STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 21 / ISSUE 07 / 21 FEBRUARY 2019 / £4.49

SHARES

WE MAKE INVESTING EASIER

HOW TO GET A BETTER RETURN ON YOUR CASH

PLUS

MORE INVESTMENT TRUSTS **CUT PERFORMANCE FEES**

CAN EXPENSIVE SHARES EVER OFFER **GOOD VALUE?**

DIVIDEND DOUBTS BESET SSE • ASTRAZENECA **REVIVES SALES GROWTH**

Don't take your eye off the news flow

Stay on top of events for companies that are both thriving and diving

We regularly talk about the importance of having an open mind when it comes to investing. On a related note it is worth thinking about maintaining focus on news flow, particularly for companies having a run of bad luck. You run the risk of missing important information if you take your eye off the ball.

Investing is about amassing information and trying to process which bits can make a difference to a company's investment case.

Many investors form a negative view about a company and then start treating subsequent pieces of news flow with increasing disinterest. That provides an opportunity for savvy investors to quietly pick up stock should a bit of good news slip out unnoticed by the wider market.

DID YOU SPOT THE GOLDEN NEWS?

Centamin (CEY) is a perfect example of being under the market's radar. Last week it announced some very exciting exploration numbers on its Doropo project in Cote d'Ivoire where it is increasingly confident of being able to extract more than 2m ounces of gold. The miner hinted this could become its next organic development project.

Centamin has experienced numerous operational problems at its flagship Sukari project in Egypt which has put a dent in its share price and made investors less interested in the stock. There was only a modest market reaction to the Doropo update – but strategically this asset could be very important to the company.

Starting a second producing mine would diversify its revenue stream and geographical position, which is very important in an industry where governments have a habit of meddling with mine ownership status and imposing new taxes at the click of a finger.

Centamin is some way off from making a decision whether to develop Doropo but the latest update adds confidence, so do exploration results from another project in the country called ABC.

News flow is telling us to stay interested in Centamin despite operational challenges. And the cherry on top is takeover potential.

Sukari is a world-class project which is simply going through a bad patch. A suitor would take a long-term view and Centamin having a pipeline of interesting prospects in Cote d'Ivoire only increases its attraction to others.

Although its Cote d'Ivoire assets are still early stage, the latest results do show progress on Centamin's behalf which is something that won't go unnoticed in the industry.

Numis analyst Jonathan Guy says: 'With no blocking major shareholders and the gold sector undergoing a phase of consolidation, we see Centamin as one of the more likely targets for one of the major mining groups.'

DON'T BE BLIND TO THE RISKS

If we look at this topic from a different angle, investors often get carried away with a stock that is constantly delivering good news and they fail to recognise significant risks to the investment case.

Contracts for difference (CFD) provider **Plus500 (PLUS)** is a perfect example where its peers issued regulation-related profit warnings yet this company kept saying everything was better than fine. Reality caught up, profit forecasts have been slashed and its shares have sunk in recent weeks.

Anyone who paid closely attention to the CFD industry would have known for some time that the risks were there – because they didn't take their eye off the ball.

By **Daniel Coatsworth** Editor

BAILLIE GIFFORD EUROPEAN FUND

WITH AN ACTIVE SHARE OF 89%*,
THE EUROPEAN FUND HAS THE POTENTIAL
TO DELIVER SOME APPETISING RETURNS.

RIPE FOR THE PICKING.

The **Baillie Gifford European Fund** invests in a variety of high quality businesses. Its goal is to identify companies with attractive industry backgrounds, strong competitive positions and management teams whose interests are closely aligned with those of their shareholders. Once we find these firms we hold onto them for the long term – like owners not traders. Why not take a glance at the juicy figures in the table below?

Over the last five years the Baillie Gifford European Fund has delivered a total return of 46.6% compared to 29.8% for the sector**.

Standardised past performance to 31 December 2018**:

	2014	2015	2016	2017	2018
European Fund	-1.3%	11.1%	23.7%	23.4%	-12.4%
Average of IA Europe Sector Excluding UK	-0.9%	9.3%	16.4%	17.3%	-12.2%

Past performance is not a guide to future returns. Please remember that changing stock market conditions and currency exchange rates will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested.

Explore the difference, call us on **0800 917 2112**
or visit **www.bailliegifford.com**

Long-term investment partners

*Source: Baillie Gifford & Co, MSCI, relative to MSCI Europe ex UK Index as at 31.12.18. Baillie Gifford & Co, MSCI. **Source: FE, S&P, single pricing basis, total return as at 31.12.18. Your call may be recorded for training or monitoring purposes. Baillie Gifford & Co Limited is the Authorised Corporate Director of the Baillie Gifford ICVCs. Baillie Gifford & Co Limited is wholly owned by Baillie Gifford & Co. Both companies are authorised and regulated by the Financial Conduct Authority.

Contents

VIEWING SHARES AS A PDF?
CLICK ON PAGE NUMBERS TO JUMP TO THE START OF THE RELEVANT SECTION

02	EDITOR'S VIEW	Don't take your eyes off the news flow
06	BIG NEWS	SSE / HSBC / US GDP / Global dividends / UK Retail sales / BHP / Royal Bank of Scotland / Reckitt Benckiser / Micro Focus
10	GREAT IDEAS	New: Personal Assets Trust / Bigblu Broadband Updates: Clinigen / Cineworld / AstraZeneca / JD Sports
18	TALKING POINT	Can expensive shares ever offer good value?
22	MAIN FEATURE	Beat the banks: how to get a better return on your cash
27	ASK TOM	'Should I invest my pension in cash while markets are uncertain?'
28	INVESTMENT TRUSTS	BlackRock Throgmorton / Hg Capital / Pershing Square / Performance fees / How do fund managers pay for new investments?
34	FUNDS	How the next generation of fund managers are trained
38	AEQUITAS	Why investors need to start watching the race to the White House
41	EDUCATION	Forget non-farm payrolls, you need to focus on PMIs instead
44	INDEX	Shares, funds, and investment trusts in this issue

DISCLAIMER

IMPORTANT

Shares publishes information and ideas which are of interest to investors. It does not provide advice in relation to investments or any other financial matters. Comments published in Shares must not be relied upon by readers when they make their investment decisions. Investors who require advice should consult a properly qualified independent adviser. Shares, its staff and AJ Bell Media Limited do not, under any circumstances, accept liability for losses suffered by readers as a result of their investment decisions.

Members of staff of Shares may hold shares in companies mentioned in the magazine. This could create a conflict of interests. Where such a conflict exists it will be disclosed. Shares adheres to a strict code of conduct for reporters, as set out below.

1. In keeping with the existing practice, reporters who intend to write about any securities, derivatives or positions with spread betting organisations that they have an interest in should first clear their writing with the editor. If the editor agrees that the reporter can write about the interest, it should be disclosed to readers at the end of the story. Holdings by third parties including families, trusts, self-select pension funds, self select ISAs and PEPs and nominee accounts are included in such interests.

2. Reporters will inform the editor on any occasion that they transact shares, derivatives or spread betting positions. This will overcome situations when the interests they are considering might conflict with reports by other writers in the magazine. This notification should be confirmed by e-mail.

3. Reporters are required to hold a full personal interest register. The whereabouts of this register should be revealed to the editor.

4. A reporter should not have made a transaction of shares, derivatives or spread betting positions for seven working days before the publication of an article that mentions such interest. Reporters who have an interest in a company they have written about should not transact the shares within seven working days after the on-sale date of the magazine.

Watched pots do boil

Conventional wisdom has been around for ages, but people forget to challenge what it means. Or why we continue to repeat it.

At Orbis, we've always questioned common thinking to avoid sleepwalking into common results.

Watched pots do eventually boil, and they've served our clients well.

As with all investing, your capital is at risk. Past performance is not a reliable indicator of future results.

Orbis Investments (U.K.) Limited is authorised and regulated by the Financial Conduct Authority

Eyes on March update as dividend doubts beset SSE

The UK's second largest electricity and gas supplier is facing big questions

Investors in UK energy business **SSE (SSE)** face a nervous few weeks as they await details on future strategy that is widely expected alongside a trading update on 28 March.

The group is trying to sidestep a consumer supply market beset by political and competitive challenges.

SSE's original plan was to merge its consumer energy business – which supplies 5.88m homes – with Npower, spinning the combined business out into a separate unit and allowing the core business to concentrate on regulated electricity generation and renewable energy operations.

The plug was pulled on that plan in December thanks to a combination of vicious competition, volatile wholesale prices and UK price caps.

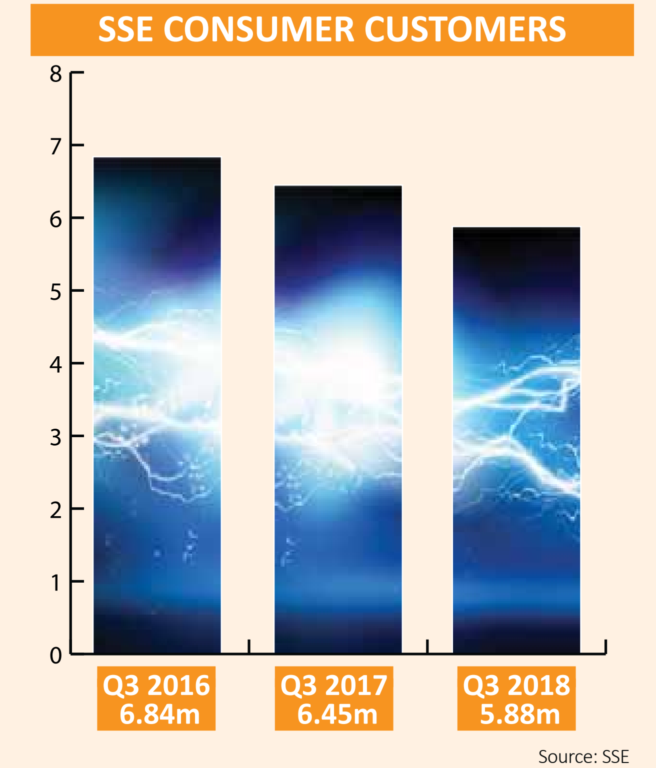
SSE has seen a rapid decline in domestic energy customer accounts in recent years as it has become very easy for consumers to switch providers. According to Ofgem data, SSE has seen its UK domestic market share decline from 20% in 2010 to 13% as of December 2018.

SSE now plans to demerge the business as a separately-listed company on the UK stock market or sell it.

If neither of those plans come to anything SSE could retain the consumer supply business as a separate, ring-fenced business unit within the group, although this remains very much a fall-back option.

Earlier this month (8 February) SSE issued its second profit warning in four months thanks to the removal of government subsidies as part of the GB Capacity Market Scheme. That programme awarded payments to energy suppliers who provided extra capacity during periods of peak demand.

The company had previously warned that the introduction of January's energy tariff price caps would slash operating profit margins at its retail arm from 6.8% in the year to 31 March 2018 to a range of 2% to 3% in the current financial year, and then fall further in subsequent years.

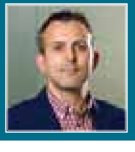


This has created huge concern over what has been one of the chief reasons to own the shares – reliable dividends.

SSE has reiterated its intention to pay a 97.5p per share dividend for this full year, implying an 8.1% income yield based on the current £12.06 share price.

This is despite the company confirming earnings per share in the 64p to 69p range – much lower than the dividend payment.

Analysts have already anticipated lower dividends in the future, with 80p per share expected for the 12 months to 31 March 2020, according to consensus forecasts.



By **Steven Frazer** News Editor

Is HSBC's 6% yield enough compensation for disappointing results?

There is no growth in the dividend as 2018 numbers come in short of expectations

Banking giant **HSBC (HSBA)** may be maintaining its dividend despite sub-par 2018 results but does the admittedly generous yield make up for this lacklustre showing?

Both revenue and profit were around $1bn short of expectations in 2018 thanks to a tough end to the year linked to global trade concerns, weak financial markets and rising impairments.

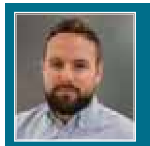
A 6% yield based on consensus forecasts may look attractive but there appears to be limited appetite to increase dividends.

Jefferies analysts Joseph Dickerson and Aqil Taiyeb reveal their disappointment on this score by saying: 'Prospects for enhanced capital repatriation against slower growth prospects have formed the key part of our constructive stance on this name and this aspect of our thesis is clearly not playing out.'

One area in which the firm's struggles really show up is its jaws – comparing growth trends in income and operating expenses. Despite targeting a positive figure by the end of 2018 this came in at -1.2% for the year.

A renewed commitment to achieving positive jaws in 2019 may not carry much water with investors given the failure to deliver last year.

Chief executive John Flint may only have been at the helm for a year, but he may start to come under pressure unless the bank's performance improves.



By **Tom Sieber** Deputy Editor

Is the US about to deliver a growth shock?

Postponed GDP estimate follows the worst retail sales figures in nearly a decade

DELAYED FIGURES on US GDP growth for the fourth quarter of 2018, now scheduled for 28 February, could provide a jolt to financial markets.

Thanks to the shutdown in Washington a series of financial reports produced by federal agencies have been held up, including GDP estimates from the Bureau of Economic Analysis.

Ahead of the release economists at investment banks JPMorgan and Barclays cut their forecasts for annualised growth in the final three months of 2018 from 2.6% to 2%, and from 2.8% to 2.1% respectively.

The downgraded expectations followed an alarming set of US retail sales figures (14 Feb). Sales fell 1.2% in December which represented the largest monthly decline in nine years. Consumer spending really matters as it accounts for the majority of overall economic activity in the US.

How global markets have performed year-to-date

- NASDAQ 100 (US) **+11.5%**
- S&P 500 (US) **+10.7%**
- HANG SENG (HONG KONG) **+9.2%**
- DAX (GERMANY) **+6.9%**
- FTSE 100 (UK) **+6.7%**
- NIKKEI 225 (JAPAN) **+6.4%**

Source: SharePad, 19 February 2019

A weaker than expected performance from the US economy would almost certainly elevate fears over global growth and could wreck a decent start to the year for global equities.

Retail sales figures return to form in January

ONS retail sales figures provide grounds for encouragement, though the nation's shopkeepers remain cautious

UK retail sales bounced back by a greater degree than expected in January according to the Office for National Statistics (ONS), bucking the trend of disappointing UK data and providing a welcome boost for the nation's first quarter growth prospects.

Retail sales volumes spiked 1% month-on-month and rose 4.2% year-on-year. The latter metric represents the best annual growth rate since December 2016.

This provided some welcome relief following disappointing fourth quarter sales, constrained by a muted run-up to the festive season.

Significantly, the ONS reported bumper demand for discounts across clothing and food as shoppers hunted down bargains in the January sales ahead of Brexit.

There was a boon for supermarkets with the quantity of food bought in January up by 3.2%, returning to the strong growth witnessed last summer.

One twist in the tale was that online sales as a total

of all retailing decreased to 18.8%, down from the 19.8% reported in December 2018.

Retailers will be cautious of consumers tightening their belts in the near term given tepid wage growth and the heightened uncertainties over Britain's exit from the European Union.

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

Global dividends expected to grow by 5.1% in 2019

Bright spots over the past year for income investors included North America, Japan and emerging markets

EQUITIES MAY BE going through a choppy period but one big positive for investors is the growth in global dividends which hit a new record in 2018 and is set to grow further in 2019 according to asset manager Janus Henderson.

The Janus Henderson Global Dividend Index shows total dividends in 2018 up 9.3% to $1.37tn and up 8.5% on an underlying basis (stripping out the impact of currency movements and special dividends) which represents the best showing since 2015. The report shows nearly nine out of 10 companies raised or maintained their dividends worldwide.

Some of the best growth came from Japan where dividends were up 10.5% on an underlying basis to $79.1bn, building on improvements in preceding years. This reinforces the argument that Japanese companies are becoming more shareholder-friendly.

Janus Henderson's head of global equity income Ben Lofthouse says dividend growth in 2019 is expected be more in line with the longer-run trend of between 5% and 7% at 5.1% but adds: 'Dividends in any case are much less volatile than earnings, so we remain optimistic on the prospects for income investors.'

2018 annual underlying growth rate

- Emerging markets 15.9%
- Japan 10.5%
- UK 8.8%
- North America 8.1%
- Asia Pacific ex-Japan 8.0%
- Europe ex-UK 5.4%

Source: Janus Henderson

BHP, Royal Bank of Scotland, Reckitt Benckiser and other news

We look at some of the past week's share price movers

Natural resources group **BHP (BHP)** disappointed the market with its half-year results as earnings missed expectations thanks to operational problems with several of its mines.

The FTSE 100 constituent should benefit from higher iron ore and copper prices in the second half of its financial year but the outlook is still highly sensitive to economic activity in China.

'Despite BHP's operating issues and capital intensive assets, the commodity price cycle should enable the company to grow free cash flow and deliver sizable capital returns,' says Jefferies analyst Christopher LaFemina.

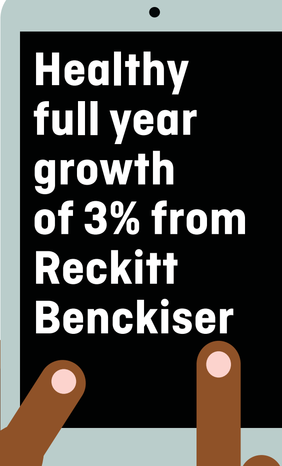
Royal Bank of Scotland unveils 7.5p special dividend

SHAREHOLDER REWARDS

Royal Bank of Scotland (RBS) got the UK banking sector's results season off to a solid start. Investors focused on the delivery of a special dividend of 7.5p per share instead of a disappointing margin performance and marked the shares higher to 255p, its highest level since September 2018.

On 18 February consumer goods giant **Reckitt Benckiser (RB.)** gave its shareholders a boost as it delivered full year growth of 3%, at the top end of its targeted range and a material step up from the 2% posted in the first nine months of the year.

The strong finish to 2018 reflected a big contribution from sales of baby formula in the US – where the company bought Mead Johnson for $16.6bn in 2017 – and demand for household products in emerging economies. Chief executive Rakesh Kapoor is set to retire at the end of 2019.



While guidance is for a stable final year under Kapoor with margins flat and growth of between 3% and 4%, speculation is likely to mount through the course of the next 12 months on how his successor might take the business forward.

Results from **Micro Focus (MCRO)** suggested the company may be on the cusp of putting the troubled integration of its £7bn acquisition of Hewlett Packard Enterprise's software arm behind it.

The company extended its share buyback programme by 28% to $510m as it bolstered the cash return credentials which generated strong interest in the stock in the first part of this decade.

While the Micro Focus ship is being steadied, casual dining firm **Restaurant Group (RTN)** is looking shaky following the surprise resignation of chief executive Andy McCue for personal reasons.

His exit is untimely when you consider the company has just completed the £559m acquisition of Wagamama. The deal attracted some criticism, particularly for the price tag, and the company has a job to do to demonstrate this was the right move for the business as well as building on the necessary improvements to its existing portfolio.

By **Daniel Coatsworth and Tom Sieber**

Personal Assets Trust could be a source of comfort in difficult times

The trust aims to avoid permanent capital loss while growing income over the long term

While equity markets have recently rallied, myriad uncertainties remain in the form of worries over global growth, the impact of trade wars and the effects of monetary tightening, meaning investors need to be on their guard.

Those of a more nervous disposition might be looking to add some defensive ballast to portfolios. We suggest you snap up **Personal Assets Trust (PNL)**, a defensive fund with strong capital preservation credentials, intent on avoiding permanent capital loss and with a focus on growing income over the long term through investments in sustainable business franchises.

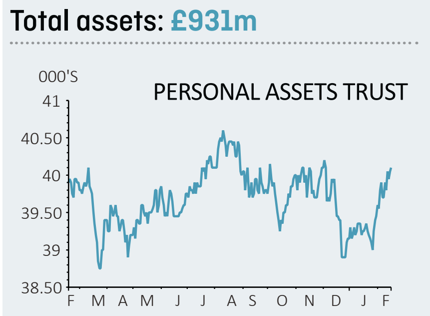
Personal Assets Trust is a self-managed investment trust, run by its board, with an absolute return mandate. Its ongoing charge is 0.89%.

The fund's stated objective is to protect and increase (in that order) the value of shareholders' funds over the long-term.

The quarterly dividend paying trust has a well-established zero discount policy, issuing shares at a premium to satisfy demand for the shares. Even though it currently trades at a modest 1.4% premium to net asset value, Personal Assets is a liquid trust

PERSONAL ASSETS TRUST ↗ BUY
(PNL) £401
Stop loss: £320

Total assets: £931m



that should tempt defensively-minded investors.

Troy Asset Management has been investment adviser to Personal Assets since 2009. Under the management of seasoned investor Sebastian Lyon, the fund has exhibited considerably lower volatility than the FTSE All-Share.

We believe Personal Assets Trust should continue to preserve capital in testing times while delivering attractive absolute returns over the long term.

Lyon's emphasis is on strategic asset allocation and stock selection. He is currently cautious which explains why Personal Assets Trust has material exposure to gold, the yellow metal and store of value boasting inflation-busting credentials, as well as cash and US and UK index-linked bonds.

This mixture means Personal Assets Trust is likely to lag a rising market, yet protect capital during periods of strife.

On the equities side, the focus is on excellent businesses trading at attractive prices. An owner not a trader, Lyon has a rigorous focus on quality, investing in businesses with high returns on invested capital which are sustained by durable competitive advantages.

Personal Assets Trust favours sectors with low cyclicality and capital intensity such as healthcare and consumer goods, while Lyon avoids the likes of airlines, miners and housebuilders and also shuns highly acquisitive and indebted companies.

The portfolio currently includes technology giant Microsoft, beverages behemoth Coca-Cola, food group Nestle and *PG Tips* brand owner **Unilever (ULVR)**. You will also get exposure to Warren Buffett's Berkshire Hathaway investment vehicle.

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

A CONTRARIAN APPROACH CAN PAY DIVIDENDS

As contrarian investors, we prefer to plot our own course rather than follow the herd. We often speak about our quest to find 'ugly ducklings', companies that are shunned by others but offer a real prospect of improvement. And while the obvious upside to this approach is the potential for share price appreciation, it can also offer another valuable source of returns as unfashionable companies often have higher than average dividend yields.

Seeing the value in ugly ducklings

It goes without saying that the 'ugly ducklings' we choose are unloved, but we believe that they have the potential to improve their businesses. The ability to adapt and thrive over the longer term often comes down to how much flexibility or control the company has to make needed change. A sustainable dividend from such companies is attractive to us as it offers a return while we wait for our thesis to unfold.

Of course, not every investment in our portfolio pays dividends and we wouldn't necessarily overlook a prospective investment for that reason. A company navigating the low point in its cycle might opt to forgo a dividend to reinvigorate its business. This prudent approach can hasten the company's recovery and potentially allow more sustainable dividend payments to recommence. Indeed, a dividend reinstatement can be an important signal that the company's rehabilitation is gaining traction.

This scenario is currently playing out at Tesco, one of our biggest holdings. Tesco cut its dividend after a difficult period, during which profits fell and discounting rivals gained market share. Since then, the company has regained its footing, allowing management to reintroduce the dividend.

As long-term investors, we have time on our side as we wait for a nascent recovery to become established. Patience is key to contrarian investing. A certain fortitude is also required to withstand the anxiety and negativity of the market, while holding steadfastly to our convictions. But the potential pay-off can be more than worth the wait.

From sour grapes to an exceptional vintage

One of the most notable successes of this patient approach is Treasury Wine Estates, formerly the biggest holding in our portfolio. We invested in this company in August 2015, when it was very much out of favour. The catalyst for change was a new management team, whose strategy transformed the business from an 'ugly duckling' to an elegant swan, before we decided to sell our stake (or, to continue with the metaphor, it flew our nest) leaving a £39 million profit – almost three times our original investment. Not all of our investments are so fruitful but examples such as this demonstrate the potential pay-off from being patient.

Retail – down, but not out

An example of where we currently see unloved opportunities is the retail sector. The popular view is that the high street is on its last legs with several prominent names succumbing to difficult trading conditions in recent months. By contrast, some online retailers such as Amazon are hugely in favour.

> “a return while we wait for our thesis to unfold”

For some time, we've been sifting through prospective investments in the retail sector that meet our unloved criteria. One such company is Marks & Spencer, where we believe signs of improvement are starting to appear. Marks & Spencer has been revitalising its product lines, overhauling the pricing strategy and transforming its operations. While we wait for the company's improving prospects to be more widely recognised, the shares pay an attractive, sustainable dividend.

Enduring growth

Paying dividends to our own shareholders has also been part of our heritage of 132 years. We've recently increased the frequency of our dividend payment to quarterly, aligning more with the desires of the majority of our shareholders. One of our aims is to grow the dividend ahead of UK inflation and this is supported by a record of raising or maintaining our regular dividend at least each year since the Second World War. However, it should be remembered that dividends are not guaranteed and can fall as well as rise. ■

19 February 2019

High conviction, global contrarian investors

For more information visit
www.thescottish.co.uk
or follow
@ScotInvTrust
The Scottish Investment Trust PLC

RISK WARNING

Please remember that past performance may not be repeated and is not a guide for future performance. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations. You may not get back the amount you invest. The Scottish Investment Trust PLC has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns for shareholders. However, should markets fall these borrowings would magnify any losses on these investments. This may mean you get back nothing at all. Investment trusts are listed on the London Stock Exchange and are not authorised or regulated by the Financial Conduct Authority. Please note that SIT Savings Ltd is not authorised to provide advice to individual investors and nothing in this article should be considered to be or relied upon as constituting investment advice. If you are unsure about the suitability of an investment, you should contact your financial advisor. Issued and approved by SIT Savings Ltd, registered in Scotland No: SC91859, registered office: 6 Albyn Place, Edinburgh, EH2 4NL. Authorised and regulated by the Financial Conduct Authority.
Telephone: 0131 225 7781 | Email: info@thescottish.co.uk | Website: www.thescottish.co.uk

Bigblu's big broadband opportunity in the backwoods

Structural growth and limited competition could see its share price surge in time

Consumers want reliable, superfast broadband. That's no problem if you live in towns and cities but what about the thousands who live in the relative backwoods?

Bigblu Broadband (BBB:AIM) is part of the solution, not just in the UK but across mainland Europe, Scandinavia and Australia as well. From just £24.99 a month customers can jump onto the internet superhighway at average 12mbps with a 10Gb download cap.

Faster speeds and more data allowances are available on packages costing up to £69.99 a month, while it can connect you to any fixed line infrastructure that is available, and connect mobile phones to 4G networks.

The company buys satellite broadband and airtime from a selection of major partners, such as Eutelsat, SES and Viasat, and plugs homes, businesses, broadcasters, construction sites, even parts of the military, into its network.

With 113,000 subscribers, the company already claims to be the largest satellite broadband provider outside North America and the fourth largest in the world.

It believes 15% of homes in Europe alone can't plug into copper or fibre networks and across its entire estate it believes 500,000 people are potential customers.

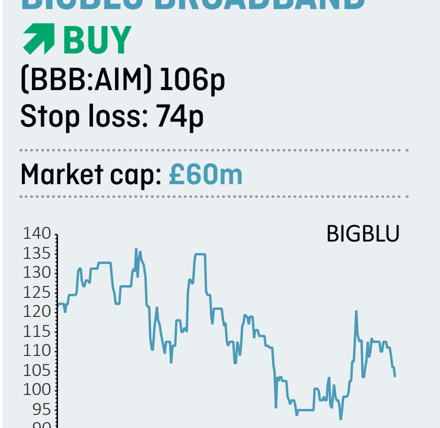
BIGBLU BROADBAND

BUY

(BBB:AIM) 106p

Stop loss: 74p

Market cap: £60m



Like many start-up businesses the breakthrough into profit has taken longer than planned as management concentrated on rapid expansion, including 20 acquisitions. But the focus is now very much on organic growth, margin improvement and turning profit into cash.

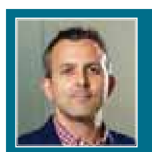
The business is still consuming cash at the moment but this should change over the next 12 to 24 months.

Analysts at stockbroker Numis anticipate a maiden £5.6m pre-tax profit in the financial year to 30 November 2020, and it is not out of the question for a small profit this year, if things go well. Numis currently forecasts a £700,000 loss.

Readers may be interested to note that respected hands-on activist investor Christopher Mills has a major interest. Mills has a long track record of shaking up poorly performing smaller businesses through his Harwood Capital vehicle. Harwood is Bigblu's largest single shareholder with a 23.3% stake.

With no listed peers getting a handle on valuation is tricky. Numis uses a complicated discounted cash flow calculation and analyst John Karidis estimates a 230p per share underlying share price valuation.

Bigblu is still unproven and that makes it a riskier investment. But this looks to us like a structural growth opportunity with little or limited competition at present, making it one that could reward early investors.



By **Steven Frazer**
News Editor

Demystifying investments for 150 years

F&C Investment Trust – the worlds oldest collective investment fund.

Whatever your investment goals contact us to help you achieve them. As with all investments, the value can go down as well as up and you may not get back your original investment.

To find out more:

- Call BMO Investments **0800 915 6016** quoting 18PFC/1 (weekdays, 8.30am – 5.30pm). Calls may be recorded.
- Contact your usual financial adviser
- Visit **fcit150.co.uk**, or search for 'F&C Investment Trust'.

Please read our Key Features, Key Information Documents and Pre-sales cost disclosures before you invest. These can be found at bmoinvestments.co.uk/documents.

F&C Investment Trust – pioneering 150 years ago, pioneering today.

© 2019 BMO Global Asset Management. All rights reserved. Issued and approved by BMO Global Asset Management, a trading name of F&C Management Limited, which is authorised and regulated by the Financial Conduct Authority. CM15222 (01/19) UK.

CLINIGEN
(CLIN:AIM) 925p

Gain to date: 4.3%

Original entry point:
Buy at 865p, 11 October 2018

SHARES IN PHARMA firm **Clinigen (CLIN:AIM)** have shot up after it agreed to buy the US rights to Novartis' cancer drug Proleukin.

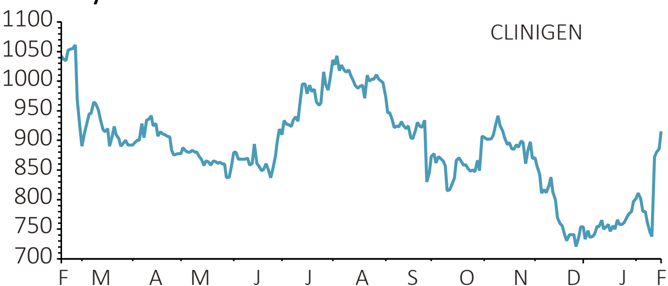
The deal, expected to complete in April, will enhance Clinigen's profit in the current financial year ending 30 June and is forecast to boost group earnings per share by at least 25% next financial year.

Proleukin is now Clinigen's biggest product and has the potential to significantly enhance earnings. The deal also means Clinigen has global rights to the drug, having bought the ex-US rights last summer.

The company is paying $120m, a further $60m in deferred payments one year after the transaction completes, and a possible $30m contingent on increased sales.

Numis analyst Stefan Hamill forecasts that Proleukin will increase earnings per share by 24% in the financial year to June 2021 and by 23% in the following year.

Following the acquisition, net debt-to-earnings before interest, tax, depreciation and amortisation at Clinigen is expected to rise to 2.4-times before falling to 2.0-times by the end of this year.

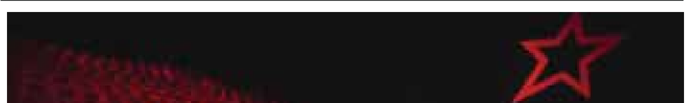


SHARES SAYS:
Clinigen's acquisition of Proleukin appears to be a wise strategic move that should support further growth for the company. Keep buying the shares.

CINEWORLD
(CINE) 260.6p

Loss to date: 1.4%

Original entry point:
Buy at 264.4p, 3 May 2018



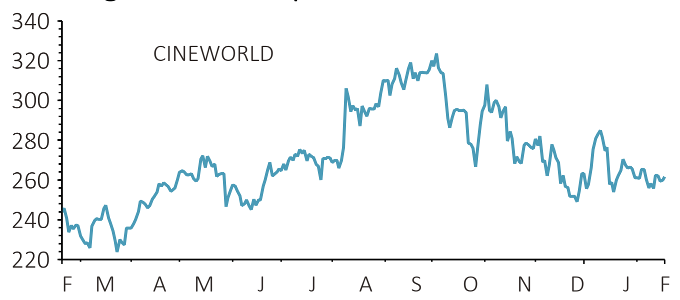
SHARES IN **Cineworld (CINE)** are currently sitting just below the point at which we said to buy last May. This is frustrating as the business has issued plenty of good news including a reassuring trading update last month.

Investment bank Berenberg says there are six reasons why the shares deserve another look. These are: a refurbishment programme helping to make sites more attractive; synergies from buying Regal Entertainment in the US; hopes that high levels of debt will be rapidly paid down; a strong movie slate in 2019; ongoing growth in the cinema market; and a cheap valuation.

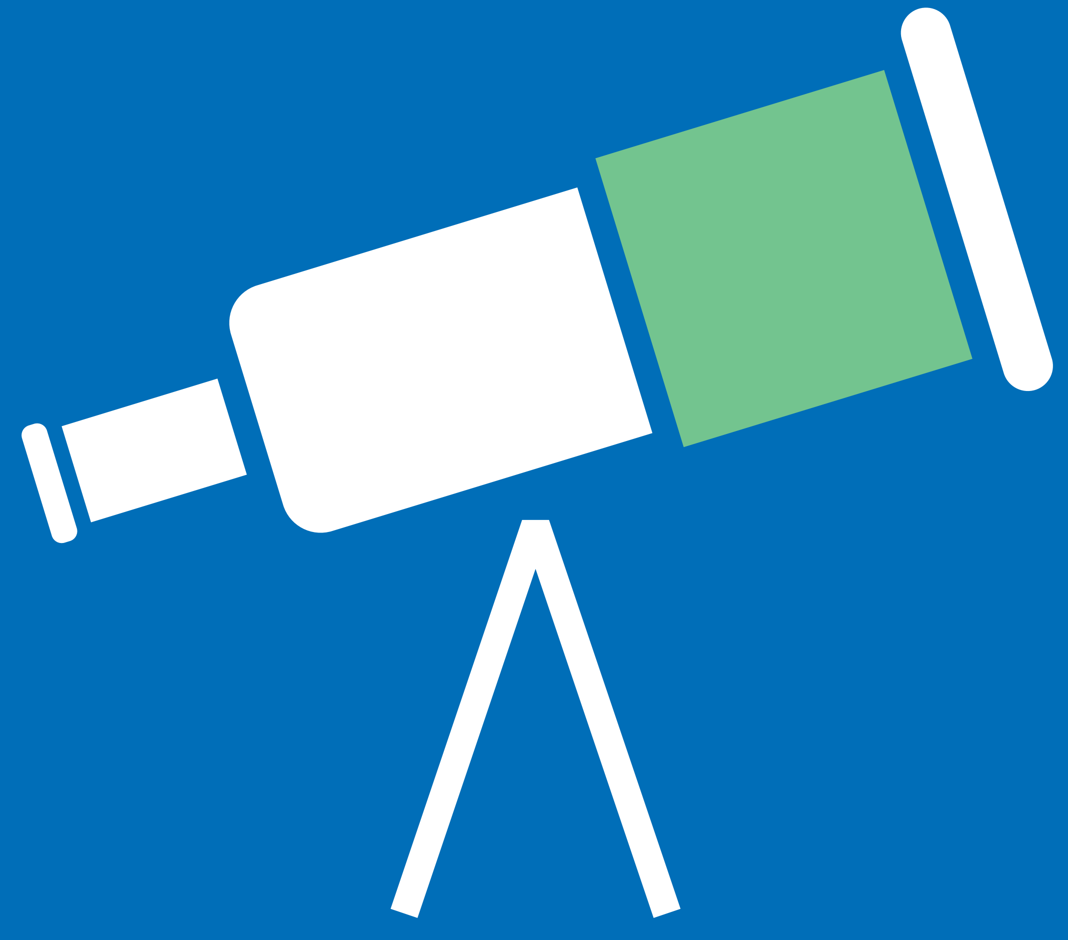
Cineworld currently trades on 7.4 times 2019's forecast EV/EBITDA (enterprise value-to-earnings before interest, tax, depreciation and amortisation), which is the lower end of its historical range according to Berenberg.

The shares are cheap because the market is primarily worried about the excessive borrowing levels – net debt was forecast to be $3.79bn at the end of 2018, more than four times EBITDA.

Ongoing reduction in debt will theoretically make the equity worth more, thereby driving a re-rating in the share price.



SHARES SAYS:
This is a great business yet the investment case remains high-risk due to the elevated debt levels. Anyone comfortable with the risks should buy the shares as a long-term holding.



To get more from your SIPP, take a broader view

Investing in Witan through a SIPP could be a wise move. We're not limited by the performance of one manager. Instead, we draw on the views of up to 12 experts so we can aim to provide long-term capital growth and increase your income ahead of inflation.

Don't miss the April 5 deadline.

Experience collective wisdom
witan.com

Witan Investment Trust plc is an equity investment.
Past performance is not a guide to future performance.
Your capital is at risk.

ASTRAZENECA

(AZN) £60.84

Loss to date: 3.4%

Original entry point:

Buy at £63.00, 15 November 2018

PHARMACEUTICAL GIANT **AstraZeneca (AZN)** beat product sales forecasts by 2% in the three months to 31 December, driven by new medicines, its oncology drugs portfolio and sales growth in China. Product sales grew 5% to $5.77bn in the quarter.

The results, published on 14 February, confirm that AstraZeneca achieved its first year of sales growth since 2009.

Oncology drugs were among the standout performers at AstraZeneca over the fourth quarter period with *Tagrisso* sales soaring 95% to $594m and *Lynparza* sales jumping 24% to $209m.

Tagrisso, which represents 10% of overall product sales, beat forecasts by 5% while *Lynparza* sales were 9% ahead of expectations, according to UBS analyst Jack Scannell.

In emerging markets, AstraZeneca's largest region by product sales, the company revealed 8% sales growth to $1.77bn over the period. China represents nearly half of emerging market product sales and performed well as revenue rose 17% to $948m in the fourth quarter, driven by new medicine launches.

AstraZeneca forecasts a high single-digit percentage increase in product sales in the year to 31 December 2019.

SHARES SAYS:

We are pleased to see AstraZeneca is gaining momentum with its oncology drugs portfolio and enjoying strong growth in China. Keep buying.

JD SPORTS FASHION

(JD.) 467.3p

Gain to date: 3.5%

Original entry point:

Buy at 451.3p, 12 July 2018

THE MARKET liked the news that **JD Sports Fashion (JD.)** had taken an 8.3% stake in struggling retailer **Footasylum (FOOT:AIM)** 'for investment purposes'. The FTSE 250 business says it is prepared to buy up to 29.9% of the company but it won't make a full takeover offer.

Footasylum was established in 2005 by David Makin, one of the two co-founders of JD Sports in the early 1980s. Makin was later joined by the other co-founder, John Wardle, in 2008.

'Talking to management at JD Sports they believe that the Footasylum business is currently undervalued but that the customer proposition remains sound, despite a difficult 2018,' says Shore Capital analyst Greg Lawless.

'In our view, the strategic stake acquired by JD Sports is about future positioning.'

SHARES SAYS:

Given Footasylum's patchy track record since floating, one has to wonder if JD Sports is taking too high a risk in spending money on this investment.

We don't want to see it become another Sports Direct (SPD) and buy up stakes in various troubled retailers. Instead, we would rather see it focus on the day job.

We retain our 'buy' rating on the stock but will be following the Footasylum situation very closely.

The value of shares in Templeton Emerging Markets Investment Trust (TEMIT) and any income from it can fall in value and investors may not get back the full amount invested. Performance may also be affected by currency valuations. There is no guarantee that TEMIT will meet its objective. Full details of the risks of investing in TEMIT can be found in the Risk and Risk Management section of the current TEMIT Annual Report.

Issued by Franklin Templeton Investment Management Limited (FTIML), Cannon Place, 78 Cannon Street, London EC4N 6HL. FTIML is authorised and regulated by the Financial Conduct Authority.
© 2018 Franklin Templeton Investments. All rights reserved.

Can expensive shares ever offer good value?

The popular price-to-earnings valuation metric does not always tell the full story

As investors we're regularly told to buy low and sell high in terms of valuation. This line of thought often leaves people feeling nervous about buying shares on higher ratings, especially when market exuberance is in short supply.

For many investors, buying stocks on a price-to-earnings (PE) multiple in the high teens would be enough to cause a sweat. Paying more than 20 or 30-times might even prompt observers to question if the investor was delirious.

There is solid reasoning behind the buy low/sell high way of thinking. Logic suggests there should be more upside potential from shares on lower PE ratios because as a company's trading performance improves, the stock can enjoy the double-whammy of rising forecasts and an increased stock rating.

For example, a share priced at 100p and which is expected to produce 10p earnings per share would trade on a PE ratio of 10.

Let's assume business is going well, prompting analysts to increase their earnings forecast to 11p and the market is happy to pay a higher PE ratio of 11-times for the stock because of the stronger earnings outlook. That means the shares would trade at 121p which equates to a 21% increase on a 10% rise in earnings forecasts and stock rating.

FTSE 350'S TOP 10 HIGHEST/LOWEST PE STOCKS

	Share price	Forward PE	Total return 2018	5-year total return
HIGHEST 10				
Rolls-Royce	950.8p	67.3	-0.1%	1.7%
Hiscox	£15.32	37.8	-12.8%	97.7%
Hargreaves Lansdown	£16.58	30.3	4.8%	37.6%
Halma	£15.10	29.3	9.5%	170.0%
Segro	647.0p	28.9	3.2%	112.0%
Rentokil	354.1p	27.5	7.3%	196.0%
London Stock Exchange	£46.46	27.1	8.5%	172.0%
Croda	£51.60	26.9	7.8%	117.0%
Rightmove	473.1p	26.5	-2.6%	85.0%
Spirax-Sarco	£67.05	26.5	12.7%	138.0%
LOWEST 10				
Evraz	521.3p	5.3	65.4%	651.0%
IAG	651.8p	6.6	-0.6%	67.9%
TUI	810.9p	6.9	-22.7%	N/A
Barclays	157.27p	7.2	-23.7%	-27.1%
3i	936.4p	7.4	-11.3%	169.0%
Lloyds	£57.60	7.6	-19.2%	-14.0%
Aviva	422.25p	7.7	-20.3%	15.8%
WPP	839.4p	7.8	-32.4%	-18.9%
Taylor Wimpey	164.4p	7.9	-26.6%	78.3%
Barratt Developments	563.7p	8.3	-21.8%	74.4%

Source: SharePad

THE RISKS OF OWNING STOCKS ON A HIGH PE

Doing the maths on a higher-rated stock, you can see how they can be punished to a much greater extent than the level of earnings downgrades.

We will now use the example of a stock trading at 500p. It is expected to earn 20p per share and it is trading on a high PE ratio of 25-times.

The company goes through a tough patch which leads earnings per share forecasts to be downgraded by 10% to 18p. Importantly, the market is no longer prepared to pay a premium rating for the stock so it would be feasible to suggest the PE drops to 17-times.

If we multiply 18 by 17 we get a share price of 306p, which equates to a 39% share price decline on a 10% cut to earnings.

TAKING A LONG-TERM VIEW

You may conclude from this example that buying stocks on a high PE ratio is a bad thing. That isn't necessarily the correct answer.

A lot of investors are happy to pay a high rating for a stock if it has a good track record of solid earnings growth and/or it has a very attractive outlook in terms of potential for market share gains or accelerated earnings growth.

Some stocks can consistently trade on high valuations because they are premium businesses. As with all investments you need to look at them on a case-by-case basis.

'For us, what matters is the growth of future cash flows on a probability-adjusted basis,' says James Budden, director of

A Rough Guide to RATIOS

PE

Below 8 = very cheap*

8-12 = inexpensive

12-18 = moderate

18-25 = highly-rated

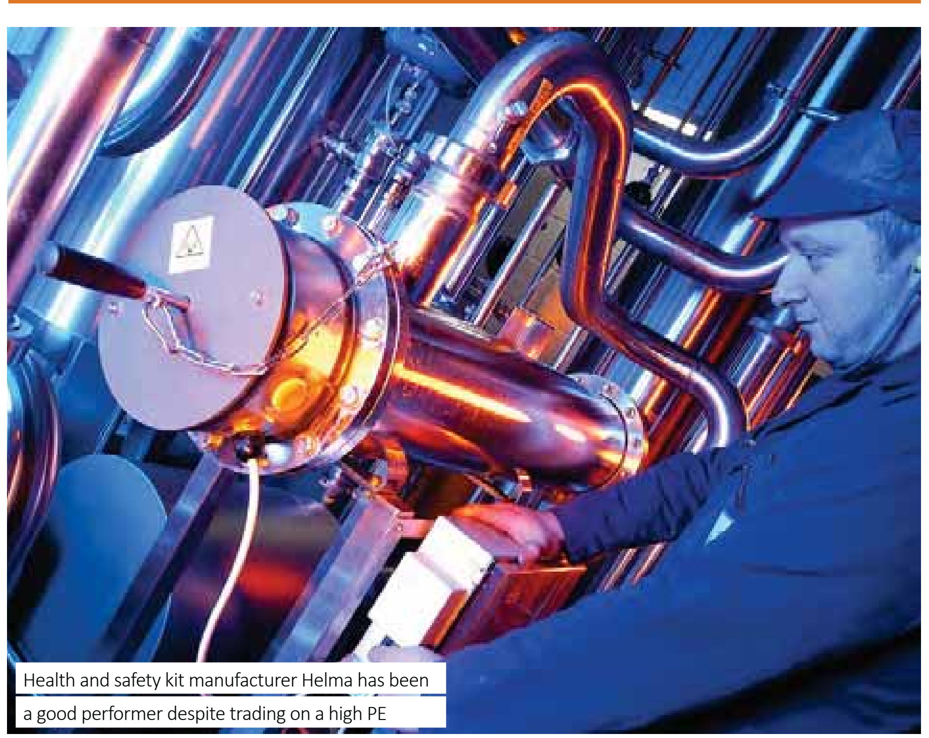
25+ = very highly-rated (or simply expensive?)

*There may be a good reason why something is cheap such as financial distress or the market does not believe current forecasts are achievable

Below 8 = inexpensive

8-12 = moderate

12+ = highly-rated



Health and safety kit manufacturer Helma has been a good performer despite trading on a high PE

marketing and distribution at fund management firm Baillie Gifford, the brains behind the popular **Scottish Mortgage Investment Trust (SMT)**.

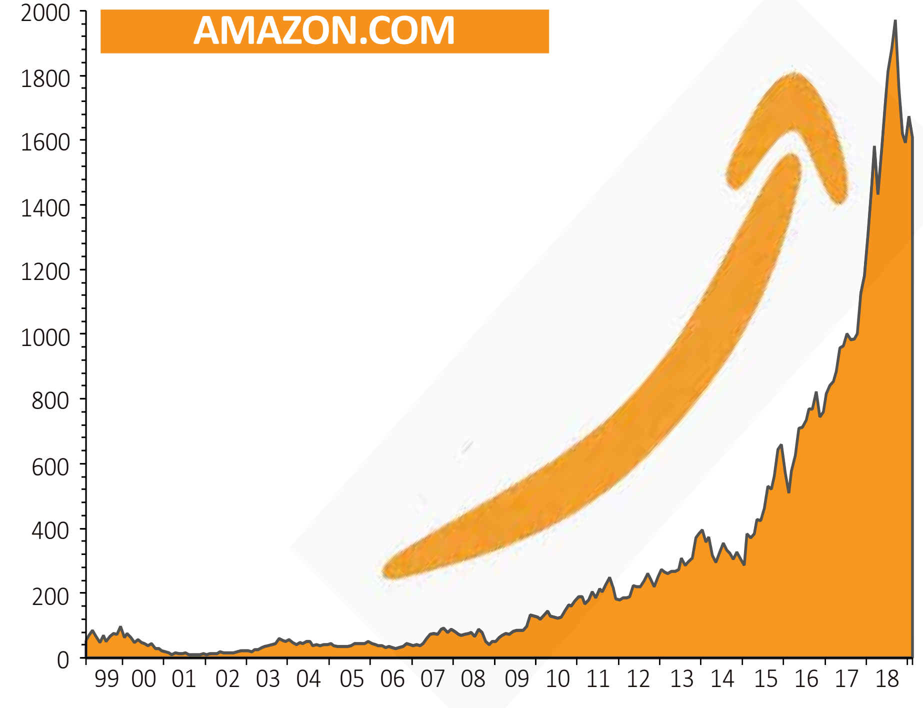
'Put another way it is all about valuing the potential size of the opportunity rather than focusing on earnings relative to the value of a company or its peers at one moment in time.'

This approach goes some way to explain why some of the most expensive-looking stocks on a PE basis are among the best performers.

Companies such health and safety kit manufacturer **Halma (HLMA)**, credit checking agency **Experian (EXPN)**, science equipment maker **Renishaw (RSW)** and property portal **Rightmove (RMV)** have a combined average total return record of more than 126% over the past five years.

High PEs are often a natural consequence of companies capable of keeping on growing over the longer-term, says David Stevenson, co-manager of **TB Amati UK Smaller Companies Fund (B2NG4R3)**, who adds that premium share price ratings can imply a quality business.

> Amazon exceeded $2,000 per share last year, becoming only the second trillion dollar company in history



'For example, five years ago Halma was trading on a PE of about 19-times – it's now about 30.' The stock has delivered total returns of 170% since 2014.

A 'PRIME' EXAMPLE

Online shopping giant Amazon is perhaps the 'prime' example of a stock that has historically traded on a high earnings multiple and whose share price kept going higher.

The share price stood at about $50 in 2003 when the retailer was just starting to make a profit. That implied a mind-boggling PE ratio of approximately 130.

The real value is in compounding total returns

It would have put the stock on many investors' bargepole list for valuation reasons. That would have been a mistake in hindsight.

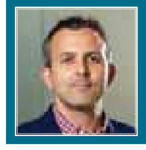
Amazon's earnings have gone from $5.26bn revenue and $40m net income in 2003 to $232.9bn revenue and $10bn net income in 2018.

The stock currently changes hands at $1,614. Amazon exceeded $2,000 per share last year, becoming only the second trillion dollar company in history (Apple got their first).

The emergence of structural growth drivers and disruptive business models using the internet create huge opportunities for asset-light businesses, ones that people will pay more for, according to Stevenson.

Structural growth refers to dynamic industries that do not rely on traditional economic cycles, things like online shopping, cyber security, cloud applications, data analysis, healthcare, and the regulation and compliance that modern industry requires.

The real value is in compounding total returns over years, concludes Stevenson.



By **Steven Frazer**
News Editor

HOW PE CAN REFLECT GROWTH AND SHARE PRICE RETURNS

HIGHER RATING, HIGHER EARNINGS GROWTH, HIGHER RETURNS

Let's run some imaginary numbers. Meet Racey plc and Steady plc, hypothetical businesses whose share prices are both 100p. Racey trades on a PE of 25. It is expected to grow earnings at around 15% a year over the next five years.

Steady's stock comes with a fair expectation of 7% annual earnings growth and changes hands on a PE of 15.

Run the numbers, presuming the PEs remain the same, and the relative share price performances would be very different.

	Racey plc	Steady plc
PE (we assume rating stays same)	25	15
Annual EPS growth	15%	7%
Implied share price gain over 5 years	**101%**	**40%**
EPS forward year 1	4.0p	6.7p
EPS forward year 2	4.6p	7.1p
EPS forward year 3	5.3p	7.6p
EPS forward year 4	6.1p	8.2p
EPS forward year 5	7.0p	8.8p
EPS forward year 6	8.0p	9.3p
Share price at start	100.0p	100.0p
Share price after year 1	115.0p	107.1p
Share price after year 2	132.3p	114.6p
Share price after year 3	152.1p	122.6p
Share price after year 4	174.9p	131.1p
Share price after year 5	201.1p	140.3p

Source: Shares

BEAT THE BANKS:
HOW TO GET A BETTER RETURN ON YOUR CASH

We look at the top rates for cash ISAs and a selection of lower-risk investment bonds

We're a nation of cash savers, with Brits putting more than 72% of their ISA money in cash last year, rather than investing it.

However, with interest rates having hit record lows over the past decade these savers are earning miserly returns on their pots. The Bank of England's base rate is currently 0.75% and the average cash ISA rate is 0.92% – far lower than the current rate of inflation, which sits at around 2%.

It is important to have a good chunk of cash put to one side to cover any emergency issues such as a broken boiler, a broken-down car or as support if you lose your job. Therefore finding the best return on your cash is equally as important as the hard work many people put into researching the best shares or funds for long-term investing.

This article will run through the available options and also show you how to beat the banks' low savings rates with a range of lower-risk investment options.

WHERE CAN I GET THE MOST BANG FOR MY BUCK?

The best deal you can get from a mainstream lender on an instant access variable rate cash ISA is 1.45% from Virgin Money, and you can transfer in an existing cash ISA.

You're only allowed to make two withdrawals a year, so it's not suited to someone who is likely to need regular access to the money. The account can also only be opened online. Someone who is able to save the full £20,000 ISA allowance will earn £290 in interest in a year.

If you want to go into a branch to open an account the best rate you'll get is 1.41% from Yorkshire

TOP FIXED-RATE ISAS

	OAKNORTH	SHAWBROOK BANK	COVENTRY BS	COVENTRY BS
RATE (AER)	1.75% (min £1,000)	1.91% (min £1,000	2.05% (min £1)	2.30% (min £1)
FIXED TERM	One Year	Two Years	Until 31 May 2022	Until 30 Nov 2023
TRANSFER ALLOWED?	Yes	Yes	Yes	Yes
INTEREST PAID	Monthly	Annually or monthly	Annually	Annually
PENALTY TO WITHDRAW	90 days' interest	180 days' interest	180 days' interest	180 days' interest
1 YEAR	1.75%	0.97%	1.04%	1.17%
2 YEAR	-	1.91%	1.54%	1.73%
3 YEAR	-	-	2.05%	1.92%
4 YEAR	-	-	-	2.01%
5 YEAR	-	-	-	2.30%

Source: moneysavingexpert.com

Building Society, which has branches around the UK. You can transfer other ISAs into this account but you can only make one withdrawal a year – making it even more limited than the Virgin account.

Elsewhere, Al Rayan Bank will pay 1.36% and has branches in a number of big cities around the UK. However, this bank is run to Islamic law and so this is an expected rate of return rather than a guaranteed interest rate.

The top cash ISA rate you'll get with a high street bank is 0.9% with Metro Bank, which you can open online or in branch, or you can get 0.6% with Barclays, Santander, TSB and Halifax – which is £120 on £20,000 of savings.

A lot of existing customers of these banks will assume they're on this rate, but most won't be. Many of these deals run for a year and then the interest rate plummets to rock-bottom levels, which is why much of our cash is dwindling in accounts paying next to nothing.

For example, HSBC pays just 0.55% as its standard interest rate, while Lloyds pays 0.35% and NatWest pays just 0.2%.

You can lock your money in to earn a bit of extra cash. The top rate you'll get is 2.3% with Coventry Building Society as long as you're willing to tie your cash up until the end of November 2023 – so almost five years. A two-year fixed rate with Coventry will get you 1.9%.

NON-ISA ACCOUNTS COULD HAVE BETTER RATES

The introduction of the personal savings allowance has dented the popularity of ISAs. The allowance gives an annual tax-free amount for any interest earned on savings: £1,000 for basic-rate taxpayers or £500 for higher-rate taxpayers. It means that many people are now keeping their money in non-ISA accounts that pay more.

If you're willing to do this you don't get that much more on an instant-access savings account – the best is 1.55% with ICICI Bank. But where you can really earn money is with high-interest current accounts.

These often have restrictions on them, whereby a certain amount has to be paid in each month and you have to set up a certain number of direct debits, but if you can be bothered with the small increase in hassle when setting them up, you can earn far more.

For example, both TSB and Nationwide pay 5% interest on their current accounts. With TSB you have to pay in £500 a month and you only earn that interest on up to £1,500. With Nationwide you get the interest on up to £2,500 but you need to pay in £1,000 a month.

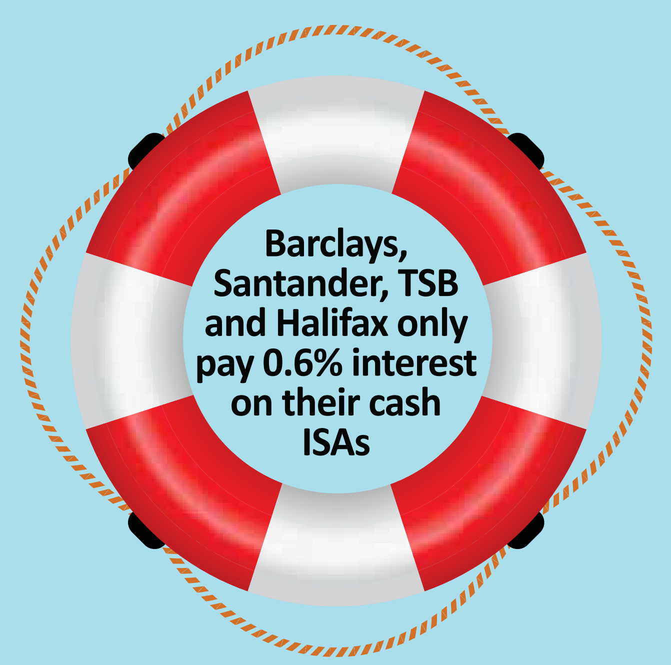
FURTHER WAYS TO EARN MORE

Another option is regular savings accounts. These will pay high rates of interest but often only on limited sums, meaning you'll need to set up quite a few if you have a large sum to put away. They also often require you to set up a current account with the provider too, which increases the hassle factor.

First Direct is currently offering 5% on monthly savings of between £25 and £300. You need to open a First Direct current account, but new customers who switch get £125 joining bonus, which makes it more worth your while. The rules are pretty strict though, and if you miss a monthly deposit the account will be closed and you'll only earn 0.05% interest.

As there are lots of these accounts available you may wish to open a number of them. As long as you meet the minimum monthly contributions you can earn higher interest rates on larger sums.

This requires a bit of leg-work initially – such as setting up direct debits and opening the accounts – but this effort can really pay off in the long term. Just don't start the process if you know you don't have the time or inclination to set it all up correctly and keep track of the money.



WHAT IF I WANT TO TAKE A BIT MORE RISK?

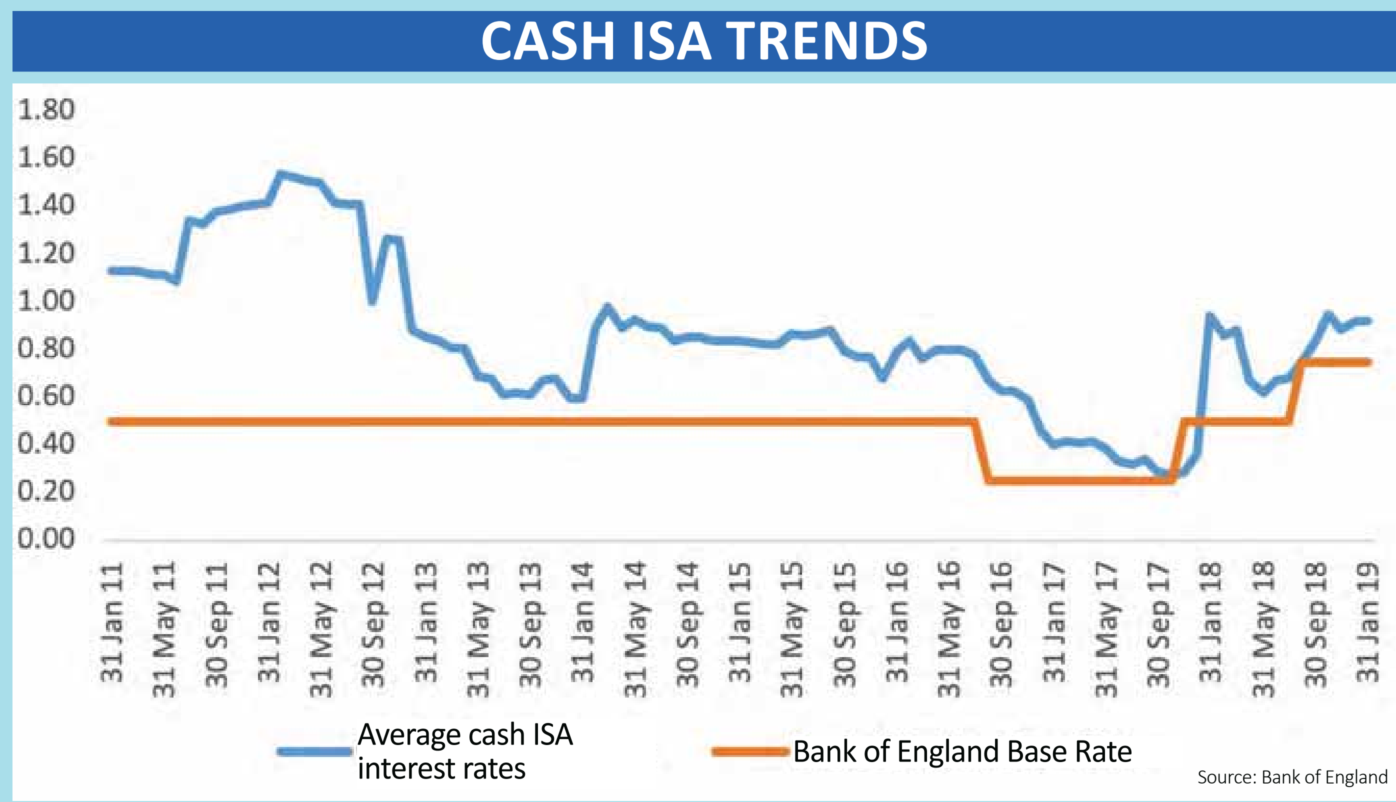
People willing to tie up their money for a few years and take a bit more risk than leaving their money in cash could get a higher return via bond funds.

Usually the rule with investing your cash is to have a minimum period of five years to lock the money away, but this rule could be relaxed a bit for the lower-risk end of the market.

You would use a stocks and shares ISA to make the investment.

One option is short-dated bonds. These are bonds that have less than five years left until they mature, meaning you should get the coupon (the interest payment) for the remaining time until the

Word of warning: if you are likely to move into the additional rate tax bracket you might want to put your money in an ISA, as you'll lose the personal savings allowance. This also applies if you're likely to move from the basic-rate tax band into the higher-rate band and you are earning more than £500 a year in savings income.



bond is redeemed and then you get repaid the value of the bond too. Certain funds specialise in this area, says Ryan Hughes, a fund manager at AJ Bell.

'These funds are sensible, low-risk, cheap and a step up from cash. They're a good option for those wanting to go up the risk scale, but who want fairly stable and reliable returns,' he says. 'The beauty of them is that they also have low costs, partly because they are typically holding the bonds until they mature rather than selling them, so they cut down on transaction costs.'

THREE EXAMPLES OF LOWER-RISK BONDS

Axa Sterling Credit Short Duration Bond (B5L2N22) has an ongoing charges figure of 0.41% and a current yield of 1.42%. On average the bonds held in the fund have around 1.8 years until they mature. The global fund has achieved 1.48% annualised total returns over the past three years, which is the return after charges.

Axa Sterling Credit Short Duration Bond's portfolio includes G4S debt

Another example is the **Fidelity Short Dated Corporate Bond Fund (BDCG0G2)**, which has an ongoing charges figure of 0.38% and currently holds bonds with an average of 2.5 years until they mature. The fund has a yield of 4.1% and has achieved 1.42% annualised returns over the past two years (we don't quote three-year data like the other examples because it hasn't been going for that length of time).

The Co-Operative Bank debt features in Fidelity Short Dated Corporate Bond Fund's holdings

For those willing take a bit more risk, **Royal London Short Duration Global High Yield Fund (B9BQGL2)** invests in slightly riskier bonds, but only holds bonds with two years or less until they mature. The fund has an ongoing charges figure of 0.6% and is yielding around 5.18% at the moment. It has achieved 2.49% annualised total return over the past three years.

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

Fishing below the radar

Over the past three years, Miton Global Opportunities (MIGO) has returned 65.8% by exploiting inefficiencies in the closed-ended sector. Closed-ended funds (generically known as Investment Trusts) are bought and sold on the stock market. This means that the price that an investor pays can differ dramatically from the value of the underlying assets, often at a discount[1]. We are able to buy £1 worth of assets on occasions for as little as 70p. Looking forward, we are continuing to see structural shifts that present interesting and exciting opportunities.

Discrete Share Price Performance

	31/01/2018 to 31/01/2019	31/01/2017 to 31/01/2018	31/01/2016 to 31/01/2017	31/01/2015 to 31/01/2016	31/01/2014 to 31/12/2015
Miton Global Opportunities Plc	-8.7%	28.8%	41.1%	-0.5%	3.6%
IT Flexible Investment Sector	-3.3%	12.0%	18.2%	1.3%	3.3%

Past performance is not a guide to future returns. Source: FE Analytics as at 31/01/2019 on the ordinary shares.

We tend to look for trusts that are unloved, overlooked or in out of favour asset classes where we can find them performing well at the portfolio level but where other investors may have not seen, or cannot take advantage of the opportunity.

London-listed property trusts have tended to be out of favour as most investors are fearful of the sector over Brexit concerns irrespective of where the assets are located. However, we are looking past the noise and finding great trusts at the wrong price and our property exposure has been a driver of returns in recent times. These trusts tend to be found in more specialist sectors of the market, examples are Phoenix Spree Deutschland and Alpha Real Trust.

Phoenix Spree invests in Berlin residential property which has been a theme within the portfolio for several years. Berlin has come a long way since the wall came down in 1989 with increasing population growth, expansion of industries such as the technology sector giving the German capital the potential to become a world city in the future. Berlin still enjoys very low rents, much lower than cities such as Munich, Hamburg and Dusseldorf. With net migration to the city of around 40,000 in 2017 but with rents low and high cost of building means if you were to build an apartment block it would be worth less than the cost of building. Therefore, there is no new supply coming online despite steadily increasing demand. This is an unsustainable situation which at some point will have to be resolved by rising prices. Phoenix Spree with their combination of rental and potentially privatized properties have been able to take advantage of steadily increasing rents and the uplift from selling some of their flats into the private sector. Their most recent trading update saw the Net Asset Value (NAV)[2] up 14%.

Alpha Real Trust are property specialists able to find opportunities in a wide variety of areas of the market. Most recently, they were able to sell a data centre in Frankfurt for an 80% premium[1] to carrying value, however, the shares still trade at a large discount to its NAV despite their consistent record of producing superior returns.

The investment trust sector is continually evolving and over the past few years we have seen a growth in alternative asset trusts. These trusts have invested in asset classes such as infrastructure, property and forestry. Where we find opportunities in the alternatives sector is where a NAV is either stale or the methodology for calculating it is no longer reflective of what a portfolio could be sold for in the real world. A good example of this is Phaunos Timber which was held in the fund until its takeover at a premium at the end of last year. In this case, the NAV had become stale as forests are only revalued once a year and there had been changes in the timber market post the last revaluation, namely that the Chinese had banned the felling of natural timber which increased the value of the Phaunos' plantations in New Zealand.

Over 2018 there was a spate of new issuances into the alternative sector in various asset classes such as song royalties, shipping and battery storage. We anticipate that these funds could be a source of opportunity when the share price and the NAV's fall out of sync or investors fail to properly value these unusual assets.

Miton Global Opportunities embraces enormous diversification of asset classes and geography. Even within each asset class there are uncorrelated themes. For example, within our mining exposure there are smaller companies which have had their share prices devalued by the disruption caused by Exchange Traded Funds[3], and also uranium and a royalty from a silver mine. Because we have such wide diversification and very little exposure to mainstream industries, the trust tends to perform differently to the UK and world indices[4]. The final months of 2018 were a torrid time for world markets and so far in this calendar year we have seen a reverse, with indices rallying hard after the Federal Reserve backed away from raising interest rates and Quantitative Tightening[5]. Miton Global Opportunities proved defensive in the downturn but has lagged the upward trajectory of markets in 2019. Whilst the month has been very quiet in terms of the share prices of our investee trusts, on a look through basis many of our trusts are continuing to perform well in NAV terms. This has created widening discounts on many of our favoured portfolio names building value which we anticipate being unlocked as the share prices re-rate to catch up with rising NAVs.

RISKS

Past performance is not a guide to future returns.

Forecasts are not reliable indicators of future returns.

The value of investments can fall as well as rise and investors may not get back the full amount invested.

For trusts investing globally, currency exchange rate fluctuations may have a positive or negative impact on the value of your investment.

The trust may borrow money to invest in further investments, this is known as gearing. Gearing will increase returns if the value of the investments purchased increase in value by more than the cost of borrowing, or reduce returns if they fail to do so.

DEFINITIONS

[1]**Discount/premium to share price** – is the difference between the share price and the underlying value of an investment trust.

[2]**Net Asset Value (NAV)** – is the total value of the investments it holds after any debts have been accounted for, divided by the number of shares in issue.

[3]**Exchange Traded Fund (ETF)** – is a fund that tracks an index, a commodity or a basket of assets like an index fund. Most ETFs track an index, such as the FTSE All-Share Index.

[4]**Indices** – An index is an indicator of the value of a sector of shares in a market. The most common index in the UK is the FTSE 100 which is an indication of the performance of the top 100 UK companies' shares by market capitalisation.

[5]**Quantitative Tightening (QT)** – is a contractionary monetary policy applied by a central bank to decrease amount of liquidity within the economy. The policy is the reverse of **Quantitative Easing (QE)** aimed to increase money supply in order to stimulate the economy.

IMPORTANT INFORMATION

Any mention of a specific stock is not a recommendation to buy or sell. Source of performance data: FE Analytics, as at 31/01/2019 on the ordinary shares. The views expressed are those of the fund manager at the time of writing and are subject to change without notice. They are not necessarily the views of Miton and do not constitute investment advice. Miton has used all reasonable efforts to ensure the accuracy of the information contained in the communication, however some information and statistical data has been obtained from external sources. Whilst Miton believes these sources to be reliable, Miton cannot guarantee the reliability, completeness or accuracy of the content or provide a warrantee. Investors should read the Trust's product documentation before investing including, the PRIIPs Key Information Document (KID), the latest Annual Report and Accounts and the Alternative Investment Fund Managers Directive (AIFMD) Disclosure Document as they contain important information regarding the trust, including charges, tax and specific risk warnings and will form the basis of any investment. This financial promotion is issued by Miton, a trading name of Miton Trust Managers Limited. Miton Trust Managers Limited is authorised and regulated by the Financial Conduct Authority and is registered in England No. 4569694 with its registered office at 6th Floor, Paternoster House, 65 St Paul's Churchyard, London, EC4M 8AB. MFP19/70.

'Should I invest my pension in cash while markets are uncertain?'

AJ Bell's Tom Selby answers readers' questions about retirement issues

Mike says:
'With all the uncertainty going on at the moment I'm nervous about investing my entire pension pot in the stock market. I'm 45 and not planning to draw an income from my fund until I'm 65 – does it make sense to invest in cash in the short-term?'

Tom Selby
AJ Bell
Senior Analyst says:

You've neatly encapsulated the dilemma facing many retirement investors on the back of some difficult times for the stock market.

Certainly in the last 12 months or so you could be forgiven for thinking cash is the safest option for your hard-earned retirement savings.

If you'd put £10,000 in the FTSE All-Share at the start of 2018 and reinvested all your dividends, your pot would be DOWN by £257, and that's before charges have been taken off. In this environment it's understandable to consider stashing some or all of your money under the mattress.

However, it's worth remembering that while cash will hold its nominal value, its spending power will be eroded over time by inflation. If you invested £10,000 in cash today (receiving no interest) and inflation ran at 2.5% a year, then in 20 years' time your fund's 'real' value would have fallen to just £6,027.

Investing your money can help to protect against the ravages of inflation and offers the opportunity of achieving real growth.

If we look at recent history, someone who invested £10,000 in the FTSE All-Share index at the start of 2010 – just as the global economy was hitting its recovery stride in the wake of the financial crisis – would have seen their investment swell to almost twice the size nine years later (again assuming dividends were reinvested and not including charges).

In fact, since the beginning of the 20th Century the FTSE All-Share has delivered inflation-adjusted total returns averaging 5.3% per year. The lesson? While there are no guarantees, patient long-term investors tend to be rewarded.

As my colleague Russ Mould likes to say: 'Investing in the stock market is a get rich slow scheme.'

While the political and economic environment might feel febrile at the moment, you should build your retirement investment strategy based on long-term goals. Trying to second-guess the impact of things like Brexit is nigh-on impossible, even for professional investors.

Think about the risks you're willing to take and focus on building a portfolio that meets your needs, keeping costs as low as possible.

If you aren't sure how to do this, many providers offer ready-made investment solutions which are designed to match various risk tolerances.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

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

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

BlackRock Throgmorton exposure to shares at nine-year low

INVESTMENT TRUST **BlackRock Throgmorton's (THRG)** equity exposure is at its lowest level in nine years according to broker Stifel, reflecting its manager Dan Whitestone's concern about an economic slowdown.

Around 90% of assets are invested in equities on a *net* basis; this distinction reflects the trust's ability to go long or short. Or in other words it can look to benefit by betting on share prices rising or falling.

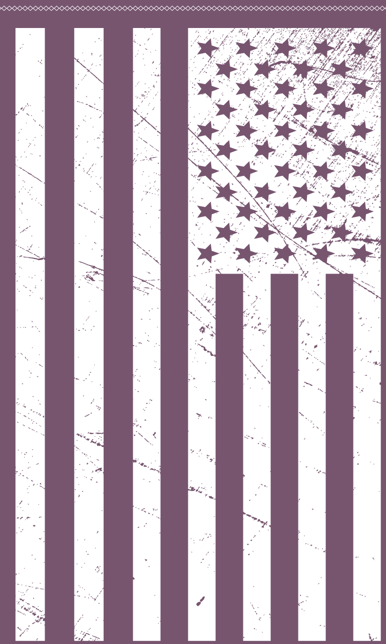
Among the sectors targeted for short-selling include consumer services, food supply and mid cap lenders, which it believes face impairment risks.

PERSHING SQUARE HOPES QUARTERLY DIVIDEND CAN PUT DENT IN DISCOUNT

HEDGE FUND **Pershing Square Holdings (PSH)** is introducing a quarterly dividend of $0.10 per share, one representing a 2.5% yield based on a recent $15.70 share price.

The board is seeking to attract income investors and expand the investor base, in turn helping to narrow the discount to net asset value, which stands at 24.3% according to the Association of Investment Companies (AIC).

Managed by famed activist Bill Ackman, the closed-ended fund makes concentrated investments in high quality, cash generative North American companies with high barriers to entry, yet has underwhelmed since a high profile 2014 launch.



Encouragingly however, Pershing Square has started 2019 very strongly, with the likes of Chipotle Mexican Grill, Restaurant Brands, Fannie Mae and Freddie Mac generating positive returns.

HG Capital Trust set for software slowdown

ANALYSTS BELIEVE that technology investor **Hg Capital Trust (HGT)** could see fewer asset realisations this year and at lower prices – a situation that could drag on the trust's net asset value (NAV).

Hg Capital mainly invests in software businesses where it sees opportunity to improve operations or change strategic direction. Roughly 80% of its

funds are currently backing this type of technology turnaround.

Last year the trust exited several technology-based businesses, including workforce management specialist Allocate Software in April 2018, having funded its takeover back in 2014.

Hg Capital's three largest remaining investments are enterprise software firm Visma, regulations specialist Sovos Compliance and Iris, the accounting tools supplier. Together they represent more than a third of the portfolio.

Why are investment trusts ditching performance fees and is it a smart move?

We look at these controversial charges and why many trusts are phasing them out

Should fund managers really need any extra incentive to deliver for investors given they are already being paid a fee to do their job?

Until recently it was commonplace for the managers of investment trusts to receive a performance fee on top of their management fee if they exceeded a specified level of return.

Increasingly, this structure is being abandoned by trusts, though around a third of equity-focused investment trusts still use performance fees according to stockbroker Numis.

We now explore why they are slowly being phased out and whether there is a danger this move will drive talent out of the investment trust space.

WHAT ARE PERFORMANCE FEES?

All investment trusts and actively-managed funds charge a fee to pay the professionals whose job it is to manage the portfolio. Typically, this will be expressed as a percentage of the trust's total net asset value (NAV).

Some funds will operate a tiered fee structure where they charge a certain amount up to a threshold of net assets and then less on assets over this threshold to share with investors the benefits from economies of scale.

The difference with some investment trusts is that they will also impose a performance fee on top, assuming the manager beats certain targets. This might include delivering a defined level of absolute return or doing better than a particular benchmark.

Winterflood Securities' investment trust team observe: 'Performance fees have long been a differentiator of investment trusts as it is difficult historically to apply such fee arrangements on open-ended funds (unit trusts and Oeics).

'However, performance fees remain controversial with some investors, while others point to the additional complexities they can bring to the investment trust structure.'

A performance fee means it can be difficult to make like-for-like comparisons on fees with different types of funds investing in similar areas such as open-ended funds or exchange-traded funds.

PAID PURELY ON PERFORMANCE

Managers of three investment trusts are only paid in performance fees. Numis argues **Woodford Patient Capital's (WPCT)** fee structure is 'highly favourable' to shareholders as it requires the trust to deliver returns of more than 10% per year before making any charges.

Of the other two – **Aurora (ARR)** and **Ashoka India Equity (AIE)** – the stockbroker believes the former's fee structure is potentially generous given the contrast between a focused portfolio of between 15 and 20 stocks and a very broad benchmark in the FTSE All-Share.

AN ACCELERATING TREND

The asset management space is highly competitive and the trend towards getting rid of performance fees reflects a wider drive on the part of trusts and their boards to reduce charges and boost their attractiveness to investors.

Figures from Numis show 27 investment trusts made changes to their performance fees in 2018 with 10 abandoning them altogether compared with five in 2017. In total, 56 investment trusts have removed performance fees since 2012.

Some of the names ditching performance fees entirely had not paid them for several years anyway.

This applies to **Aberdeen Emerging Markets (AEMC)** and **Target Healthcare (THRL)**. The latter has subsequently increased its base fees – something **BlackRock Smaller Companies (BRSC)** has done as well.

Where trusts have opted for evolution rather than revolution by tweaking their performance fees there have been different approaches.

In some cases, the rate has simply been reduced, as seen with **Martin Currie Global (MNP)** and German residential property investor **Phoenix Spree Deutschland (PSDL)**.

Others have introduced variable fees, which means the amount fund managers get paid depends on the extent to which they have beaten the benchmark (with an upper or lower limit).

This is similar to the way some estate agents operate with their fee in percentage terms dependent on the price (or return they achieve) when selling your property.

For example, **Manchester & London (MNL)**, rather than charging 0.5% per year as it did previously, will charge either 0.25% or 0.75% depending on whether it has beaten its benchmark over the previous three years.

WHAT ARE THE DOWNSIDES?

While it is easy to see the arguments for ditching performance fees, namely the need to make trusts a

Investment trusts which abolished performance fees in 2018

Aberdeen Emerging Markets	Removes performance fee
Artemis Alpha	Adoptes tiered fees (above current assets). Removes performance fee
BlackRock Smaller Companies	Increases base fee, due to larger first tier. Removes performance fee
Henderson European Focus	Adopts tiered fees (above current assets). Removes performance fee
Henderson Eurotrust	Removes performance fee. Increases level of tier from £250m to £300m
Jupiter Green	Adopts tiered fees, cuts rate. Removes performance fee
Premier Global Infrastructure	Cuts base fee. Removes performance fee
IP Enhanced Income	Cuts base fee rates. Removes performance fee
MedicX	Reduces level of fee tiers. Removes performance fee
Target Healthcare	Increases base fee rate. Adopts tiered fees (above current assets). Removes performance fee

Source: Numis

simpler proposition and more shareholder friendly, there are potential downsides.

Winterflood says: 'We have growing concerns that the relentless pressure on fees is leading to bad outcomes.'

It cites the example of loan fund **Invesco Perpetual Enhanced Income (IPE)** where a dispute linked to corporate governance and fees saw fund manager Invesco Perpetual resign in April 2018.

Invesco then returned in June 2018 with reduced management fees and the abolition of its performance fee – with the price of its climb-down apparently being the departure of chairman Donald Adamson.

'While we would acknowledge that boards have a duty to look after the interests of investors, of which negotiating fees is an important element, we believe that consideration should be made as to the wider picture and how a fund's investment manager is incentivised.

'In our opinion, performance should be the key consideration rather than fostering a motivation to gather assets.'

THE EXCEPTIONS TO THE RULE

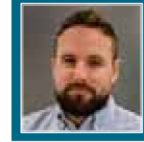
Not every trust is following the trend as William Heathcoat Amory, head of investment trust research at Kepler, observes: '**Jupiter European Opportunities (JEO)** has a performance fee, which was triggered during the 2018 financial year, equivalent to c1.4% of net asset value (the maximum performance-related payout is 5% of NAV).

'The board had a review of the arrangements, and in contrast to many other trusts, decided to keep the performance fee, which some agreed with, but was met with dismay by others.

'We believe that it is net of fees performance that counts, and Alexander Darwall has proved himself time and time again an exceptional manager. As such, we believe he deserves an exceptional fee.'

This focus on performance net of fees is a key point. Research from tracker fund specialist Vanguard suggests if you paid zero fees and invested £100,000 then assuming 6% growth over a 25-year period you would end up with £430,000. If you paid 2% every year in costs, you'd only end up with £260,000.

However, as Heathcoat Amory observes, there is a case for paying up if you are getting a premium performance. He also notes that in many cases the presence of a performance fee is balanced out by a lower base fee. Should this not be the case then he says it is fair to demand change.



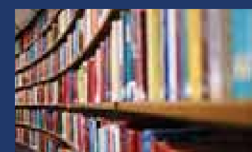
By **Tom Sieber**
Deputy Editor

ARE YOU MISSING OUT?

WE PUBLISH NEWS AND FEATURES ON OUR WEBSITE IN ADDITION TO CONTENT THAT APPEARS IN THE WEEKLY DIGITAL MAGAZINE.

TWO OF OUR CURRENT STORIES:

SHARES IN CONVATEC CRASH AS IT OUTLINES HEFTY INVESTMENT PLAN



WHY SOME INVESTORS ARE UNHAPPY WITH STRUCTURE OF PEARSON'S SCHOOL TEXTBOOK UNIT SALE

WWW.SHARESMAGAZINE.CO.UK/NEWS/SHARES

This content is FREE to read and will help you stay up to date on the latest stock market news and events relevant to investing.

How do fund managers pay for new investments?

We explain how fund managers get hold of cash to buy stocks or other assets

How does an investment trust pay for a new investment if it hasn't got inflows of cash from investors like other types of funds?

It's easy to understand once you've grasped the difference between investment trusts and other types of funds, namely unit trusts and Oeics.

A unit trust or Oeic is an open-ended fund. The number of units (rather than shares) flex in line with the number of people who are putting money in or taking money out of the fund.

Every time someone invests in an open-ended fund, the fund manager has to make a decision whether to keep the money in cash or put it to work in the markets by making an investment.

A really popular fund with constant inflows of money will have to keep finding new investment ideas or top up existing holdings. In reverse the fund manager may have to sell something to generate cash to give exiting investors their money back.

An investment trust is known as a closed-ended fund and has a fixed amount of shares in issue. You invest in its shares via the stock market. The money you pay for the shares doesn't go to the fund manager but rather to the other investor selling them to you. (The latter is a very simplistic explanation, in reality the transaction process is more complicated).

HOW DOES IT TYPICALLY WORK?

The typical model for an investment trust is to raise a lump sum of cash when they join the stock market, say £100m. They potentially tap shareholders on an infrequent basis for more money by issuing new shares should they come across a pipeline of new investment opportunities that can't be funded by existing cash.

A fund manager can generate cash for new investments by selling down some of their holdings or they often receive cash through dividend payments from their underlying holdings which can be recycled into new ideas. They can also borrow money to make new investments or they can issue new shares to raise more cash.

The disadvantage of unit trusts and Oeics is that fund managers could run out of good ideas and invest in bad companies if they are under pressure to deploy new cash.

Equally, investment trust fund managers may have lots of good ideas but not enough cash to take advantage so they are missing out.

Raising cash by issuing new shares will be at the mercy of the market mood and sometimes investors just don't feel like supporting fundraisings.

Borrowing money is risky if a manager can't find investments which generate a greater return than the cost of debt. Or the trust may have already reached the maximum amount of debt it can have under rules set by the board of directors.

By **Daniel Coatsworth**
Editor

MONEY & MARKETS

LISTEN TO OUR WEEKLY PODCAST

A good investor keeps their ear to the ground. That's why *Shares* and AJ Bell have launched a new weekly podcast – so you can stay up to speed with everything investing.

Whether you listen on your commute or at your computer, 'AJ Bell Money & Markets' is a handy way to find out what's been happening in the financial world, so you can stay one step ahead.

In each episode you'll get our thoughts on topical financial issues – from pensions to pocket money, from stock markets to savings.

The podcast is presented by *Shares*' editor Daniel Coatsworth and AJ Bell's personal finance analyst Laura Suter. They are joined each week by special guests including various *Shares* journalists and other investment experts.

HOW TO LISTEN

You can download and subscribe to 'AJ Bell Money & Markets' by visiting the Apple iTunes Podcast Store, Google Podcast or Spotify and searching for 'AJ Bell'. The podcast is also available on Podbean.

Or you can listen to each episode on our website by clicking **here**.

How the next generation of fund managers are trained

There are various ways in which future stars can cut their teeth

Funds frequently become so synonymous with the managers that run them that if he or she departs or retires, an investor exodus follows. Yet the success of a fund is rarely down to a single person; often a deep bench of analysts and researchers contribute to the running of a successful portfolio.

And in the event of a manager resigning, there is generally a long handover period to the new manager to ensure a smooth transition. There are also typically clear processes in place which can be maintained even after a star fund manager leaves or retires.

Nevertheless, investors should take time to understand the structure at a fund, including who makes the decisions and whether it is run on a team-basis or by a key individual. Understanding the investment process will make it easier to make an informed decision about whether to stick with the fund in the event of a manager change.

TRAINING UP THE NEW BATCH

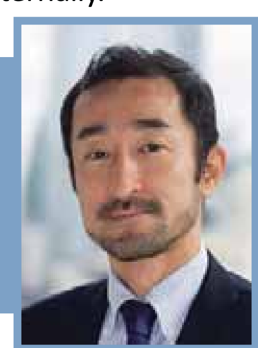
In terms of fund manager training, *Shares'* research shows there is no magic formula. But the major fund management houses – think Fidelity, Schroders, BlackRock, Standard Life and Aberdeen – benefit

from deep pools of analysts from which to choose trainee fund managers.

Those number-crunchers showing promise may be given a sector fund on which to cut their teeth before becoming a deputy to a portfolio manager on a bigger fund.

When Fidelity announced that fixed interest veteran Ian Spreadbury was retiring at the end of 2018 following 40 years in the business, the news had been anticipated and investors' feathers were largely unruffled. Succession planning had started three years earlier with the recruitment of experienced fixed income manager Sajiv Vaid from Royal London to co-manage the flagship **Fidelity MoneyBuilder Income (BBGBFM0)** fund. He is now lead manager on the MoneyBuilder Income and **Fidelity Extra Income (BFRT361)** funds, while Tim Foster and Claudio Ferrarese assumed joint responsibility for the **Fidelity Strategic Bond (BCRWZS5)** fund and the analysts-turned-portfolio managers are sticking to the proven Fidelity approach.

'Key man risk' may be more prevalent at smaller investment firms where there is less resource – often a few analysts supporting the fund manager – and a smaller team from which to promote internally.



MASAKI TAKETSUME

TAKETSUME ASSUMES THE MANTLE

Schroders recently announced that Masaki Taketsume will assume formal responsibility for **Schroder Tokyo Fund (B4SZR81)** and **Schroder Japan Growth Fund (SJG)**, with veteran Japanese equities specialist Andrew Rose retiring at the end of June 2019.

Taketsume, who joined Schroders as a technology

analyst in 2007, will continue the same investment approach, process and style.

'The announcement represented the execution of the long-term succession plan for Andrew Rose and, by making an internal transition, we have been able to ensure continuity of culture and style for our clients,' says Alex McDougall, Schroders' head of Asian equities and equity insights.

'As an experienced technology analyst within our Tokyo-based research team, we already had considerable confidence in Masaki's ability to form non-consensus views on a wide range of company managements and business models.'

In terms of additional training, McDougall notes the Masaki and Rose have been collaborating since 2014 and in 2017 the former relocated to London to work as a joint fund manager.

'In this role Masaki has participated in all internal team discussions and external company meetings. This has provided the additional breadth of experience and exposure necessary to form views on overall portfolio strategy and construction, in addition to conviction views on individual companies.'

BIG SHOES TO FILL

Nick Train and Michael Lindsell are synonymous with the eponymous Lindsell Train investment house that manages the **Finsbury Growth & Income Trust (FGT)**, **Lindsell Train Investment Trust (LTI)** and the **Lindsell Train Japanese Equity Fund (0438418)** among others.

'We've been progressively hiring young people to work with Mike and myself for last 10 years,' says Train. 'We probably couldn't run the business without them.

'There is an optionality that any one of those individuals or two of them could ultimately be mine or Mike's replacement. But there isn't a roadmap for that happening, largely because Mike and I just want to carry on doing it.

'It is tricky because you have these bright ambitious people who want responsibility. But Mike and I are still young (only 60) and we want to carry on for as long as we are competent and feel motivated to do so – which we do.'

Train says there is 'a Lindsell Train-type approach' and feels he has a strong handle on what that is.

'I think the single most valuable thing we can do for our clients is trying to run money in that way. It will be unhelpful if we try to alter or change an aspect of our approach because we thought things might be getting tougher for a period of time. We value consistency of approach highly,' he comments.

'James Bullock (portfolio manager, global equities)

has been with us for seven years, Madeline Wright (fund managers' assistant) for six years and Alex Windsor-Clive (fund managers' assistant) for three.

'They all joined us from university with no previous investment experience. They've been more or less indoctrinated into what we do. We can genuinely say there would be continuity.'

Train and Lindsell do ask their fund management apprentices to challenge their views. 'Their first job is to understand how we do it and to understand the companies. The next job is to tell Mike and I that we are being dinosaurs and not recognising change and are being complacent. It is stimulating.'

TALES OF TWO RISING STARS

Rising stars can forge different paths into the fund management industry. Janus Henderson Investors' Laura Foll followed a fairly conventional route by joining Henderson in 2009 as part of the graduate scheme.

LAURA FOLL

Initially cutting her teeth as a global analyst covering pharmaceuticals, Foll was later named an assistant fund manager for the global equity income team.

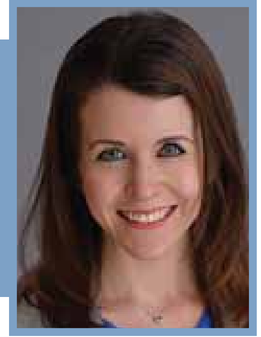
And she has learned the ropes by assisting and working

with seasoned investor James Henderson, learning how the value-driven fund manager uses various metrics to unearth attractively valued growth and income opportunities.

Foll is now firmly established as the co-manager of **Lowland Investment Company (LWI)** and also co-manages **Henderson Opportunities Trust (HOT)**, the **Janus Henderson UK Equity Income & Growth Fund (0749422)** and is deputy manager of **Law Debenture (LWDB)**.

'It is a long training process, there is a lot to learn and continuity really matters,' explains Foll, full of admiration for her mentor Henderson yet on an equal footing and more than willing to spar with him on stocks. 'There has to be some disagreement between co-managers,' she explains. 'It is pointless if you agree on everything, but we don't veto each other's ideas.'

Forging a strong reputation in the open-ended funds sector is Victoria Stevens, who joined Liontrust's 'Economic Advantage' team in 2015 alongside Matt Tonge, tasked with analysing small cap stocks. This was an area of the investment universe in which Stevens, whose path into fund management included a spell as a journalist at *City AM*, was already steeped. In her previous guise as deputy head of corporate broking at **FinnCap (FCAP:AIM)**, the well-followed Liontrust guru Anthony Cross had been one of her clients and she'd established a strong relationship with Cross and Liontrust's Julian Fosh.



VICTORIA STEVENS

'Once we got to Liontrust, we had a transition period where we were officially trainee fund managers,' recounts Stevens, 'so we had to be familiar with all the systems, procedures and compliance and we also underwent presentation training.' Stevens accompanied Cross and Fosh to meetings with company management teams and 'learned by osmosis'. Today she is an established manager on the **Liontrust UK Micro Cap (BDFYHP1)** and **Liontrust UK Smaller Companies (B8HWPP4)** funds.

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

SHARES

Do you have the SHARES advantage?

Only SHARES magazine subscribers benefit from an investment toolkit that gives them the edge and helps them make the very best investing decisions.

- Live share prices
- Customisable live watch list
- Portfolio manager
- Fund selector and prices
- Intraday and historic charts
- Latest broker forecasts with alerts
- Latest director deals with alerts
- Fundamentals and investor tools
- Online discussion forum
- Priority booking for investor events
- Educational and company videos
- ...and of course, the weekly digital Shares magazine with the latest news and views from the Shares experts

Don't miss out! Try SHARES today for just £1 for the first month, and then just £12 a month.

NEW SUBSCRIBER OFFER
Try Shares today for just £1 for the first month, and then just £12 a month.

SHARES
YOUR INVESTMENT HUB

Digital magazine

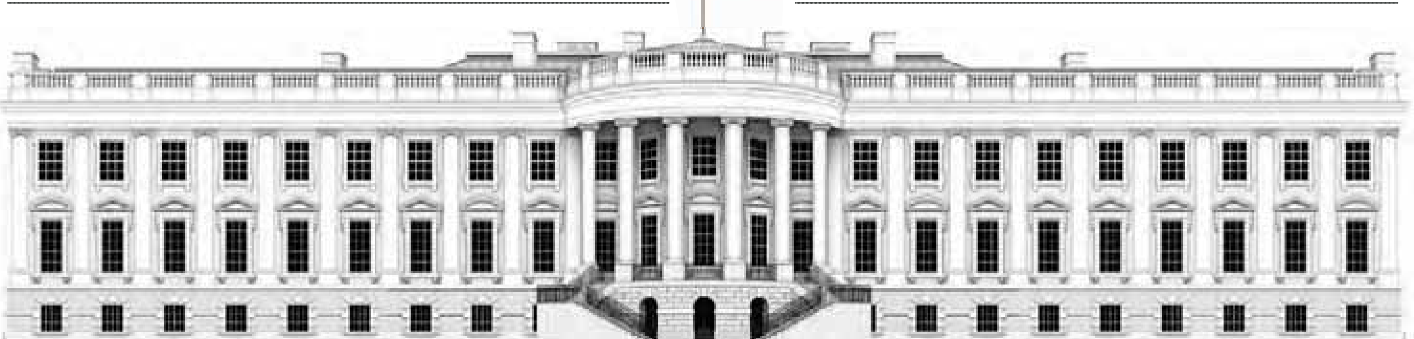
Online Toolkit

Investment Ideas

* The £1 for 1 month and then £12 a month offer is only available to new subscribers. Your first payment will be £1 and thereafter subscriptions will automatically continued, billed at £12 per month unless cancelled. Subscriptions can be cancelled at any time by calling 020 7378 4424 between 8am - 4.30pm on Monday to Friday. No refunds are offered during the cancellations period but all outstanding issues and services will be fulfilled. For enquires contact us at support@sharesmagazine.co.uk

Why investors need to start watching the race to the White House

Will Donald Trump start to run more growth-orientated policies?



The race to the November 2020 presidential election and the keys to the White House on 20 January 2021 is well and truly on. Investors in US equities will be hoping that history is on their side, as the third year of a president's term has, on average, been the best one for returns from American stocks.

Since 1945, the Dow Jones Industrials index has fallen just three times in the third year of 17 different presidential third terms, defined as running from the inauguration date of 20 January, and generated an average capital return of 12.6%.

It is hard to say quite why the third year of a presidency should be the best one from the perspective of stock markets.

It may simply be that the prior year's mid-term elections fire the starting gun on the next race to the White House.

As such the incumbent President Donald Trump will be starting to think in terms of polls and voter-friendly policies and may therefore be inclined to run more growth-oriented initiatives.

And as someone who seems to partly measure the success of his presidency by how the US stock market does, Trump will be watching the major indices keenly.

He will also be keeping a close eye on the identity of his Democratic Party opponent, presuming that Trump decides to run and is given the opportunity to do so.

DEMOCRATIC DILEMMA

The nineteenth-century presidents Polk, Buchanan and Hayes chose not to run for a second term, while Tyler and Pierce failed to win their party's nomination having won an election and served for four years, so nothing is impossible.

Some Republicans are already pressing for Trump's removal from the party ticket – to be decided at August 2020's national convention – not least because special counsel Robert Mueller's inquiry into allegations of Russian influence over the 2016 presidential election will reach its conclusion at some stage this year.

Despite hints from former senator Bob Corker and former governor (and twice-defeated party candidate) John Kasich that they may stand against Trump, the Democratic Party picture is much murkier than the Republican one.

Nine Democrats are already officially in the running for their party's nomination, with surely many more to follow.

Since Hillary Clinton's surprise 2016 defeat, the party has wrestled with whether to go further to the left or try to grab the centre ground in its bid to defeat Trump and the Republicans.

The current runners cover a wide spectrum, ranging from centrist Minnesotan Amy Klobuchar, to the established left-wingers Elizabeth Warren, Kamala Harris and Julian Castro.

The third year of a US presidency has on average been a rewarding one for investors in American stocks

			Dow Jones Industrials				
Inauguration	President	Party	Year 1	Year 2	Year 3	Year 4	Term
20-Jan-49	Harry S. Truman	Democrat	13.6%	21.3%	10.3%	5.8%	60.8%
20-Jan-53	Dwight D. Eisenhower	Republican	0.4%	35.9%	18.2%	2.8%	65.8%
20-Jan-57	Dwight D. Eisenhower	Republican	(6.3%)	33.2%	8.1%	(1.4%)	32.9%
20-Jan-61	John F. Kennedy *	Democrat	10.5%	(4.0%)	14.9%	15.8%	41.1%
20-Jan-65	Lyndon B. Johnson	Democrat	10.3%	(14.2%)	3.9%	5.8%	4.0%
20-Jan-69	Richard M. Nixon	Republican	(16.5%)	9.3%	7.1%	12.7%	10.2%
20-Jan-73	Richard M. Nixon **	Republican	(16.6%)	(24.3%)	46.7%	1.0%	(6.5%)
20-Jan-77	Jimmy Carter	Democrat	(19.0%)	7.8%	3.5%	9.6%	(0.9%)
20-Jan-81	Ronald Reagan	Republican	(11.0%)	26.6%	17.6%	(2.5%)	29.1%
20-Jan-85	Ronald Reagan	Republican	24.6%	37.6%	(10.7%)	19.0%	82.1%
20-Jan-89	George H. W. Bush	Republican	19.8%	(1.2%)	22.9%	(0.4%)	45.0%
20-Jan-93	Bill Clinton	Democrat	20.0%	(0.6%)	34.0%	32.0%	111.1%
20-Jan-97	Bill Clinton	Democrat	15.0%	18.6%	21.6%	(6.7%)	54.7%
20-Jan-01	George W. Bush	Republican	(7.7%)	(12.1%)	22.6%	(0.5%)	(1.1%)
20-Jan-05	George W. Bush	Republican	1.9%	17.8%	(3.7%)	(34.3%)	(24.1%)
20-Jan-09	Barack Obama	Democrat	33.4%	11.5%	7.6%	7.3%	71.7%
20-Jan-13	Barack Obama	Democrat	20.6%	6.4%	(10.0%)	25.8%	45.3%
20-Jan-17	Donald J. Trump	Republican	31.5%	(5.2%)			
	Average		6.9%	9.1%	12.6%	5.7%	38.8%
	Average - Democrat		13.1%	5.8%	10.7%	11.9%	48.5%
	Average - Republican		2.0%	11.8%	14.3%	(0.4%)	25.9%
	Average - Republican excluding Trump		(1.3%)	13.6%			

Source: Refinitiv. Each year given runs from the 20 January rather than calendar year.

The eventual winner will be declared at a yet-to-be-decided venue in July next year.

MONETARY POLICY ISSUES

As the race heats up, US equity and bond markets will start to pay more attention, especially as the Democrats and Republicans seem incapable of agreeing upon almost as much as nothing.

Like him or loathe him, Trump has influenced markets, at least in the short term, via his tax cuts, trade policy, pressure on firms to build capacity and hire in the US, and attempted healthcare reforms, to name just four areas.

Whether he can match the US Federal Reserve's bang for its (trillions of) bucks can be debated.

It is barely three months since this column idly speculated what could persuade the US central bank to change its mind on tightening monetary policy and already chair Jay Powell seems to have put further rate rises on hold and raised the prospect of not just halting quantitative tightening but adding more quantitative easing, should circumstances demand it.

Financial markets now put an 83% chance on the Fed leaving headline borrowing costs unchanged at 2.5% for the rest of 2019 and believe there is a greater likelihood of a cut than an increase.

That about-turn is currently lifting stock and bond prices and the potential Democrat response to President Trump's policies could prove just as influential.

By **Russ Mould**
AJ Bell Investment Director

Low-cost pension

The savvy saver

Whether you like to save a little or a lot, there's an investor inside us all. Discover yours with our flexible, low-cost SIPP.

youinvest.co.uk

SIPPs | ISAs | Funds | Shares

We don't offer advice about the suitability of our products or any investments held within them, if you require financial advice you should consult a suitably qualified financial adviser. Tax treatment depends on your individual circumstances and rules may change. The value of investments can go down as well as up and you may get back less than you originally invested.

AJ Bell includes AJ Bell Holdings Limited and its wholly owned subsidiaries. AJ Bell Management Limited and AJ Bell Securities Limited are authorised and regulated by the Financial Conduct Authority. All companies are registered in England and Wales at 4 Exchange Quay, Salford Quays, Manchester M5 3EE

Forget non-farm payrolls, you need to focus on PMIs instead

We discuss how this data offers an extremely useful insight into the economy

Every so often a piece of economic data comes along which causes stock markets to have a major wobble.

Among economic releases, by far the most widely anticipated are the US non-farm payrolls and the US manufacturing purchasing managers' index or PMI.

Non-farm payrolls are simply the number of people joining the workforce each month in every sector except agriculture. Although employment is a lagging indicator for the economy there is still a buzz each month ahead of the figures as they are the earliest release based on hard data to provide an insight into the health of the world's largest economy.

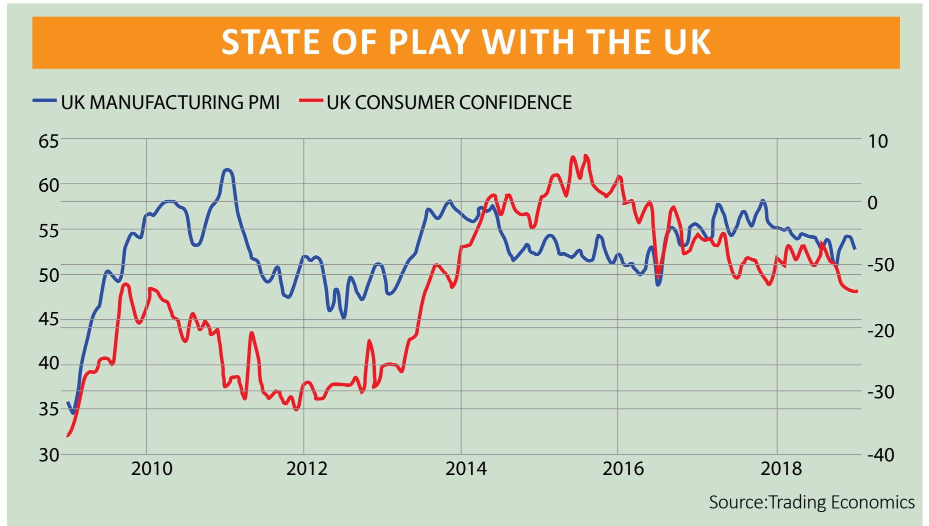
PMIS ARE A LEADING INDICATOR

Manufacturing PMI data offers a better insight into the economic trajectory.

Even though many developed economies are no longer driven by manufacturing, the UK being a good example, when manufacturers are confident they invest in their businesses.

This in turn leads to increased employment which leads to higher levels of consumer confidence and ultimately consumer spending.

The fact that it is a forward-looking index makes the PMI a much better lead indicator of a country's economic prospects than the latest employment or consumer spending figures.



WHAT'S IT ALL ABOUT?

Every month, purchasing managers, that is the people who buy in the raw materials, goods and services required by a company, are asked a series of questions about their business to gauge how positive or negative they're feeling about the immediate future and about the longer-term outlook.

The questions include levels of manufacturing (how busy they are), levels of new orders (how busy their customers are), levels of inventory (how much stock they have) and levels of employment (whether they are hiring or firing people).

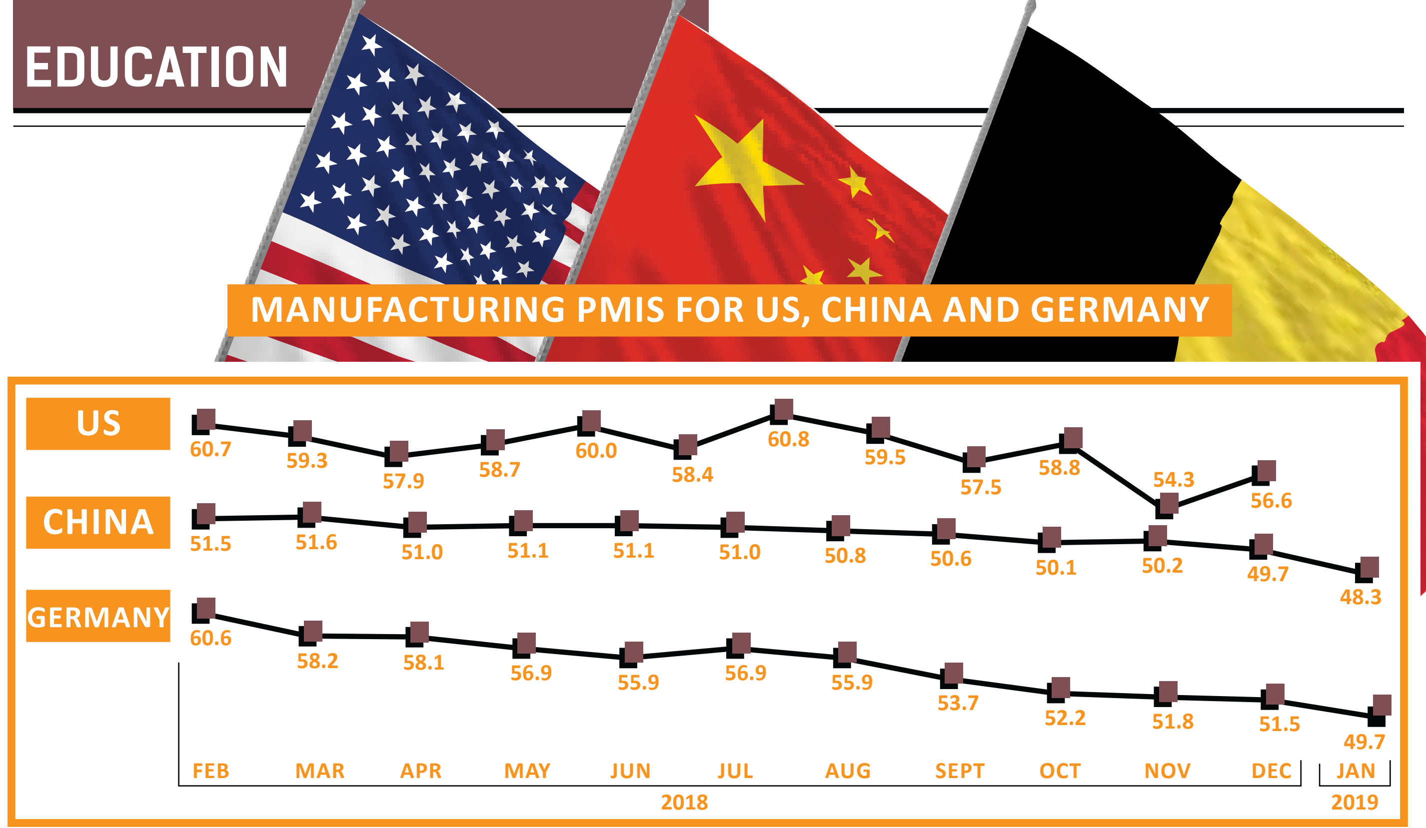
The questions are quite general and the replies are sorted into more positive than last month, less positive than last month, or no change on last month.

WHAT DOES IT MEAN?

The index itself is what's called a 'diffusion index' which means it measures the percentage of positive responses minus the number of negative responses.

Each month the change in sentiment – whether it's positive because more managers gave positive responses or negative because there were more negative responses – is added to the previous month's index number to create a new number.

If every purchasing manager is positive month after month the index will only go up and if they



Source: Destatis, IHS Markit, Institute of Supply Management

are gloomy month after month it will keep going down.

The crucial level for the PMI is 50: a reading above 50 is taken to mean that manufacturing is expanding, a reading below 50 means it is contracting.

WHAT IS IT TELLING US RIGHT NOW?

Looking around the world, some countries are further along in their economic expansion than others so there's a wide range of readings.

The highest reading is in the US where the manufacturing PMI was 56.6 in January supported by positive responses on the outlook for production, new orders and employment.

The lowest reading is in China where the PMI hit 48.3 in January, well into economic slowdown territory.

This negative sentiment among manufacturers is one of the reasons why the Chinese government has launched its latest stimulus plan.

Germany's PMI is just below 50 but it has been falling steadily and it looks as though it will continue falling this year.

The German government recently cut its GDP growth forecast for 2019 from 1.8% to 1.0% and is hoping for a rebound in 2020 although that seems like wishful thinking.

France's PMI fell below 50 in December due to the 'yellow vest' protests but recovered to 51.2 in January as employment prospects improved.

The protests have had a bigger impact on France's service sector, which includes travel and tourism, with the January services PMI survey coming in below 48 for the first time since 2014.

WHAT DOES THE UK LOOK LIKE?

The UK manufacturing PMI is still above 50 and has been surprisingly steady around the 53-54 level for most of 2018.

Admittedly it dropped to 51 in October but by December it had moved back over 54 and last month it was 52.8.

One reason that more companies in the UK are positive than negative is that their customers are stockpiling products ahead of a potential no-deal Brexit.

It was widely reported toward the end of last year that major drug companies like **AstraZeneca (AZN)** and Sanofi were building up their supplies of drugs and medicines.

According to newspaper reports care homes are also starting to stockpile food supplies for their residents.

Consumer-goods firms are the most positive in the survey and companies like **Unilever (ULVR)** have stepped up production of *Magnum* ice creams to stockpile for UK consumers and *Dove* and *Lynx* personal care products for the European market.

By **Ian Conway**
Senior Reporter

20 MARCH 2019

Novotel Tower Bridge
London
EC3N 2NR

Sponsored by

REGISTER TO SECURE YOUR PLACE

During the event and afterwards over drinks, investors will have the chance to:

- **Discover new investment opportunities**
- **Get to know the companies better**
- **Talk with the company directors and other investors**

COME TO OUR NEXT INVESTOR EVENT. COMPANIES PRESENTING:

MANOLETE PARTNERS (MANO)
Speaker: Steven Cooklin, CEO
Manolete is a leading player in the high growth insolvency litigation finance market.

OPG POWER VENTURES (OPG)
Speaker: Dmitri Tsvetkov, CFO
OPG Power Ventures is a developer and operator of power generation plants in India.

+ MORE TO BE ANNOUNCED

Event details

Registration 18:00
Presentations to start at 18:30
Complimentary drinks and buffet available after the presentations

Register for free now
www.sharesmagazine.co.uk/events

Contact

Lisa Frankel, Events Operations Manager
Lisa.Frankel@sharesmagazine.co.uk
020 7378 4406

INDEX

KEY

- **Main Market**
- **AIM**
- **Investment Trust**
- **Fund**

Company	Page
Aberdeen Emerging Markets (AEMC)	30
Ashoka India Equity (AIE)	29
AstraZeneca (AZN)	16, 42
Aurora (ARR)	29
Axa Sterling Credit Short Duration Bond (B5L2N22)	25
BHP (BHP)	9
Bigblu Broadband (BBB:AIM)	12
BlackRock Smaller Companies (BRSC)	30
BlackRock Throgmorton (THRG)	28
Centamin (CEY)	2
Cineworld (CINE)	14
Clinigen (CLIN:AIM)	14
Experian (EXPN)	20
Fidelity Extra Income (BFRT361)	34
Fidelity MoneyBuilder Income (BBGBFM0)	34
Fidelity Short Dated Corporate Bond Fund (BDCG0G2)	25
Fidelity Strategic Bond (BCRWZS5)	34
FinnCap (FCAP:AIM)	36
Finsbury Growth & Income Trust (FGT)	35
Footasylum (FOOT:AIM)	16
Halma (HLMA)	20
Henderson Opportunities Trust (HOT)	36
Hg Capital Trust (HGT)	28
HSBC (HSBA)	7
Invesco Perpetual Enhanced Income (IPE)	31
Janus Henderson UK Equity Income & Growth Fund (0749422)	36
Jupiter European Opportunities (JEO)	31
Law Debenture (LWDB)	36
Lindsell Train Investment Trust (LTI)	35
Lindsell Train Japanese Equity Fund (0438418)	35
Liontrust UK Micro Cap (BDFYHP1)	36
Liontrust UK Smaller Companies (B8HWPP4)	36
Lowland Investment Company (LWI)	36
Manchester & London (MNL)	30
Martin Currie Global (MNP)	30
Micro Focus (MCRO)	9
Pershing Square (PSH)	28
Personal Assets Trust (PNL)	10
Phoenix Spree Deutschland (PSDL)	30
Plus500 (PLUS)	2
Reckitt Benckiser (RB.)	9
Renishaw (RSW)	20
Restaurant Group (RTN)	9
Rightmove (RMV)	20
Royal Bank of Scotland (RBS)	9
Royal London Short Duration Global High Yield Fund (B9BQGL2)	25
Schroder Japan Growth Fund (SJG)	34
Schroder Tokyo Fund (B4SZR81)	34
Scottish Mortgage Investment Trust (SMT)	20
Sports Direct (SPD)	16
SSE (SSE)	6
Target Healthcare (THRL)	30
TB Amati UK Smaller Companies Fund (B2NG4R3)	20
Unilever (ULVR)	10, 42
Woodford Patient Capital (WPCT)	29

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

22 Feb: Pearson. **25 Feb:** Bunzl, Centamin, Hammerson. **26 Feb:** Croda, Dalata Hotels, Drax, James Fisher & Sons, Meggitt, Persimmon, Standard Chartered, Travis Perkins. **27 Feb:** ITV, Provident Financial, Rio Tinto, St James's Place, Taylor Wimpey, Weir. **28 Feb:** Bovis Homes, British American Tobacco, Gocompare.com, Hastings, Howden Joinery, International Consolidated Airlines, Inchcape, Merlin Entertainments, Mondi, National Express, Rolls-Royce, RSA Insurance, Rentokil, Spire Healthcare.

Half year results

25 Feb: Dechra Pharmaceuticals, Finsbury Food. **27 Feb:** Clinigen. **28 Feb:** Genus.

Trading updates

25 Feb: Associated British Foods. **26 Feb:** Babcock.

WHO WE ARE

EDITOR: Daniel Coatsworth @Dan_Coatsworth

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

SENIOR REPORTER Ian Conway @SharesMagIan

REPORTER: Lisa-Marie Janes @SharesMagLisaMJ

CONTRIBUTORS Russ Mould, Tom Selby, Laura Suter

ADVERTISING
Senior Sales Executive Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

CONTACT US:
support@sharesmagazine.co.uk

All charts' data sourced by Refinitiv unless otherwise stated

PRODUCTION
Head of Design Darren Rapley
Designer Matt Ely

Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH.
Company Registration No: 3733852.

All Shares material is copyright.

Reproduction in whole or part is not permitted without written permission from the editor.