaves the money in the revenue account to be used to pay dividends, but comes at the cost of the capital account. The practice is more prevalent in equity income funds than in those that strive to maintain capital growth and are therefore are under less pressure to increase

Continued on page 26

"The key point is whether investors know where the trust's income is coming from"

Continued from page 25

their dividend. Most equity trusts charge two-thirds of management fees and finance costs to capital, according to analysts from Numis. If all fees and finance charges were instead charged to revenue, the average yields for UK equity income investment trusts would, in all likelihood, fall. So it's useful for investors to be able to see exactly how their capital gains are drawn on by managers.

Is the dividend sustainable?

If you're concerned about the reliability of the income from an investment trust, there are several things you can do to get a clearer idea of how things stand. First, go to the annual accounts, which you can find in the investor relations section of any trust's website. Look back over five or ten years to get an idea of whether the managers have been able to maintain or grow their dividend.

Then, look at their revenue reserve fund, the "rainy day" fund where they keep revenue back. If the revenue reserve cover figure is more than one it means that they can cover the dividend for one year should the holdings earn nothing at all. If it's less than one, they would not be able to fully cover the dividend in such a scenario. Within the UK Equity Income investment company peer group, the average revenue reserve cover figure is 0.76.

Next, look at the trust's dividend cover. Different to the revenue reserve figure, this shows the trust's annual earnings, relative to the dividend it pays. So it should give you an idea of just how capable the trust is of funding the planned dividend with the amount it's currently earning. This figure will either be expressed as a percentage, so would be more than 100% if the trust is earning more than enough to cover its dividend, or as a multiple, so if a trust has dividend cover of 0.5, it is only earning half the amount necessary to pay the dividend. In this situation, investors could take the cover figure as a sign that the dividend is not very sustainable.

A shortcut

If you go to the website of the Association of Investment Companies (AIC), you can easily look up a trust's dividend history and revenue reserve cover figures, as well as how the dividend is funded. This is especially handy for those who can't quite face trawling through page after page of funds' accounts (though that can be a good way of familiarising yourself with the nuts and bolts of your investment). Investors should also keep in mind that just because an investment trust has a long history of increasing its dividend payments, it doesn't mean you should automatically buy it.

Keep a close eye on a trust's rainy day fund

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For example, Perpetual Income & Growth (see also page 29) is the newest entrant to the AIC's list of funds which have increased their dividend every year for 20 consecutive years. It is currently trading at a fairly significant 12.4% discount to NAV, which is probably explained by the fact that it has had a fairly dismal past few years, having suffered setbacks with several portfolio companies, including doorstep lender Provident Financial and outsourcer Capital.

The trust's NAV has gone up by 7.8% over three years, compared with 33.3% for the FTSE All Share. Yet it has been able to increase its dividend payments for 20 consecutive years. It has revenue reserves of £30m, enough to cover ten months of future dividends, and has been granted permission to dip into capital in order to pay dividends, but has not yet taken advantage of this. It remains to be seen whether manager Mark Burnett can reverse the portfolio's fortunes in terms of capital growth. For now, the poor performance of the portfolio undermines the trust's appeal, the steady income increases notwithstanding.

Similarly, just because a trust has drawn on its capital reserves to pay dividends doesn't necessarily mean you should avoid it. Some well-established and popular trusts have done so, including MoneyWeek favourite the Scottish Mortgage Trust. Below, we look at some investment trusts which have a proven dividend record and appear well placed to continue providing investors with income.

> *"Just because a trust has drawn on its capital to pay dividends doesn't mean you should avoid it"*

Today's investment trust dividend heroes

On the AIC's list of "dividend heroes" there are three trusts with 51-year records: City of London, Bankers Investment Trust and Alliance Trust. Caledonia Investments is not far behind, on 50, with F&C Global Smaller Companies and Foreign & Colonial Investment Trust both on 47.

Of the three trusts with 51-year records, UK-focused **City of London (LSE: CTY)** has the highest yield, with a current figure of 4.52%. It is trading at a 2% premium to net asset value (NAV), and has an ongoing charge figure of 0.41%. City has a revenue reserve cover of 0.76 and dividend cover of 1.06%. If you're looking for a globally diversified alternative, **Bankers Investment Trust (LSE: BNKR)** is currently yielding 2.2%. It is trading at a 1.2% discount to its NAV, with revenue reserve cover of 1.05 and dividend cover of 83%. **Caledonia Investments (LSE: CLDN)** sits within MoneyWeek's portfolio of investment trusts. It is trading at an 18% discount to NAV, has dividend cover of 1.01 and an impressive revenue reserve cover of 8.72. Note, though, that it is more focused on wealth preservation than dividend growth.

Numis highlights **JPMorgan Claverhouse (LSE: JCH)**, which invests in UK-listed blue chips such as Royal Dutch Shell, BP and GlaxoSmithKline. It pays a fully covered dividend, and has built up revenue reserves equivalent to 1.18 years' dividends, the highest of its peer group. Finally, research group Kepler has devised a top-20 list of trusts for those looking for income and growth, made up of funds that have "generated sound solid returns while delivering a high and rising income to investors". To make the list, funds must yield 3% and have grown their dividend by 3% on average over the past five years. Top of the list is **JPMorgan European Income (LSE: JETI)**, which yields 4.4%. The fund screens the top 30% of the MSCI Europe ex-UK Index by yield and then avoids firms whose dividends could be threatened. Next is **Schroder Oriental Income (LSE: SOI)**. It invests across Asia Pacific and yields 4.2%.

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What Woodford's crash landing means for your money

This week, former star fund manager Neil Woodford shocked markets by "gating" his flagship fund. John Stepek and Sarah Moore look at what went wrong, while Max King looks at how Woodford's former colleagues are getting on now

"A bonfire of reputation and a terrible moment for investor confidence" is how one "veteran" fund manager described it to the Financial Times this week. "I can't remember anything quite like this," another manager, Peter Walls of Unicorn Mastertrust, told Citywire. They were, of course, referring to the "gating" of Neil Woodford's flagship Woodford Equity Income Fund this week, which left investors large and small (including Kent County Council) unable to withdraw their money until further notice.

What went wrong?

Neil Woodford gained his reputation as a "star" while working at Invesco Perpetual, from 1988 to 2013. His big call was to avoid the tech bubble (and bust) and buy out-of-favour tobacco stocks (see opposite page). He beat the market, and in 2014, with a track record and many grateful investors in tow, launched his own funds, heavily backed by Britain's biggest broker, Hargreaves Lansdown.

He also changed style. The flagship fund was called "Woodford Equity Income", but dividends came from a small number of high-yielding holdings while much of the rest of the fund was invested in early-stage biotech and "disruptor" stocks, some of them unlisted.

The fund beat the FTSE All Share in its first two years, bolstering Woodford's reputation, and by May 2017, assets under management (AUM) had hit a peak above £10bn. By then, however, the fund was starting to lag (in the year to 31 March 2017, it returned 12% vs more than 20% for the FTSE All Share), and it only got worse. As Daniel Grote notes on Citywire, investors began to pull out that summer, unnerved by a profit warning from subprime lender Provident Financial, then one of Woodford's biggest holdings. Other warnings followed, and by March 2018, weak performance plus redemptions had seen AUM fall to below £7bn. By the time the fund was gated, it was below £3.8bn.

Woodford is hardly the first active manager to make dud calls. The real problem was liquidity – or lack of it. Woodford Equity Income is an open-ended fund. For a detailed definition see page 17, but in practice it meant that as investors pulled money out, Woodford had to sell out of his liquid (easily sold) equities to repay them. This made it increasingly hard for him to keep the chunk of his fund invested in illiquid or unquoted stocks to below the regulatory limit of 10%. So he turned to ever more elaborate methods of sticking to the letter, if not the spirit, of the rules. He listed some stakes on the Guernsey stockmarket (fine for regulatory purposes, but doesn't do much for liquidity), and swapped stakes in five unquoted companies for shares in his own Patient Capital Investment Trust. This controversial deal made the extent of the problem very clear – which only exacerbated the "run on the fund".

The straw that broke the camel's back appears to be the news that Kent County Council decided to pull out £250m from the fund. Dealing was suspended to allow Woodford "time to reposition the element of the fund's portfolio invested in unquoted and less liquid stocks, into more liquid investments."

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Woodford now has some breathing space

What now?

If you own the fund, there's not much to do but wait. It has been suspended for at least 28 days – likely longer. The money is still there, and the fund is being priced daily, so you'll be able to keep an eye on it, but you can't get at it. The suspension gives Woodford breathing space to restructure, but it's never good to be viewed as a forced seller. And odds are that people will queue up to pull their money out when the doors open again, whatever they claim now. We look at the impact on his other funds on the box on page 29.

How Hargreaves Lansdown backed a losing horse

"If Woodford is a fallen superstar then Hargreaves was his agent," as Matthew Vincent puts it in the FT's Lombard column. The online investment platform's "imposing marketing machine whirred into action" at the launch of all three of Woodford's funds, notes Citywire's Daniel Grote. In the Equity Income Fund's first full year of operation in 2015, Hargreaves clients owned more than a third (38%) or £3.1bn, of the fund. And by the end of last year, this figure still stood at 31%. Hargreaves clients also own around two-thirds of the Woodford Income Focus Fund. The company's backing of Woodford's funds is "so significant" that it is deemed a "related party", in that it controls more than 20% of the shares, and so must disclose its holding in annual reports, notes Grote. No other broker has this status. Between 2015 and 2018, Woodford "would have generated roughly £50m in fees from Hargreaves clients alone".

Meanwhile, although rival brokers AJ Bell and Charles Stanley dropped Woodford's Equity Income Fund from their best-buy lists last year following a long period of underperformance, both funds made the cut at Hargreaves, even when it reduced its recommended list from 150 names to just 50. Woodford's firm meanwhile increased the discounted ongoing charge figure available to Hargreaves clients from 0.6% (relative to a standard 0.75% charge) to 0.5%. At the time, the fund supermarket said that it

What about his old funds?

Max King
Investment columnist

Before Neil Woodford left Invesco Perpetual in 2013, he worked closely with Mark Barnett. Woodford managed £30bn in four open-ended funds, two funds for St James' Place and the £1.3bn **Edinburgh Investment Trust (LSE: EDIN)**, won from Fidelity in 2008. Barnett managed three trusts, including **Perpetual Income & Growth (LSE: PLI)** and **Keystone (LSE: KIT)**, plus various other funds. Though he worked somewhat in Woodford's shadow, Barnett's returns were actually better in the later years so when Woodford left, it seemed natural for Barnett to take over the funds, minus the investors who cashed in to follow Woodford.

While Woodford's new venture has struggled badly, so have the funds – all UK specialists – he left behind. EDIN has returned a respectable 24% over five years, but only 5% over three; PLI, 10% over five years and zero over three; and KIT, 18% and 10%. These are all well behind the underwhelming performance of the FTSE All Share index (29% over five years, 28% over three), and the sector averages. In April 2017, Barnett handed management of KIT over to James Goldstone but its performance hasn't improved.

Cheap, but not necessarily good value

The formula behind Woodford and Barnett's success was to focus on value, income and recovery. In the late 1990s, they avoided the technology, media and telecoms sector, thereby outperforming in the 2000-03 bear market. Thereafter, suspicious of banks, despite their generous yields, they steered clear, reducing the hit from the global financial crisis. They were quick to recognise that although the tobacco industry was heading for decline, it would become hugely profitable due to consolidation; cost cutting (notably on marketing, as it was banned around the world); an end to diversification; and the limitation of legal action to the pre-health warning era. For many years, the sector, including US companies, accounted for more than 20% of their funds.

"Woodford is hardly the first active manager to make dud calls"

But success made Barnett complacent and PLI acquired a growing tail of holdings that didn't belong in such a portfolio: eclectic investment funds, high-yield property trusts and speculative life sciences companies. These holdings are still in PLI and EDIN, though they are not among the top holdings, and few are unquoted. The damage to performance will have been less than for Patient Capital – but is still notable.

Among the larger holdings, there is remarkable uniformity between the two trusts, with eight of the top ten holdings in common. The other two top ten holdings of each are still held by the other, but outside the top ten. Tobacco still features prominently, with BAT, Imperial and Altria all held, though the sector peaked in 2017. Banks are still absent other than a small holding in RBS, but insurance is well represented, notably Aviva and investment giant Legal & General. BP and Shell continue to struggle, as do Tesco, Next and the pharmaceutical majors. These companies may look "cheap" but that doesn't necessarily make them good value.

Overly devoted to failing stocks

Recovery hopes probably account for holdings in BT, Capita and Provident Financial but there is little sign of progress in any of them. Barnett expresses confidence that the domestic UK market will have a bounce-back, helped by undemanding valuations – but his portfolio of mega-caps, lame ducks and oddball smaller companies doesn't inspire confidence. KIT looks little better and is burdened by £31m of expensive fixed-term debt.

KIT, with £290m of assets, yields 4% and trades on a discount to net asset value (NAV) of more than 15%. PLI, with £1bn of assets, trades on a 12% discount and yields 4.7%, while EDIN, with £1.5bn of assets, trades on a 10% discount and also yields 4.7%. Chris Brown of brokers JP Morgan Cazenove, "has sympathy with the manager's view that performance is due a bounce-back" and has a mild preference for EDIN. The UK market, beset by political issues, may indeed be due a rebound – but the Invesco trusts are not necessarily positioned for it. Over time, the stocks that drive bull markets change, but Barnett sticks devotedly to companies that have tried but failed to regenerate themselves. Don't be tempted by the discounts and the yields until there is some evidence that lessons have been learned.

Barnett is confident of a UK bounce-back

felt it was "simply too early to give up" on Woodford, and drew attention to his previously demonstrated ability to make big economic calls which paid off. Since the suspension, of course, Hargreaves has removed both the Equity Income and Income Focus funds from its Wealth 50 list.

What if you own Woodford's other funds?

Woodford Investment Management offers three funds – the suspended Woodford Equity Income; Woodford Income Focus; and **Woodford Patient Capital Trust (LSE: WPCT)**. The Income Focus fund is far more liquid than its troubled partner (as is the case for the funds Woodford runs for St James Place), so while we're not wild about it (too many house builders), if you're a fan, there's no rush to exit.

WPCT is an investment trust, and so doesn't have the liquidity issues of the Equity Income Fund. However, there is a huge overlap between the two – analysts at Stifel put it at an extraordinary 89% (accounting for use of gearing, or borrowed money) – which could mean that the trust's underlying portfolio suffers in the event of any "fire sale" held by Woodford as he restructures his other fund. That's not to mention the risk of Woodford selling the 9% stake he owns in WPCT as he tries to raise money to fund redemptions.

We've never been big fans of this trust. That said, every fund has its price, and it could end up being an interesting special situation (or takeover target) in the future. But given how distracted Woodford must be, we'd be very wary of buying in, even at the current record-low share price.

Hexagon is in excellent shape

This Swedish engineer has been overshadowed by bigger local peers, but is well worth a look

Dr Mike Tubbs
Investment columnist

Sweden is well known for its engineering companies such as Atlas Copco, Saab, Sandvik, and Volvo. A more obscure Swedish name in this field is **Hexagon AB (Stockholm: HEX AB)**, a precision-engineering and software company with a market value of €16bn. It combines sensors, satellite-based positioning technology and software to transform clients' operations and improve their productivity.

For instance, Hexagon developed the first complete industrial assembly process based on laser measurements for the Airbus A380 programme. The system uses four Hexagon laser trackers (two for the wings and two for the fuselage), all connected to special control and measurement software. China HQC, meanwhile, used Hexagon to design the world's largest indirect coal liquefaction project. This involved more than 13,000 pipelines and 2,400 pieces of equipment that had to withstand high temperatures and internal stress.

Hexagon has customers across a diverse range of industrial sectors, from agriculture and construction to manufacturing and mining. It invests a high 10%-12% of sales in research and development (R&D) to drive organic growth and also made ten small acquisitions during 2018. It is profitable with a very high operating margin of almost 25%, while sales have jumped by 50% in six years. Earnings per share have doubled over the same period.

Airbus is one of the group's key customers

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A large global footprint

Hexagon has two divisions: Geospatial Enterprise Solutions (GES), accounting for 48.4%of sales, and Industrial Enterprise Solutions (IES) with 51.6%. Worldwide sales are evenly spread between the three main world regions: 34% go to the Americas, 38% to Europe, the Middle East & Africa and 28% to Asia (China 15%). Sales are spread over six main sectors, with surveying accounting for 21%, power, energy and mining 17%, electronics and manufacturing 17%, infrastructure and construction 14%, automotive 11%, and aerospace and defence 10%. The public safety sector comprises most of the remaining 10%.

This wide geographic and sectoral spread of sales ensures stable sales and earnings since a recession in one region or sector is compensated for by growth in another. In the fourth quarter of 2018 double-digit growth was recorded in Russia, Eastern Europe, South America, India and Japan while the Middle East contracted and Western Europe grew by 5%.

Hexagon introduced several new products last year, including an anti-jam antenna for offshore oil and gas platforms to nullify jamming and interference that can overpower satellite signals. Then there is a next-generation airborne mapping system, Leica TerrainMapper, used for forestry monitoring and infrastructure planning.

Going shopping

Hexagon has complemented its own product and technology range with takeovers. The ten acquisitions completed in 2018 included Nextsense of Austria, AutonomousStuff from America and Bricsys of Belgium. Nextsense specialises in non-contact profile measurement and surface inspection, while AutonomousStuff is a leading supplier of integrated autonomous vehicles to 2,500 customers worldwide.

Bricsys develops computer-aided design (CAD) software for collaborative building design. Bricsys adds to Hexagon's existing structural and piping design range to enable the company to offer an end-to-end platform covering conceptual design, CAD, building information modelling, collaboration tools, project and cost controls, and progress documentation. In a full year Nextsense should add revenue of €16m, AutonomousStuff €51m and Bricsys €16m. All three are therefore small but important additions to Hexagon's range of products.

A highly profitable performer

Hexagon's 2018 revenue reached €3.76bn, with 8% organic growth at constant exchange rates. Earnings before interest aand tax (EBIT) were €929m, producing an excellent operating margin of 24.7%. The margin rose to 26% in the last quarter of 2018.

The balance sheet is in solid shape. Interest-bearing debt was €2.36bn with cash of €395m, giving net debt of €1.96bn or 2.5 times free cash flow of €789m. Net interest on debt was only €23m. A dividend of €0.59 was declared for 2018, giving a yield of 1.4% at the recent share price of €41.6. Hexagon's first-quarter results were announced on 7 May and showed sales growth of 10% from the first three months of 2018. Part of this growth came from acquisitions; organic growth hit 4%.

Overall growth would have been 17% had the safety & infrastructure arm of GES sold as much as last year rather than 17% less. Hexagon is taking action to stabilise the division in the second quarter and regain growth later this year to raise the overall organic growth rate substantially. Risks include the possibility that this could take longer than expected, while the US-China trade dispute could hamper growth.

Hexagon's three acquisitions in the first quarter of 2019 were Thermopylae (mapping for US defence and intelligence customers), J5 (industrial operations management software) and Etalon (smart factory systems). These and other 2019 acquisitions will drive growth. New launches in the January-to-March period included products for mine operations management, testing and simulation of autonomous driving systems, and three-dimensional long range laser scanners. Analysts predict earnings per share (EPS) of SEK26.2 for 2020 (compared with SEK20.9 for 2018), giving a forward p/e of 16.8. Hexagon is a diversified digital engineering company with an excellent record.

Hexagon AB (Stockholm: HEX AB)

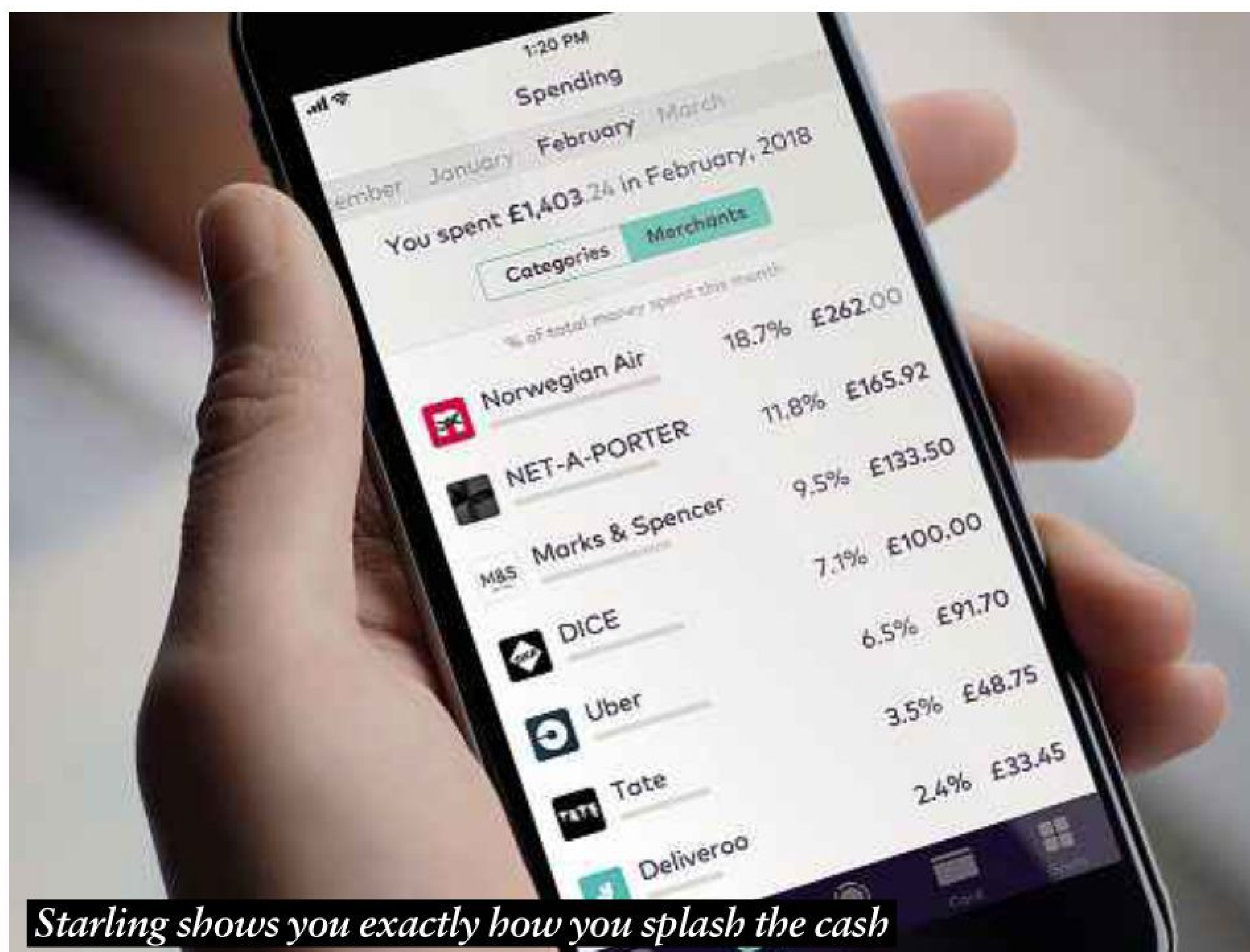
Investment measure		Investment ratio	
Market Cap	SEK157bn	P/E (2020)	16.8
Share price	SEK441.3	Net debt	€1.87bn
Results	**2017**	**2018**	**Change**
Turnover	€3.45bn	€3.76bn	9%
Operating profit	€824m	€932	13.1%
Earnings per share	€1.84	€2.01	9.2%
Dividend per share	€0.53	€0.59	11.3%

How to monitor your money

Personal finance apps can be a very useful tool for tracking your expenditure

Sarah Moore
Investment editor

When it comes to organising our finances, some of us half-heartedly update an Excel spreadsheet every few months. Then there are those who know their account balances down to the penny. If you're more the former than the latter, there are several apps (there always are) designed to help you, or perhaps your children, keep track of your money.



Starling shows you exactly how you splash the cash

Breaking down spending

First, the apps offered by digital banks such as Monzo and Starling are very useful for seeing exactly what you're spending your money on. While you might think you keep a rough tally in your head of what you've spent week to week, it can be a shock seeing just how quickly trips to the local supermarket or meals out add up. These apps set out your spending and group it into categories such as "groceries", "eating out" and "bills". You can then easily look at the breakdown on your phone, which is a lot less hassle than logging into online banking and poring over your statements.

With Monzo, you can set budgets for different categories and send money back and forth between other Monzo customers' accounts. With both, you can request to round up transaction amounts, diverting the extra cash into a savings fund. What's more, the debit cards associated with these accounts tend to be good for overseas holidays, offering fee-free spending and withdrawals (though there may be limits).

Yolt offers many of the same features as the above apps, but rather than being linked to one current account it aggregates all your accounts in one place. The app, which is owned by Dutch bank ING, takes advantage of recently implemented "open banking" rules, which require banks to give third parties access to people's banking data. You can link up all of your bank accounts (as long as the bank is signed up to open banking), including credit card and saving accounts, as well as pension and investment funds.

Finally, if you're looking to take the "rounding up" feature a step further, you could have a look at the Moneybox app. As with Starling, it rounds up your purchases to the nearest pound. But rather than putting the difference into a savings account, Moneybox will invest it in a "cautious", "balanced", or "adventurous" way across a mix of cash, global shares and property equities from providers such as Fidelity and iShares. You can also choose to invest through an individual savings account (Isa). Note that this is probably only best for those looking to dip their toes into investing: as well as a fixed charge of £1 per month, you pay an annual charge of 0.45% of the amount invested. Then there's the cost of investing in the funds themselves. There are cheaper investment platforms out there for those looking to invest more proactively.

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3 **Gold is a hedge** - Gold has historically had a weak correlation to movements in the financial markets and is frequently used as a hedge against inflation or to offset falling stock markets.

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Income and growth in the bargain basement

A professional investor tells us where he'd put his money. This week: Simon Gergel, manager of The Merchants Trust, highlights three recent purchases

Our investment approach is to seek out high-yielding stocks that we believe can deliver a high income and an attractive total return. We consider three key aspects of a company. First, the fundamental strengths, notably the structure of the industry it operates in, the group's competitive position, balance sheet and cash generation, and also environmental, social and governance factors. Second, we gauge the valuation of the shares compared with history and other companies in the market. Finally, we assess long-term structural trends affecting the industry as well as shorter-term cyclical threats and opportunities. Ultimately, we are seeking sound businesses that are attractively valued and poised to benefit from cyclical or structural trends. Here are three we bought in the last financial year:

Cashing in on mass affluence

Wealth management group **St. James's Place** (**LSE: STJ**) boasts a strong and widely recognised brand and very high retention of client assets. Cash flows are highly predictable for a financials business, given the recurring nature of fee-earned income, notwithstanding market fluctuations. The business has a good track record of growth in fund flows, translating into cash available for distribution to shareholders and reinvestment.

"A shift out of final-salary pension schemes is boosting St. James's Place"

St. James's Place has been able to grow both the number and the productivity of its advisers effectively over the longer term. The firm benefits from a number of structural trends, such as a growing affluent population and increasing need for financial advice with a shift out of final-salary pension schemes among younger workers.

Strong foundations for growth

Keller (**LSE: KLR**) is a world leader in geotechnical engineering, or ground engineering, with about half the business in the US. It operates in a market where local knowledge and specialised equipment is critical, as ground conditions vary from place to place, but technical knowhow can be transferred from one region to another if necessary. Long-term growth is being driven by ageing infrastructure in the West, and growing urbanisation and increasing population density in large cities, especially in emerging markets.

In order to increase urban density and replace infrastructure, today's developers have to dig deeper and more complex foundations, and deal with increasingly challenging ground conditions. The valuation of the shares was very depressed last year, partly owing to a number of operational difficulties, but also because of its UK stockmarket listing. With less than 5% of sales in the UK, we thought the business was wrongly categorised as a UK construction business, resulting in an unreasonably low valuation.

New markets for a tobacco giant

Having owned no tobacco shares for almost a year, we bought back into **Imperial Brands** (**LSE: IMB**) last year after the shares had suffered a very significant de-rating. The business has a strong market share and generates substantial cash flows. Structurally, the industry is less attractive than some other sectors, with declining trends in smoking, though profits have grown historically and there are new, less harmful tobacco products that may bolster future growth. The valuation was extremely attractive and the dividend yield was high and growing.

If only you'd invested in...

Pets At Home (LSE: PETS) is the country's largest pet-supplies retailer. Its veterinary business has struggled in recent years, and online competitors have taken a slice of the retail market. But a restructuring seems to be bearing fruit, with the latest results coming in better than expected. Revenue increased by 6.9% to £961m in the year to the end of March, surprising the stock's many short-sellers, says Louisa Clarence-Smith in The Times. Rumours of a private-equity takeover have also boosted the shares, which have gained around 60% in the last year.

Be glad you didn't buy...

The AA (LSE: AA) is the UK's top provider of car breakdown cover, with 40% of the market, selling roadside assistance and insurance products to 13 million personal and business customers. Sales grew by 2% last year to £979m, but profit fell by 28% to £219m as the group struggled to cope with the £2.9bn debt pile bequeathed by its previous private-equity owners. Boss Simon Breakwell hopes new technology will turn the company around. But investors aren't convinced, and the AA remains one of the most shorted stocks on the market – it has halved in 12 months.

The humble introvert who made a billion

Amancio Ortega shook up the retail industry with his "fast-fashion" revolution. Now he's the richest man in Spain and has a property empire bigger than the Duke of Westminster's. Jane Lewis reports

Move over Hugh Grosvenor, there's a new European property king. According to Bloomberg data, the founder of Zara, Amancio Ortega, has quietly overtaken the real-estate heirs of London to hold the continent's biggest portfolio – with assets worth $13bn, compared with $12bn for the young Duke of Westminster and $7bn for Charles Cadogan. Not bad for a man who grew up so poor that there were periods in his childhood when he ate "only potatoes".

At 83, Ortega is Spain's richest man, with a fortune put at $63.6bn – most of it derived from his majority stake in Zara's parent Inditex, the world's largest fast-fashion operator. For some years Ortega's wealth managers have been scrambling to diversify his wealth, says The Economist. Property was the natural choice for a mogul who likes an investment "he can touch". And of late the chief target of Ortega's investment firm, Pontegadea, has been the US, where he has spent $3bn over the past six years – typically on landmark properties in key cities. Like many multibillionaires, he mostly pays in cash.

How he turned fashion on its head

Inditex is still based in A Coruña, the Galician port on Spain's rocky Atlantic coast where Ortega grew up and opened his first factory in 1963. The now sprawling complex is where more than half of the group's garments are still cut and processed, says The Sunday Times. Sparsely populated Galicia has a distinctly "humble" culture that Inditex insiders say has "become part of the company's DNA". Certainly, Ortega's "beginnings are as humble as they come". The son of a railway worker and a housemaid, he started work as a tailor's assistant at 14, graduating to become a shop manager before taking the leap into manufacturing at 27. Focusing initially on bathrobes and dresses, he opened his first retail store in 1975. He planned to name it after a favourite film, *Zorba the Greek*, but a bar down the road was already using the name. "Having already made the moulds for the sign, Ortega chose a name that would keep as many letters as possible: Zara."

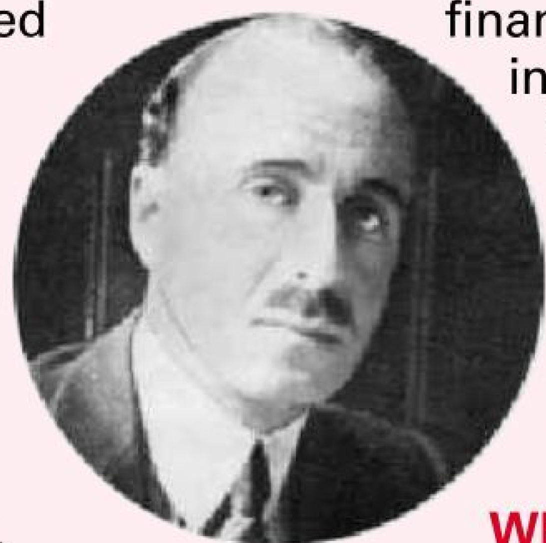
Right from the start, Ortega turned the fashion industry's established *modus operandi* on its head. Rather than deciding what people should wear, then trying to persuade them to buy it, he asked shoppers what they wanted and designed the products accordingly. Before a global push in the 1980s, Ortega built a pioneering system linking Zara's talented young designers with its factories, warehouses and stores. It was the start of a fast-fashion revolution that left rivals trailing. These days, garments "fly from the design room to the shelves of stores in New York and Tokyo within four weeks".

> *"He has spent $3bn on US real estate, mostly paying in cash"*

In 2008 Inditex – whose other brands include Pull&Bear, Massimo Dutti and Bershka – overtook Gap to become the world's largest clothes retailer by sales; in 2011, it usurped Banco Santander as the biggest company in Spain. Success has posed problems for Ortega, "whose leadership style appears to favour extreme introversion", says The Economist. He is so self-effacing that investors visiting in advance of the firm's 2001 float "awkwardly" confused him with other staff. He has always preferred to direct his firm while standing with colleagues in the design room – "he has never had his own office, desk or computer".

No model stays brilliant forever in business, and the challenge facing Inditex is how long it can keep growing, and at what pace, says the Financial Times. Ortega, who retired in 2011, is out of the daily fray, but still occasionally drops by the staff canteen. Described by one financier as "a man of the people", it must have come as a shock when Spain's Podemos party recently insinuated during a lament about inequality that he was "a terrorist". If so, he's been a remarkably productive one for Spain.

Great frauds in history... *Clarence Hatry*



©Alamy

Clarence Hatry started out as an insurance clerk before moving into business in World War I. His first success came with a reinsurance firm, the City Equitable Fire Insurance Company, which he eventually sold for more than four times his initial investment. During the 1920s he was involved in a string of companies, many of which went bankrupt. Chief among these failures was the 1923 collapse of the Commercial Corporation of London. However, Hatry's ambitions could not be contained, and by 1929 he owned a string of financial businesses, including a successful brokerage that issued bonds for local towns, undercutting established firms, and several investment trusts.

What was the scam?

Having financed consolidation within the jute-manufacturing industry and helping Debenhams to acquire a large number of independent drapery shops, Hatry tried to pull off a merger between British steel and iron concerns. Just as the deal was about to go through in the summer of 1929, one of the main backers pulled out. With his other investment trusts in severe trouble, due to a bad investment in a photo-booth company, which he tried to prop up, Hatry succumbed to the temptation to forge municipal bonds that his brokerage was underwriting, and used them to raise additional cash.

What happened next?

Despite the fraud, Hatry realised he would need even more money if the deal was to go through. After making a last desperate plea to the Bank of England for a bridging loan, Hatry was forced to declare bankruptcy. Hatry and his associates then confessed to the Director of Public Prosecutions and were immediately jailed, although one of the directors was able to escape to Italy. Hatry was sentenced to 14 years in jail at the subsequent trial.

Lessons for investors

The collapse of Hatry's empire was a major scandal that was later seen by many people as the trigger for the Wall Street Crash, which took place about a month later, though this seems unlikely. Hatry's demise provides a powerful lesson in the importance of cutting your losses. Had he not continued to invest in the photo-booth company he might have been able to complete the steel deal. At the very least, had he not resorted to fraud to save his business empire, he would have remained a free man.

MoneyWeek
WINE CLUB

Spectacular summer wines

I have majored on white wines this month, given the season, and yet the diversity of flavours on offer here shows not only the breadth of the Yapp cellar, but also that well-selected whites can cover almost all flavour-bases when it comes to food and wine-matching. One rosé and one red complete the picture and, for a French specialist merchant, it is exciting to bring Germany and Australia into the mix. However, there is an overarching theme this month which might not necessarily be apparent and I would like to bring it to your attention. While every wine is spectacular, they are all slightly off-piste in one way or another and this is what keeps one's brain intrigued and engaged as well as one's palate thoroughly satiated. Cheers!

Matthew Jukes

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Prices shown below are per case of six bottles. Wines are also available in a mixed case, giving you a bottle of each for **just £99** — it's a chance for you to try them all, and is the most popular choice with *MoneyWeek* readers!

~~£13.75~~ **£12.75**

2018 Reuilly Blanc, Gérard Cordier, Loire, France

From one of the lesser-known villages neighbouring Sancerre, I have followed Cordier's razor-sharp wines for nearly thirty years and this estate always rewards. Super-fresh and unnervingly adult in its dramatic delivery of acidity, this is a daring Sauvignon Blanc for those of you who find regular versions of this grape boring, overly tropical or just downright predictable. If you love action-packed, bone dry wines, this Reuilly is guaranteed to have you quaking, ever so slightly, in your boots.

£76.50 for six bottles

~~£24.75~~ **£23.75**

2017 Crozes-Hermitage Blanc, Alain Graillot, Northern Rhône, France

You will know that Crozes is a red wine region with only about 10% of production being white. I remember drinking my very first Graillot wine, back in 1988 at Willi's Wine Bar in Paris. I have been a fan since the very first molecule passed my lips. This sensational white, made from 80% Marsanne and 20% Roussanne, is sealed with a screwcap (hoorah) and it is deceptively rich, with restrained, super-classy fruit and a minute's long finish. This is your main course white for top flight fish dishes this month. It will perform at the highest level for two or three years, too, and the screwcap will keep this gradual ageing process under control, too.

£142.50 for six bottles

~~£15.75~~ **£14.75**

2017 Les Sorcières du Clos des Fées White, Côtes du Roussillon, France

Everything about this oddball wine is enchanting. The broomstick-riding fairy on the label, the 'white' glass bottle revealing the pale primrose hue and the uniquely engaging fruit notes which are both beguiling and curious, with a flavour which evolves in the glass. With no oak interfering with proceedings, it's the invigorating cocktail of white grapes that makes this wine so magical. Grenache Blanc, Vermentino, Roussanne and Macabeu combine to give a slippery, wild-flower and near-tropical theme. You'll be amazed at just how lip-smacking this wine is.

£88.50 for six bottles

2018 Riesling Trocken, Alte Reben, Reichsgraf von Kesselstatt, Mosel, Germany

~~£19.75~~ **£18.75**

I love von Kesselstatt wines. This one is a departure from their more familiar style of off-dry, grapey, soothing elixirs. Made from older vines (Alte Reben) and keeping the residual sugar level down to a rather pinched 7g/l, this is a genuinely dry and firm Mosel Riesling. This style is grabbing headlines in top German restaurants and wine bars. I love the tension here, but it is the counterpoint between the classic Mosel nose and then the racy, taut palate. Modern and thirst-quenching (I realise that this is a wine and not a beer), this is a perfect addition to your summer wine schedule.

£112.50 for six bottles

~~£13.65~~ **£12.65**

2018 Lirac, La Fermade Rosé, Domaine Maby, Southern Rhône, France

The vast majority of Lirac is red and, unlike its near neighbour Tavel, it is not very well known for making rosé wines. Maby is a superstar so it should come as no surprise to hear this wine is a thriller. Silky, clean and with discreet power just humming below the surface, this is a controlled, 'foody' rosé that really impresses the palate. Drink it with any dish you care to mention — it looks the part, too. Step away from the diluted, confected stuff seen on every street corner and taste a rosé with true attitude.

£75.90 for six bottles

~~£17.95~~ **£16.95**

2015 Forest Hill Estate, Shiraz, Mount Barker, Western Australia

Aussie Shiraz is, obviously, a world class category of wine, but WA is not necessarily a state you would head to in search of this grape. From the cool Mount Barker wine region, some 200 miles southeast of Perth, comes this spicy, tangy, wild-berry-soaked wine which has none of the fruit-sweetness that is often associated with Shiraz from South Australia. Shaped more like a northern Rhône wine, this is a classic partner to barbecued lamb with rosemary and other similarly carnivorous, but summery, dishes. It's Yapp's palate with an Australian accent and so, no surprise, it works perfectly.

£101.70 for six bottles

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Five of the best art hotels

From an 11th century chateau with a Picasso in France to a quirky pub in Aberdeenshire with a Man Ray

The Domaine des Etangs: "cosy, cerebral and cosmopolitan"

The Domaine des Etangs, Charente, France

The Domaine des Etangs is an 11th-century chateau set in 2,500 acres of farmland in Charente, says Cathy Adams in the Evening Standard. "As you roll up the driveway, the Domaine ticks all the medieval-castle boxes: turrets, stone walls, manicured green lawns, lakes." Inside, it's a different story, with "clean, bright, colourful and contemporary" interiors. "Marble Hermès tables feature glass bowls and the artworks frankly make the Domaine Charente's best gallery: a Picasso and a Matisse are among the collection." The gallery and two libraries are curated by Mayfair bookshop Heywood Hill.

With just seven suites, the chateau has a "cosy, cerebral and cosmopolitan" feel to it – "it's made for city people wanting to snap a Picasso before knocking back *Pineau de Charentes* and be at their desk by 8am on Monday". *From around €650, domainedesetangs.com*

Aman Sveti Stefan, Montenegro

"Heads up, art lovers," says Sean Newsom in The Sunday Times. This July, Aman Sveti Stefan in Montenegro is hosting an "eye-catching" art exhibition, featuring works by Picasso, Miro, Chagall and Warhol. Tickets cost £1,457 for two. "Well, not tickets exactly – rooms." The venue is a luxury resort where only the small number of guests get to see the exhibition. Time your viewing for when everyone else is lounging on one of the three private beaches and you could have Picasso's lithograph *Deux Femmes* and Chagall's *L'Offrande d'Élie* to yourself. "For hours." The exhibition runs until mid-August.

It will be "the icing on the cake" for the restoration of this "extraordinary" 500-year-old island village, which has hosted Novak Djokovic's wedding, as well as Robert De Niro and the Beckhams.

A stay here doesn't come cheap. But rest assured – "in this sleepy corner of the Balkans, Aman has created a soul-soothing masterpiece". *See aman.com*

21c Museum Hotel, Cincinnati

The 21c Museum Hotel in Cincinnati is hosting an exhibition through July called "Truth or Dare: A Reality Show", says John Oseid in Forbes. It is "a stunning presentation" of "playing with what is real and what is not". Brian Knep's *Healing Tiles* is comprised of "yellowy-greenish blobs that look like biological specimens that swirl in gorgeous patterns on a hallway floor". Check out the long vitrine in the lift foyer, stuffed with hundreds of camels and every camel-themed item you can think of. "Is it art? Who knows?" But after a stay here, conventional hotels will seem somewhat dull in comparison.
From around £150, 21cmuseumhotels.com

The Peninsula, Hong Kong

"When the wind blows in Hong Kong, a rainbow ripples in the arms of The Peninsula hotel," says John O'Ceallaigh in The Daily Telegraph. "Draped between its wings like laundry over rope", Janet Echelman's *Earthtime 1.26* art installation "is an immense, multicoloured and unfurled fishing net afloat" above the hotel's forecourt fountain, and it looks especially beautiful when spotlit at night.

It is the "showstopper piece" of the new Art in Resonance programme at the famous Hong Kong establishment, which will take place each spring to coincide with Art Basel Hong Kong. "Now when visitors approach The Verandah restaurant for breakfast, they can get lost in Chilean artist's Iván Navarro's *Home*." Or in the Peninsula Arcade, guests can sit in "the wonder room" by Shanghai collective Minax – a timber-framed cocoon where "meditative gong sounds play and the scent of wood wafts into consciousness". "It felt as though The Peninsula had bestowed a gift on the city." ***From HK$5,808, peninsula.com***

Fife Arms, Aberdeenshire

The "quirky" Fife Arms hotel in Braemar, Aberdeenshire, is owned by Iwan and Manuela Wirth of art gallery Hauser & Wirth, says Genevieve Fox in The Observer. The Elsa Schiaperelli-inspired pink art deco bar is surrounded by Man Rays and the baronial dining room features a mural by Argentinian artist Guillermo Kuitca. "We ate heartily, enjoying wood-fired dishes. Suffice to say, the food is sensational, the staff charming and chatty." As for the library, it "competes with the courtyard, home to a Louise Bourgeois spider, to be my favourite space in a hotel full of surprises".

Breakfast is "an enlivening experience, what with the outsize genitals of a bronze stag at eye level and the menacing presence of a Gerhard Richter eagle to my right". After a "rhapsodic kedgeree… we took a tour" of the area, stopping to admire the Linn of Dee, a local picnic spot. *From £250, thefifearms.com*

This week: houses with libraries – from an 18th-century hall in Nottingham with a castellated tower and a library

▲ **Little St Michaels, West Heath, Surrey.** An 1880s former school built in a Gothic style and surrounded by National Trust land. A minstrels' gallery serves as a library with full-height bookshelves, accessed by a wrought-iron spiral staircase. 5 beds, 3 baths, dining room, living room, indoor pool complex, 1 acre. £2.295m Jackson-Stops 01883-712375.

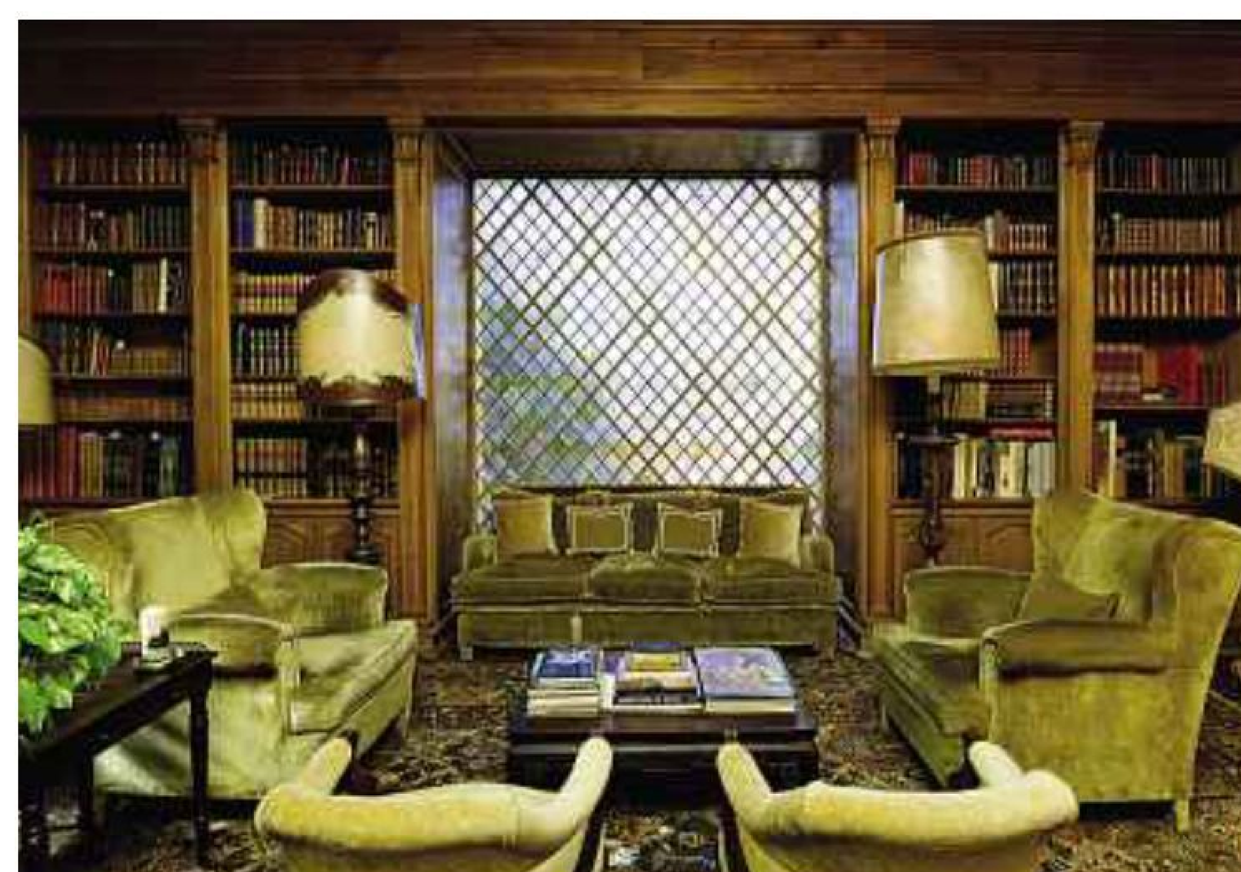
▶ **Bunny Hall, Nottingham.** A Grade I-listed, 18th-century hall with a castellated tower and a library with bespoke cabinetry that overlooks the gardens. It has period fireplaces, shuttered windows, and comes with two flats and an indoor leisure complex. 7 beds, 6 baths, 4 receps, orangery, 14.5 acres. £3.75m Savills 0115-934 8020.

▶ **Villa la Meta, Fiesole, Florence, Tuscany, Italy.** This grand villa was built in 1908 and is set on a hillside overlooking Florence. It has a library with carved wooden bookshelves, a large entrance hall with a carved stone staircase, ornate decorative ceilings, and period fireplaces. 12 beds, 15 baths, 4 receps, small annexe, orangery, three-storey farmhouse, gardens, parkland, 2.47 acres. €10m Knight Frank 020-7629 8171.

with bespoke cabinetry, to a Tuscan villa on the Fiesole hillside overlooking Florence

◀ **Parlava, Girona, Costa Brava, Spain.** This large village house is built from local stone and has far-reaching views across the surrounding countryside towards the sea beyond. It has an antique wooden front door, an old stone bread oven, and a grand, vaulted hall with a wooden mezzanine level that is used as a library. 12 beds, 8 baths, 2 receps, kitchen, billiards' room, dining terrace, swimming pool, vegetable garden, 1.07 acres. €3.8m Cluttons 020-7408 1010.

▶ **A villa in Lisbon, Portugal.** A palatial 1950s property designed by architect Fernando Silva. It comprises two villas linked by a colonnade and has a stone staircase and a library with floor-to-ceiling bookshelves. 12 beds, 15 baths, receps, gardens, 1.07 acres. €13m Fine & Country +351 214 643 636.



◀ **The Dower House, Sandway, Maidstone, Kent.** A 1950s country house with a 2-bed Georgian cottage and outbuildings set in gardens that include a lake with an island. It retains its original carved limewood fireplaces and 18th-century mahogany doors, and has a library that includes a concealed door hidden behind shelves of antique books. 4 beds, 3 baths, 2 receps, conservatory, walled garden, woodland, 13.24 acres. £1.65m Savills 01580-720161.

▲ **Hay Carr, Bay Horse, Lancashire.** A renovated, 1750s house set in 54.09 acres of grounds close to the Forest of Bowland. It has a modern extension accessed through a glazed walkway that leads to a library and a palm house. 5 beds, 5 baths, 2 receps, orangery, two 1-bed flats, 2-bed lodge, 2-bed cottage, summer house, tennis court, kitchen garden, formal gardens, paddocks, woodland. £3.95m Strutt & Parker 01423-561274.

▶ **The Old Manor House, Marazion, Cornwall.** A Grade II-listed, waterside property built in 1775 with far-reaching views of the coastline and St Michael's Mount. The house retains its original Victorian tiled floors, open fireplaces and wood panelling, and it has a library with a marble fireplace and bespoke, fitted bookcases. 7 beds, 6 baths, breakfast kitchen, 2 receps, games room, indoor pool, conservatory, enclosed courtyard, gardens. £2.5m Strutt & Parker 01392-215631.

Treat yourself to a bespoke bike

A made-to-measure cycle is not as expensive as you might imagine, says Mick Sharp

You almost certainly wouldn't get Jeremy Clarkson to agree, but there is a stack of evidence to suggest that cycling is "a good thing". According to independent pro-cycling organisation Cycling UK – which has championed the cause of cycling for 140 years – in excess of three million cycles were sold in 2016, with the UK accounting for more sales than in any of the other 27 European Union countries, apart from Germany (four million). If cycle use rises from its current level of 2% to 10% by 2025 and 25% by 2050, the cumulative benefits – in terms of savings from reduced congestion and pollution and accidents and improved health and so on – "would be worth £248bn between 2015 and 2050 for England".

If you're serious about biking then a made-to-measure machine is the way to go. Artisan makers Peter Bird and Robert Wade say their understanding of what is required of "a living, breathing bicycle" is second to none "because we not only design them, but also hand-build the frames – that's the difference". They will custom-build your bike at their Shropshire-based company to your precise measurements, down to the millimetre, to get the exact sizing of frame, seat-post, saddle, handlebar stem and crank length to suit you.

The duo's "exquisite attention to detail and the sheer creativity involved in their builds" is seriously impressive, says Oli Woodman on bikeradar.com. The frames are designed to fit you and respond to your riding style, and each comes with a solid silver head badge and a hallmarked solid silver number plate. "We encourage each customer to have as much involvement in the process as they would like," Peter Bird told Cyclist magazine.

This kind of specialist cosseting doesn't come cheap, but may not be quite as expensive as you'd imagine either – expect to pay in the region of £2,900 for your very special bicycle. There's also a waiting list to contend with, so plan ahead if you fancy treating yourself or a loved one on their next birthday.

See bicycles-by-design.co.uk

"We not only design them, but also hand-build the frames – that's the difference"

Wine of the week: an insanely well-made Kiwi sauvignon

2018 Te Whare Ra, Sauvignon Blanc, Marlborough, New Zealand
£15.15, lescaves.co.uk

Matthew Jukes
Wine columnist

Te Whare Ra (TWR) is located in the Marlborough sub-region of Renwick and is owned by Anna and Jason Flowerday. The estate was founded by Allen and Joyce Hogan in 1979 when they first planted vines on a small block of land in the heart of Marlborough – they were ahead of the trend, and long before Cloudy Bay and the like made it to our shores in the mid-80s, and so this is Marlborough's first ever boutique winery. Anna and Jason appeared on the scene in 2003, fresh from working as winemakers in Australia.

Truly great wines have a sense of place combined with texture, balance, fruit concentration and great length. These are qualities that cannot be added; they have to come from the vineyard, and TWR has first-class vineyards with old vines that are farmed organically and biodynamically and with minimal intervention in the winery, which has been specifically set up for small-batch winemaking. They are leaders in their field and their wines are staggeringly delicious.

My featured sauvignon is insanely well-made with bitingly fresh fruit and laser-driven accuracy on the palate. In addition, the 2016 pinot noir (£27.90) is one of the most beautiful on the palate in the region. Last week I wrote about Paringa's cool-climate shiraz from Australia – Anna and Jason make a Kiwi version: the 2016 syrah (£35) is one of the most lip-smackingly lovely syrahs on earth.

Matthew Jukes is a winner of the International Wine & Spirit Competition's Communicator of the Year (matthewjukes.com)

White Pearl

By Anchuli Felicia King
Directed by Nana Dakin
At the Royal Court Theatre until Saturday 15 June

White Pearl is a satirical comedy dealing with issues of race, culture and corporate backstabbing. Asian cosmetics firm White Pearl is facing a PR disaster when a racially insensitive commercial posted on the internet goes viral. As boss Priya's (Farzana Dua Elahe) efforts at damage control flounder, she searches for a scapegoat. Meanwhile, other members of the team face their own personal crises; Built (Kae Alexander) has to deal with a former lover who won't take no for an answer while Xiao's (Momo Yeun) father is being prosecuted back home in China.

The Royal Court has a reputation for putting on rather worthy plays, so it is good to see it try to combine a serious message with humour. This doesn't always sit perfectly – sometimes the humour is a little too broad, and at other times it seems as if it is deliberately pulling its punches. But most of the time the play delivers both style and substance with brio. The fast pace is helped along by projections of YouTube comments showing the progress of the video as it makes its journey through social media.

One of the major themes of the play is how the desire for quick profits can cause people to act in immoral ways, from pandering to the worst aspects of human nature, to cutting corners on a product's safety and engaging in fraud. Yet this is no simple anti-business polemic – even the cynical, mercenary Soo-Jin Park (Minhee Yeo) later demonstrates a more altruistic side, intervening to protect a colleague. This is a strong comedy definitely worth catching before its run ends.

A family fortune built on lies

All My Sons

By Arthur Miller
Directed by Jeremy Herrin
At the Old Vic until 8 June

A superb portrayal of Miller's most celebrated play

Arthur Miller seems to be having something of a moment, with no fewer than four of his plays appearing at London theatres this year. Having reviewed *The American Clock* (Old Vic), *The Price* (Wyndhams Theatre) and *Death of a Salesman* (Young Vic) on this page, it's only fitting that we also take a look at the Old Vic's production of *All My Sons*, which was recently shown in cinemas thanks to a one-off National Theatre Live screening. *All My Sons* was written in 1947 and is Miller's first, and perhaps most celebrated, play. It deals with issues of deceit, denial, and corporate corruption.

Businessman Joe Keller (Bill Pullman) is relaxing in his backyard having been exonerated of the crime of shipping defective cylinder heads for use in American planes during World War II. His Sunday morning is disturbed by the news that his son Chris (Colin Morgan) has invited Ann (Jenna Coleman), the daughter of his former business partner Steve, who is still in jail, over to his house, and intends to marry her. This is a problem because Ann used to be the fiancée of his other son, Larry, who was reported missing in action three years previously, and his wife (Sally Field) is still hoping that he will reappear.

The real strength of the play, which moves along quickly, is its depiction of how the façade of respectability Joe has built up since being released from prison gradually disintegrates as the characters reveal how much they know about what really went on at the factory. This process is sped along by the arrival of Ann's brother George (Oliver Johnstone), who, having spoken to his father, is now determined to stop the marriage. George's role as a catalyst for the revelation of the truth makes the play reminiscent of JB Priestly's classic *An Inspector Calls*, with the Keller family acting as a metaphor for Miller's lack of belief in the American dream.

"This is the strongest, most compelling of the four Miller adaptations. Grab a ticket before the run ends"

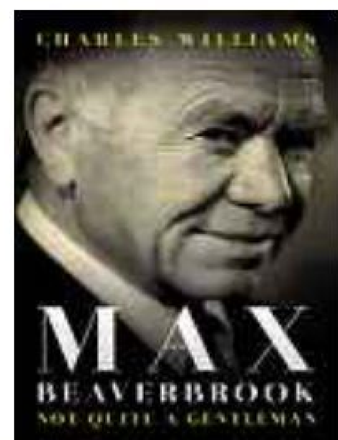
All four of the actors playing the main characters are excellent, especially Sally Field as the fierce mother, who attempts to bully her son into abandoning Ann. Coleman also portrays her character's inner determination well, while Pullman moves from geniality to defiance and then torment during the course o f the play.

Although Morgan (Chris Keller) initially seems the least complex of the four, he gradually comes into his own as his character is forced to confront the fact that his family's prosperity and good fortune has been built on a lie.

Overall, this is the strongest and most compelling of the four Miller adaptations. If you haven't seen it already you need to be quick, but it will be worth the effort.

Reviewed by Matthew Partridge

Book in the news... not remotely a gentleman



Max Beaverbrook
Not Quite a Gentleman
Charles Williams
Biteback Publishing (£25)

Max Beaverbrook was "widely disliked" in his lifetime as a newspaper owner and backstairs politician who used the Daily Express "to further his own interests", says Jane Ridley in the Literary Review. However, a "marked talent for making money" enabled him to make a rags-to-riches journey from a "hard, joyless, childhood" in the Canadian province of New Brunswick to a business empire, ministerial posts and the peerage. While this biography by Charles Williams does not manage to make Beaverbrook any more likeable, it does give "a full account of a remarkable 20th-century career".

The book might have more accurately been subtitled "Not Remotely a Gentleman", says Lewis Jones in The Daily Telegraph. Certainly, Williams' "thorough" biography "leaves one in no doubt" that Beaverbrook was an "ironclad, ocean-going monster". His fortune was built on "shady deals" and "changeable" political allegiances – he was much given to "grand visions" that were constantly changing, and "the only fixed point was his devotion to the Empire". The book focuses mainly on Beaverbrook's political and business career, but the author also "does his best" to untangle the press magnate's "squalid" love life, devoting no fewer than three chapters to his numerous affairs and liaisons.

Beaverbrook is remembered in Fleet Street "for telling reporters to keep it short" and Williams' editor "should have done the same", says Quentin Letts in The Times. Beaverbrook "lived through endless political crises", but the author of this biography seems most interested in the "tedium" of his subject's early dealings in the Canadian cement industry. While some context is "probably useful", the "humdrum" prose means that the early chapters of the book end up being "suffocatingly dull" in places. By contrast, the author "offers little" on personal moments, such as the death of Beaverbrook's son Peter. "I could have done with greater examples of the editorial bombast of Beaverbrook's newspapers. But on early 20th century Canadian cement investments, Williams is most unlikely to be challenged."

An obsession with protection

America's tech oligarchs are spending millions on bodyguards. It seems a mite excessive...

The Chinese have a saying that if you wait by the river long enough, the bodies of your enemies will float by. Still, for rich celebrities, the risks involved in waiting can be considerable, so you can forgive them for taking precautions. Given the amount of vitriol thrown in the face of Mark Zuckerberg, for his stance on issues ranging from privacy to Russian interference in US elections, it's understandable that Facebook has become increasingly concerned about the security of its leader. Recent filings show that the social network more than doubled what it spent on its CEO's security in 2018 to $22.6m, says The Guardian.

Zuckerberg: a prime target for kidnappers

©Rex Features

"Facebook more than doubled what it spent on its CEO's security in 2018 to $22.6m"

Even the $7.3m that Facebook was previously spending on Zuckerberg "probably surpasses the average annual compensation for S&P 500 CEOs", says Anders Melin for Bloomberg. But it's not a wildly excessive amount, given that he's the founder and leader of one of the world's most valuable companies. The fact that he is worth $71.3bn makes him a prime target for would-be kidnappers.

The cost of a security detail

Private security costs more than you'd think. "Being tailed by bodyguards in suits, shades and earpieces at all hours can cost as much as $1m... each 24/7 position requires four people who can each command six-figure salaries." What's more, they never work alone, so a detail for one executive might require a staff of about ten. Throw in security at multiple residences, transportation, cybersecurity and travel for the family, and it's easy to see how the total cost could easily run to more than $10m "just for a basic package".

Indeed, experts reckon that Facebook's spending puts Zuckerberg among the top five highest spenders on security in the country, says Joanna Pearlstein in Wired. Technology firms in particular seem to have an obsession with security – Amazon and Oracle spent about $1.6m each in their most recent fiscal years on protection for Jeff Bezos and Larry Ellison, respectively. Google's parent firm, Alphabet, paid more than $600,000 for CEO Sundar Pichai and almost $300,000 for former executive chair Eric Schmidt. In 2017 Intel spent $1.2m on protection for former CEO Brian Krzanich.

Still, even in this context, Facebook's security arrangements look a mite excessive. According to Rob Price for Business Insider, if Zuckerberg goes to a bar, his security team "will first sweep through to make sure it's safe". They will vet any new doctors, and assess his instructors if he wants to take up a new hobby. During company all-hands meetings, members of Zuckerberg's "Praetorian Guard" sit at the front of the room and "are dotted throughout the crowd, just in case an employee tries to rush him". There's a persistent rumour among Facebook employees that Zuckerberg has a secret "panic chute" beneath his conference room down which his team can evacuate him. And he is "driven everywhere, with the security team monitoring traffic and adjusting his route accordingly". But this latter development may have nothing to do with security as such. When he drove himself around, Zuckerberg was, apparently, a "s*** driver".

Quintus Slide

Tabloid money... expect the moon to host the next World Cup

● **My son, a Chelsea fan, wanted to go to the Europa League final in Azerbaijan, says Jeremy Clarkson in The Sun. It took two flights and a 13-hour train journey to get there. So it's no surprise that the stadium wasn't full. "I've seen bigger crowds in a library. And heard more noise." And that is the tragedy of football, because "for the game to be a colossus, it must have cash". And so a major European final is held in the capital of an oil-rich state that isn't even in Europe because "its government was able to offer more money to UEFA than a convenient location like, say, Belgium". And it's why the World Cup will be in the even more oil-rich state of Qatar. And why, "if oil is ever discovered on the moon, fans will be expected to go there".**

● Zamira Hajiyeva rose to infamy when the High Court issued an Unexplained Wealth Order after she spent £16m at Harrods. Where she got the money isn't a mystery, says Dominic Lawson in the Daily Mail – her husband is "thought to have misappropriated no less than $3bn" from the bank of which he was chairman. The mystery is what she spent it on. First, there was £32,000 of chocolates – "how is that even possible"? Then a mere £2.18 on a visit to the fromagerie – "that would barely pay for a tiny cube of cheddar on a cocktail stick". More puzzling still is the 70p she spent in the designer watch department. "You'd think it was Poundland," not Harrods' most expensive room. It "doesn't add up".

● A "confusing and meaningless" symbol of two green intertwined arrows is appearing on packaging, says Nada Farhoud in the Sunday Mirror. You may think it denotes that the packaging is recyclable or made from recycled materials. But no, all it tells you is that the company has paid in to a recycling scheme – a scheme that doesn't even operate in Britain. Manufacturers are using it "to trick us" into believing their products are "greener than they actually are". It's everywhere and its responsible for billions of wrappers ending up wrongly in recycling bins. "Recycling experts say it could be responsible for up to a quarter of useful waste being contaminated." Recycling is complicated enough already. This "utterly pointless symbol" should be binned.

©PA Images

Bridge by Andrew Robson

Losing the trump promotion

West tried the Ace of Clubs, but, not unsurprisingly given his length in his partner's suit, declarer ruffed. It was clearly best for declarer to start on spades right away, with a view to ruffing the third round in dummy. His low spade at trick two was won by West's ten and West found the best switch to a diamond. East won the king – now what?

Dealer East | East-West vulnerable

North: ♠ 93 ♥ 85 ♦ Q109542 ♣ K64

West: ♠ J105 ♥ J76 ♦ 63 ♣ AQ1085

East: ♠ AK4 ♥ 10 ♦ AK87 ♣ J9732

South: ♠ Q8762 ♥ AKQ9432 ♦ J ♣ –

The bidding

South	West	North	East
			1♣
4♥	pass*	pass	pass**

* Might bid Five Clubs.
** Might double – for take-out even at this high level. The lack of a fourth spade is the clincher to go quietly.

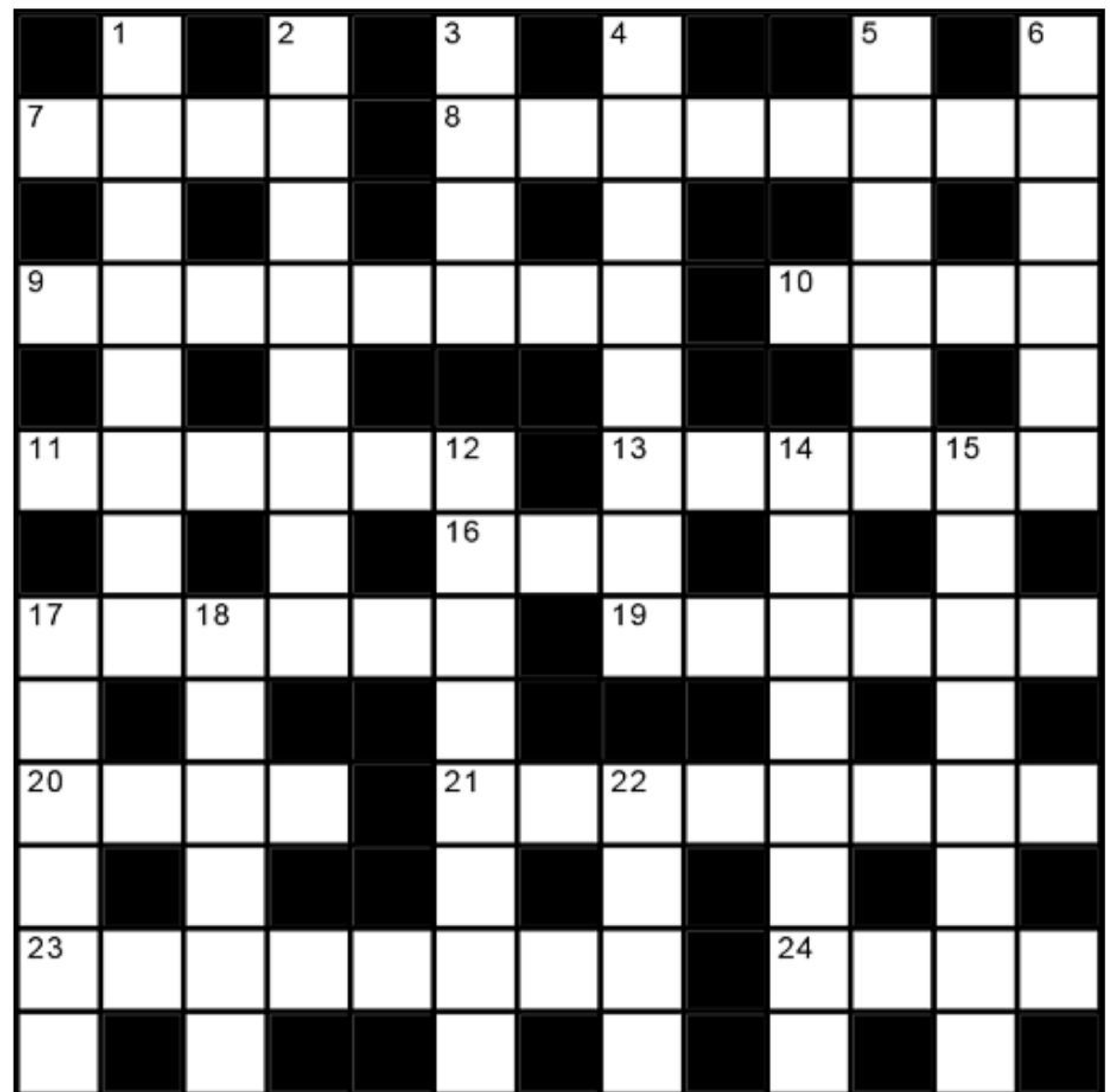
At the table, East switched to his singleton heart, in an attempt to prevent a spade ruff in dummy. Winning the ace, declarer now found the key play of leading the queen of spades. This prevented West, the defender with more hearts to lead, from winning the trick. East won the king, but could persevere only with the ace of diamonds. Declarer ruffed, ruffed a third spade, ruffed a club, drew West's two remaining trumps, and cashed his two long spades. Ten tricks and game made.

There is a winning defence for East after winning his king of diamonds. Instead of switching to a heart, probably futile as he holds no more hearts, he must continue with the ace of diamonds. Declarer ruffs and leads a second spade, but East wins, whereupon a third diamond promotes a trick for West's jack of hearts. If declarer ruffs low, West overruffs; if declarer ruffs high, West discards and waits for his trump trick. Down one.

For all Andrew's books and flippers – including his new hardback The Next Level – see andrewrobson.co.uk.

Tim Moorey's Quick Crossword No. 950

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 17 June 2019. Answers to MoneyWeek's Quick Crossword No. 950, 31-32 Alfred Place, London, WC1E 7DP.



Down clues are straightforward whereas across clues are mildly cryptic

ACROSS

7 Kitty in game like billiards (4)
8 Fixed a little time with TV presenter (2, 6)
9 Sort of artist by the way associated with flags (8)
10 Story featuring in pull-out at regular intervals (4)
11 US soldier hires padded jackets (6)
13 Winter transport provided by butcher, one might say (6)
16 Sort of shooter appears centrally (3)
17 Greek island with a type of Indian pastry (6)
19 Eccentric person coming from northern state (6)
20 First to exhibit rage in country (4)
21 One way of getting to the top in, say, Washington (8)
23 Limit arranged in deal with Ed? (8)
24 Misses prodigal son? Only partly (4)

DOWN

1 Portrait of lady with enigmatic smile (4, 4)
2 An intimate friend (5, 3)
3 University in Connecticut (4)
4 Prejudiced in favour of one side (8)
5 Small hot-tasting pod (6)
6 Scoundrel (6)
12 Trimmed piece of pork (5, 3)
14 Alienate (8)
15 Industrial city in south east France (8)
17 Drives above the limits (6)
18 Countless (6)
22 Perfect place (4)

Name ....

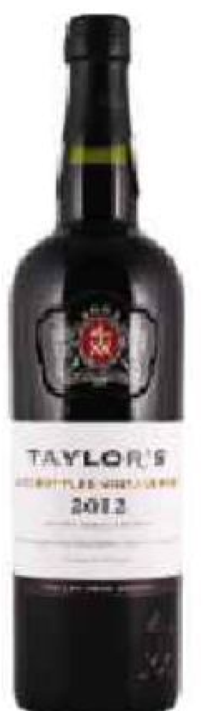
Address ....

Solutions to 948

Across 6 Aftershocks *afters + hocks* **8** Edge *(w)edge* **9** Strainer *anagram* **10** Worsted **12** Gents *hidden* **14** Witch *Which homophone* **16** Suppose *sup + pose* **19** Canoeist *anagram* **20** Nice *double meanings* **22** Chicken feed *double meanings* **Down 1** Hard **2** Athens **3** Dresden **4** Scribe **5** Asbestos **7** Herr **11** Oligarch **13** Mustang **15** Chopin **17** Pinter **18** Kirk **21** Coda.

The winner of MoneyWeek Quick Crossword No.948 is Mrs Sheila Wordsworth, Croydon.

Tim Moorey is author of How To Crack Cryptic Crosswords, published by HarperCollins, and runs crossword workshops (TimMoorey.info)



Taylor's, a family firm for 325 years, is dedicated to the production of the highest quality ports. Late Bottled Vintage is matured in wood for four to six years. The ageing process produces a high-quality, immediately drinkable wine with a long, elegant finish; ruby red in colour, with a hint of morello cherries on the nose, and cassis, plums and blackberry to taste. Try it with goat's cheese or a chocolate fondant.

Sudoku 950

		2	8		7	6		
9		3						
8				2				9
		4	1	3				
3			4		2			1
				5	6	4		
2				7				4
						7		6
		9	3		4	2		

To complete MoneyWeek's Sudoku, fill in the squares in the grid so that every row and column and each of the nine 3x3 squares contain all the digits from one to nine. The answer to last week's puzzle is below.

8	7	9	1	6	5	2	3	4
6	2	4	3	7	8	9	1	5
5	3	1	4	9	2	8	7	6
4	5	3	2	8	9	1	6	7
7	9	8	6	3	1	5	4	2
1	6	2	7	5	4	3	8	9
9	1	6	5	4	3	7	2	8
2	4	5	8	1	7	6	9	3
3	8	7	9	2	6	4	5	1

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Have we hit peak London?

Our columnist arrives in the capital and is baffled to find that everyone's got younger

Bill Bonner
Columnist

London: too chic, too fancy, too busy

There are three important decisions in life: what you do, with whom you do it, and where you do it. What. Who. Where. Keep it simple. And you only have a limited amount of time; you want to make sure you get those basics right. This week, we wonder, "where"?

We arrived in London last week and everything has changed there. We lived in London twice. Once, when the children were little, in the early 1990s. And again ten years later. We liked it both times. There was so much to discover. Coming from the bottom, we were eager to explore the top. We went to fancy restaurants, to Royal Ascot, to the Connaught Hotel and the Ritz. We dined in private clubs, too, such as White's and the Garrick. The latter was so exclusive, there was reputed to be a 20-year waiting list. But times change. So do places.

Now, London is almost too chic, too fancy, too busy and expensive. The tourist crowds are overwhelming. As baseball legend Yogi Berra might have said, no one comes here anymore; it's too crowded. Styles change, too. Our jacket, bought on Savile Row 25 years ago, and elegant in a tweedy, old-money sort of way, is now woefully out of style. We might as well be wearing spats.

Another off-putting feature of London is that people there have gotten so much younger. When we first visited 50 years ago, almost everyone was older than we were. How the population came to be so youthful, we don't know. But now, they are all younger. Tattoos and piercings are ubiquitous.

> *"No one comes to London anymore; it's too crowded"*

London is also very expensive. But prices go up and down. Wealth and prosperity are neither guaranteed nor permanent. Not to people. And not to places. London and New York prospered, from the latter part of the 20th century onwards, by exploiting the leading economic trend: financialisation. The win-win economy of making products for customers was replaced by financial wizardry, powered by some of the lowest interest rates in history.

The US introduced its new, fake money in 1971. Five years later, London's "Big Bang" – a trend of deregulation in the financial markets in the 1980s – freed up Britain's financial industry and signalled the beginning of a huge boom. The US created "money" out of thin air. Americans spent it on tomatoes from Mexico, BMWs from Germany, perfume from France, appliances from Japan, and geegaws from China.

Then what happened to the money? Much of it went to the financial centres, where helpful people in expensive suits bought stocks, bonds, and property, helping with mergers and acquisitions, and buybacks. Then the money found its way into houses in Chelsea, and private schools and expensive restaurants. The financialisation trend is far from over. But it may be losing its juice. High-end property prices are starting to lurch lower. Has London's peak of prosperity already passed? It will be years before we know for sure.

The bottom line

£22,000 The nightly cost of the penthouse suite at London's Corinthia hotel. Donald Trump booked an entire floor for his family for the duration of his state visit to the UK this week. Trump himself will stay at Winfield House, the US ambassador's residence in Regent's Park.

$18.7bn The amount Blackstone Group, an American private-equity firm, is paying for 1,300 industrial warehouses across the US from Singapore-based GLP. It is the biggest private real-estate transaction ever, and "a big bet on the continued explosion of e-commerce", says The Wall Street Journal.

£61,000 The sum awarded in an out-of-court settlement to Pok Wong, a student who claimed that Anglia Ruskin University had exaggerated the career prospects of her "Mickey Mouse" degree course. The university said it had paid out to prevent further escalation of legal costs and that the claim was "wholly without merit".

£4,500 The total prize fund for the 17th annual World Crazy Golf Championships being held in Hastings, East Sussex. The winner will take home £1,000 and the best novice will win £500.

£18m The sum the Post Office has spent on costs fighting court cases against its own postmasters. A total of 557 former village postmasters say they were falsely accused of theft after bugs in computer terminals caused shortfalls in their accounts.

£250,000 The prize for this year's *Britain's Got Talent* show, won by 89-year-old army veteran Colin Thackery (pictured), who sang *Love Changes Everything*. Thackery will perform for the Queen in the Royal Variety Performance. "I served my Queen for 25 years, and to think I'd sing to her would be amazing… I could die happy."

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