STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 21 / ISSUE 09 / 07 MARCH 2019 / £4.49

SHARES

WE MAKE INVESTING EASIER

MANAGING YOUR MONEY IN RETIREMENT

THE **PSYCHOLOGY** OF STOCK MARKET BUBBLES

PLUS

HOW IS **FUNDSMITH'S SMITHSON** INVESTMENT TRUST PERFORMING?

MERLIN LOOKS TO **CHINA AND US** FOR FUTURE GROWTH

YOU DON'T HAVE TO BE A MILLIONAIRE TO **WIN AT SAVINGS**

You don't have to be a millionaire to win at savings

Putting aside even the smallest amount of money can be a winning strategy

We're regularly told by the media that investing could make you a millionaire if you save hard. While we'd all like to have that much money, the hard truth is that becoming a millionaire is beyond the reach of many people.

Some of these millionaire articles have been criticised because they imply you already need to be well-off to hit the goal. The idea that you've got a 'spare' £20,000 to invest each year in an ISA after paying all your living costs is unrealistic for a large number of people.

These sums can be off-putting and make some individuals think they don't have a chance with investing. That mustn't happen – we need to encourage everyone to save full stop.

The focus should be on ways of developing a proper savings habit, even if you only begin by stashing away a small amount of money. Over time you can look to increase contributions.

The trick is to be organised with your finances. Each month I update a spreadsheet that shows exactly how much money I need to pay regular bills and occasional costs like a car MOT or paying for school dinners. I shift a set amount of money into a different current account for general spending such as going to the supermarket or a night in the pub.

Finally I allocate money into different savings accounts. Some of these involve the same amount every month such as putting money into an investment account or emergency cash pot, the rest depends on what's left from my pay packet which mainly goes towards holidays.

It is through such a process that direct debits are savers' best friend. They enable you to automatically shift a set amount of money each month into a savings jar – such as a cash or stocks and shares ISA – and reduce the risk of you frittering away that money on something else.

Having your casual spending in a different account also makes it easier to see how much you have to spend each month. To reduce temptation of dipping into your 'bills money' you can build a fortress by keeping that cash in an account that cannot be accessed via a debit card (and thus a cash machine).

Some banks make life easier by providing multiple savings accounts linked to your current account so you can label the jars to help better manage your money.

Someone putting as little as £50 into their stocks and shares ISA each month could invest £200 into a fund every four months and the transaction fees would only represent a very small amount of the total investment.

Use any pay rise as a reason to increase the amount of money you put into your savings accounts. And don't forget there are various places to get a 'top up'. Anyone lucky enough to qualify for a Lifetime ISA will get free money via the Government bonus to boost their portfolio. Pensions also benefit from tax relief.

One of the hardest parts of saving is managing your money in the first place. Being organised and squirreling away even the smallest of sums is a great strategy. Win at this task and you'll greatly increase your chances of becoming a wealthier person in the longer term.

By **Daniel Coatsworth** Editor

Contents

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CLICK ON PAGE NUMBERS TO JUMP TO THE START OF THE RELEVANT SECTION

What happens next with Brexit and what could it mean for investors?

MPs set to vote again on what form the UK's exit from the EU will take

Several occasions in 2019 have been flagged as crunch time for Brexit and then failed to live up to expectations but the next seven days should give the markets a clearer picture on the likely destiny of the process.

It is hard to see how Prime Minister Theresa May can further delay a meaningful vote on her Brexit deal, even if it looks increasingly dubious that she will achieve the tangible changes to the backstop demanded by the Brexiteers in her party before MPs have their say on 12 March.

Sterling volatility is likely to build ahead of the vote and domestic-facing stocks such as insurers, banks and housebuilders are also likely to be affected.

Most observers expect May to suffer a further defeat after her agreement was voted down by a resounding majority of 230 in January.

There is a plan that might win support from some MPs (and appears to have tentative Labour backing) which would back her deal on the condition it was put to a fresh referendum with remain as the other option, but May seems unlikely to make this concession.

If May's deal is voted down, MPs will come back the next day (13 Mar) to vote on whether to reject a no-deal Brexit. If they do then there will be a vote on 14 March to delay Brexit until June by extending Article 50. The UK will only be able to request an extension; it will need the unanimous support of all EU members to be accepted.

Smithson beats its benchmark in maiden set of results

Largest ever UK investment trust launch is off to a solid start

THE FIRST financial report from Fundsmith's mid-cap investment trust **Smithson (SSON)** reveals it outperformed its MSCI World Small and Mid Cap benchmark in the period from its stock market debut on 19 October to 31 December 2018.

	Smithson	World SMID Index
Year ended	**2018**	**2018**
Growth of cash flow	16%	10%
ROCE	39%	10%
Gross margin	64%	34%
Operating margin	31%	9%
Cash conversion	110%	82%
Interest cover	30x	6x
Free cash flow yield	4.2%	4.2%

Source: Fundsmith. All figures are a weighted average except interest cover which is a median, Smithson ROCE figure excludes Rightmove which has a ROCE >1000%

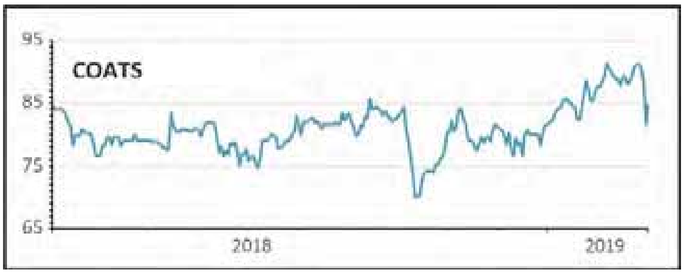
Despite coming in ahead of the benchmark, Smithson's net asset value (NAV) was still down 5.8% in the period though its share price remained flat over the same time frame as it traded at a premium to NAV. The stock has subsequently rallied in 2019 and has risen by 11% in share price terms to £11.10 since flotation.

There are now 29 holdings in the portfolio including Danish medical devices firm Ambu which has been the biggest contributor to performance to date.

DISCLAIMER: Editor Daniel Coatsworth owns shares in Smithson

Take advantage of price dip in manufacturer Coats

We disagree with the negative market reaction to the thread specialist's results



Shares in industrial thread business **Coats (COA)** were beaten up after issuing full year results on 1 March in what we can only describe as a complete over-reaction by the market. Use this opportunity to buy more shares at 86.3p.

The underlying business is thriving with adjusted operating profit up 21% in 2018 to $195m. Operating margins increased from 11.8% to 13.8% and the dividend was raised by 15% to 1.66c.

The market focused on $48m of one-off costs, around half of which was linked to a project that will increase productivity in the business. A target to deliver $15m of net savings by 2020 has been achieved two years ahead of plan.

The rest of the exceptional items were linked to pension payments and legal costs relating to a historic environmental matter.

Chief executive Rajiv Sharma says the recent sale of the North American crafts operation has made a Coats a simpler entity to understand – it is now a pure business-to-business global manufacturer.

It recently bought software solutions group Threadsol to help customers reduce fabric waste and establish accurate product costing.

It has also taken a 9.5% stake in technology firm Twine which has developed a new way of printing and enables thread to be produced to any colour or length.

'We would have bought a lot more than 9.5% had we been able to,' says Sharma. 'If Twine's product is industrialised and operated at scale it has the potential to disrupt the market. Coats is the recommended thread supplier on the product and we have a seat on Twine's board.'

Coats is one of our top stock picks for 2019. Its shares are up 11.6% since we said to buy on 20 December 2018.

Coats' Performance Materials division continues to be the fastest growing part of the group with 23% revenue increase in 2018 to $332m on a constant currency basis. That was split into 7% organic growth and 16% from the 2017 acquisition of Patrick Yarn Mill which specialises in cut-resistant and flame retardant yarns.

The division continues to see challenges in North American consumer durables which is principally down to the bedding sector. 'There is a trend of going from a normal mattress to bedding in a box which uses 30% less thread,' says Sharma.

The automotive industry has been flat year-on-year and Coats expect this trend to continue. Its products are used in car seats, airbags, seat belts, interiors and in the manufacture of tyres.

The strongest opportunities for Performance Materials are seen in telecoms (coated fibreglass to strengthen fibre optic cables) and protective clothing.

By **Daniel Coatsworth** Editor

A tale of two founders: Ted Baker and Superdry

The fashion retailing industry is undergoing a significant period of upheaval

Maligned retail player Ray Kelvin has resigned as chief executive of British fashion label **Ted Baker (TED)** following an ongoing probe into 'hugging' claims made by some employees.

Kelvin is the creative inspiration behind the brand he founded in Glasgow over 30 years ago and he remains the dominant shareholder with a 34.9% stake. We wouldn't be surprised to see more directors leave the business as other investors demand a revamp to the working culture.

Meanwhile, the gloves are off at rival fashion brand **Superdry (SDRY)**, where co-founders Julian Dunkerton and James Holder have requisitioned a shareholders' meeting to press for the election of Dunkerton and **Boohoo (BOO:AIM)** chairman Peter Williams as directors.

Dunkerton, who left the company a year ago, has seen the value of his stake shrivel following a slew of profit warnings and wants to correct what he insists is a fundamentally flawed strategy under CEO Euan Sutherland.

However, the current board argues 'a number of the current issues facing Superdry stem from Mr Dunkerton's approaches to brand and product strategy' and insists Dunkerton's return as a director 'would be counter-productive, highly disruptive and likely to lead to resignations'.

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

New IMI boss hoping to use his Halma-earned growth magic

Experienced engineering executive could put 20% margin ambitions back on track

THE 9 MAY annual general meeting will trigger a change of chief executive at **IMI (IMI)**, one that investors hope will set the company back on track with past ambitions of 20% operating margins.

Incoming boss Roy Twite has been a board director at IMI for 12 years and has led each of the group's divisions, giving him extensive insight to the day-to-day business.

IMI is one of the UK's largest engineering firms specialising in critical systems, precision and hydronic engineering solutions.

Industrial automation adoption and liquefied natural gas expansion are seen as particularly promising markets.

IMI reported revenue in excess of £1.9bn in 2018 and operating profit of £265.5m, implying 13.9% margins.

Twite is also a non-executive director at FTSE 100 electronics engineer **Halma (HLMA)**, prompting one analyst to wonder if he might bring some of its high quality growth 'pixie dust' to IMI from its larger peer.

By **Steven Frazer**
News Editor

News on Vodafone, RELX, GoCompare and more over the past week

We explain the reasons behind some of the biggest share price movements

Shares in **Vodafone (VOD)** burst back to life after the telecoms giant announced plans to raise up to €4bn through issuing convertible bonds. The shares jumped nearly 3% on 5 March as Vodafone spelled out the reasons for raising the money.

It will use the proceeds to help finance the acquisition of assets from Liberty Global, for future share buybacks to mitigate dilution, and for general corporate purposes.

STAKEBUILDING ACTION

Peter Wood, dubbed 'Britain's Mr Insurance', lifted his stake in insurance comparison site **GoCompare (GOCO)** from 25.6% to 29.9%, saying the share price didn't fully reflect the 'operational and strategic momentum' in the business.

GoCompare – where Wood is chairman – has seen its valuation halve since last summer on chatter that Amazon was thinking about entering its market, as well as a lack of revenue growth and broader negative sentiment towards the insurance sector. The director's investment triggered a near-7% rebound in the share price to 68.9p.

Chairman Peter Wood has lifted his stake in GoCompare to 29.9%

RELX SETBACK

No sooner had **RELX (REL)** delivered a reassuring message on its Elsevier scientific journals business alongside its full year results (20 Feb) than the University of California cancelled its contract with Elsevier (1 Mar) in a dispute over free access to academic research.

Despite a significant fall in the share price, Liberum analyst Ian Whittaker says the news is unlikely to have a material impact on financial results in the short-term.

However, he adds: 'It will reignite the concerns over the direction of open access and so raises a question for the rating.' At £16.58 RELX trades on a price to earnings ratio of 17.7-times, ahead of many of its peers in the media space.

RIGHTMOVE YO-YO

Shareholders in property website **Rightmove (RMV)** could be left with whiplash after the shares sank on publication of full year results on 1 March but then recovered and ended up higher overall as investment bank Exane BNP Paribas came out with some positive comment on 4 March.

The catalyst for the initial sell-off appears to have been the 2% decline in agency numbers to 17,328 but Exane notes: 'The revenue model is increasingly based upon total contract value as agents change their physical footprints; ii) Rightmove has the pricing power to evolve its revenue model as the customer base develops; and iii) we think the risk of a rapid scaling of dominant hybrid players is receding.'

By **Daniel Coatsworth and Tom Sieber**

Johnson Service offers consistent growth

Boring is beautiful when it comes to this stock

UK-focused **Johnson Service (JSG)** is a steady growth compounder in the mould of **Rentokil (RTO)** but is less well-followed and even less well-appreciated.

The laundry rental and cleaning business isn't headline-grabbing stuff but since 2014 the firm's turnover has doubled, earnings per share have risen by 90% and dividends have risen by 80%.

Despite its consistent growth record, investors have ignored the stock for the last couple of years leaving the shares trading on 17 times last year's earnings and just 16 times this year's estimated profit.

Johnson Service operates in two distinct markets: workwear, and hotels, restaurants and catering.

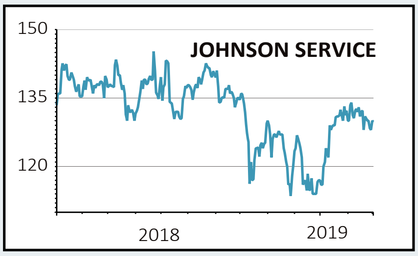
Its Apparelmaster division is the UK leader in workwear rental, protective wear and workplace hygiene services with large industrial clients like food producers and car makers.

In its other market, Johnson Service owns the Stalbridge, Afonwen, Bourne and PLS laundry and linen hire firms which supply hotels, corporate hospitality, leisure and catering markets.

Thanks to sales of additional products and services to existing clients as well as new customer wins at both divisions, group organic sales growth was 7.8% last year.

JOHNSON SERVICE
BUY
(JSG:AIM) 129p
Stop loss: 103p

Market cap: £478m



Pleasingly, growth accelerated from 7.2% in the first half to 8.4% in the second half with workwear reporting record turnover last quarter.

According to chief executive Peter Egan this higher second half growth rate has continued into the first couple of months of 2019.

High levels of recurring revenue generate steady cash flows which allow the firm to invest in the business.

As well as buying more productive and energy-efficient equipment, the company has invested in software to integrate the sales and service processes and a dedicated website where customers can manage their accounts.

It has also secured a new laundry site close to its distribution hub in Leeds which will not only bring considerable cost savings but will allow it to offer its service further afield from 2020.

In order to generate future organic growth the firm looks for opportunities to add small local firms and grow market share.

While the workwear market is already fairly concentrated, the hotels, restaurants and catering market is still fragmented with plenty of options to expand.

Recent acquisitions include South West Laundry and London Linen, which provide premium services to restaurants and hospitality firms.

The combination of investing in the current business, adding new capacity where opportunities arise and expanding geographically through acquisition mean Johnson Service can continue to grow well into the future.

By **Ian Conway**
Senior Reporter

FIDELITY CHINA SPECIAL SITUATIONS PLC

China is changing, presenting significant investment opportunities for those who know where to look.

Why? Well, the spending power of a growing and affluent middle class is increasingly driving the economy. And government reforms support this shift to a focus on the new consumer.

In such a vast and complex market, you need on-the-ground expertise to take full advantage of these changes and the resulting undervaluations, particularly of small and medium-sized companies, which can occur.

That's why Dale Nicholls, manager of Fidelity China Special Situations, and his team of researchers are based in Hong Kong and Shanghai. Their local knowledge and connections make them well-placed to identify and benefit from valuation anomalies as they arise.

RATED FUND 2019

INVESTMENT INVESTMENT COMPANY OF THE YEAR AWARDS 2018 WINNER SINGLE COUNTRY

CITYWIRE WINNER INVESTMENT TRUST AWARDS 2018 EMERGING MARKETS SINGLE COUNTRY FIDELITY CHINA SPECIAL SITUATIONS PLC

ELITE FUND rated by FundCalibre.com

So, if you're looking for local knowledge-based investment in a market that's too big to ignore, take a closer look at the UK's largest China investment trust.

PAST PERFORMANCE

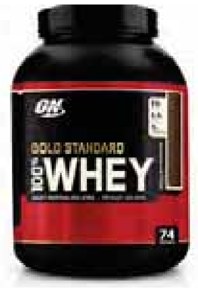
	Jan 14 – Jan 15	Jan 15 – Jan 16	Jan 16 – Jan 17	Jan 17 – Jan 18	Jan 18 – Jan 19
Fidelity China Special Situations Net Asset Value	**41.2%**	**-2.9%**	**45.4%**	**42.3%**	**-19.2%**
Fidelity China Special Situations Share Price	**33.9%**	**-7.8%**	**52.5%**	**46.9%**	**-20.6%**
MSCI China	**29.5%**	**-16.7%**	**39.2%**	**43.6%**	**-13.4%**

Past performance is not a reliable indicator of future returns. Source: Morningstar as at 31.01.2019, bid-bid, net income reinvested. ©2019 Morningstar Inc. All Rights Reserved. The comparative index of the Investment Trust is MSCI China.

Past performance is not a reliable indicator of future returns. The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. Investments in small and emerging markets can be more volatile than other overseas markets. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. This trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies.

To find out more, go to fidelity.co.uk/china or speak to your adviser.

Fidelity™ INTERNATIONAL



Big cheese Glanbia is fighting fit for the future

Take a taste of the global nutrition giant for organic and acquisitive growth

Food group **Glanbia (GLB)** is one of those lesser-known but highly exciting large cap stocks. The nutritional ingredients, cheese and dairy packaged foods giant is growing by organic and acquisitive means.

Consumer demand for Glanbia's brands and nutritional ingredients is underpinned by long term global health and wellness trends.

Investment banks Berenberg argues: 'Few other branded food companies continue to deliver such consistently strong annual volume growth, despite quarterly volatility due to retailer seasonality.'

Canadian group Saputo's recent £975m takeover bid for **Dairy Crest (DCG)** only serves to highlight the strategic attractions of well-invested manufacturers with strong brands.

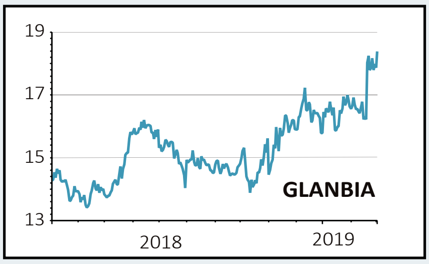
Kilkenny-headquartered Glanbia has a sustainable competitive advantage in the resilient global sports nutrition market, where investment in a strong innovation pipeline leaves the company well placed for profitable growth.

In addition, Glanbia has entered the $8bn weight management category through the $350m acquisition of the growing *SlimFast* brand.

With deep roots in the dairy industry, the €5.5bn cap also supplies innovative nutritional solutions for food producers based on whey, specialty grains and other dairy and non-dairy ingredients, while producing and marketing American-style cheddar cheese in the US.

GLANBIA
BUY
(GLB) €18.70
Stop loss: €14.50

Total assets: €5.5bn



Increasing use of whey protein in food and beverages generally is a tailwind, while Glanbia has beefed up its ingredients sector capabilities via the $89m acquisition of US-based non-dairy ingredient solutions business Watson.

Appetite for Glanbia's shares has been voracious since full year results (20 Feb) which allayed concerns over volumes and margins in the Glanbia Performance Nutrition (GPN) division.

And despite volatile input costs, and spending on acquisitions and investments in cheese manufacturing joint ventures in Ireland and the US, operating cash flow stepped back up in 2018, rising from €185m to €301.7m.

Risks to note include generating more than 80% of its earnings in US dollars and reporting in euros; and any milk supply shortages could limit Glanbia's cheese and whey production.

Any future entry into sports nutrition by a major consumer goods or pharmaceuticals group, or a surge in demand for cheaper private label products, could compress Glanbia's margins.

Based on Berenberg's forecast net debt-to-EBITDA ratio of just 1.3-times, Glanbia appears well-financed with acquisitive firepower aplenty.

For 2019, it is forecast to grow adjusted pre-tax profit, earnings and dividends to €336m (2018: €313m), 99.5c (2018: 91c) and 27.9c (2018: 24.2c) respectively.

While its shares trade on the London Stock Exchange it doesn't have the right type of listing to qualify for inclusion in FTSE indices. If it did, Glanbia would be big enough to slot into the FTSE 100.

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

Revisiting five of our favourite investment trusts

We look at some of the more notable collectives in our *Great Ideas* portfolio

We are big believers that investment trusts can be useful vehicles for investors as many have a solid long-term track record and pay a steady stream of growing dividends.

In this article we take a look at some of the investment trusts highlighted as *Great Ideas* in *Shares* over the past year and how they've performed.

12% IN 11 MONTHS

It may be the world's oldest investment fund but **F&C Investment Trust (FCIT)**, formerly called Foreign & Colonial, looks to have learned some new tricks which have helped it deliver the top performance among our investment trust selections with a 12.1% gain since April 2018.

The strong showing was achieved against the backdrop of highly volatile global markets, partly thanks to an outsized exposure to US markets which held up better than most. Amazon is the top holding at 2.2% of the portfolio.

The popular fund, which has £4bn in assets, also has the flexibility to invest in companies that aren't listed on a stock market and in private equity, with these areas managed by third parties.

Steered by the experienced Paul Niven since 2014, we continue to think its focus on sustainable business models backed by strong cash flow and at attractive valuations will prove a long-term winner.

BOOSTED BY A RECOVERY IN UK STOCKS

We added **Keystone Investment Trust (KIT)** to our *Great Ideas* portfolio in December, viewing an 11.3% discount to net asset value (NAV) as very attractive and on the basis value investing would finally swing back into fashion.

Shares in Invesco-run Keystone, managed by contrarian investor James Goldstone, have since advanced 8% as the UK equity market rebounded from a disappointing December 2018.

Sentiment towards the trust will also have benefited from January's better-than-expected Christmas trading results from **Next (NXT)** and **Tesco (TSCO)**, two of the larger underlying holdings. While there is still a wide 10.9% discount on the trust, a positive resolution to Brexit could trigger a bounce for UK equities which remain Keystone's focus.

Amazon is the largest holding in F&C Investment Trust

FORENSIC FOCUS

Research by Professor Hendrik Bessembinder found a mere 90

Investment Trust	Date added to our portfolio	Performance (%)
F&C (FCIT)	04/05/2018	12.1
Keystone Investment Trust (KIT)	13/12/2018	8.0
Brunner (BUT)	11/01/2018	4.9
Scottish Mortgage (SMT)	18/11/2018	3.5
JPMorgan Indian Investment Trust (JII)	06/07/2018	-6.8

Source: Shares, Google Finance

It could be a bumpy ride for JPMorgan Indian Investment Trust

firms accounted for half of the value created on the US stock market between 1926 and 2016. Investment trust **Scottish Mortgage (SMT)** is currently working with the research author to see if the same principle applied to non-US markets and its client service director Catharine Flood says initial findings confirm the same pattern.

This is relevant because Scottish Mortgage takes high conviction stakes in companies with the top 30 holdings in its portfolio accounting for nearly 80% of its assets.

'We look for the best businesses with the potential to do something extraordinary,' says Flood. 'And a company addressing a significantly large market and which keeps getting larger is a good place to look for returns.'

We said to buy Scottish Mortgage during the stock market sell-off last October and the shares have since risen by 3.5%. High exposure to technology-led businesses can make the shares volatile but ups and downs shouldn't put you off owning this superb investment trust for the long term. You just need to be patient.

THE IMPORTANCE OF QUALITY

The quality of a company has become even more important against a backdrop of central banks reducing monetary stimulus, says Lucy Macdonald, portfolio manager at **Brunner Investment Trust (BUT)**.

'Earnings are slowing down and we're seeing it everywhere. You therefore need to look for companies with the ability to grow. You also want good quality companies and ones that have a competitive advantage, good returns and management you can trust to allocate capital wisely,' she adds.

Growth and income-focused Brunner has spread its wings over the past year or so to have a more global focus including investments in healthcare firm Cooper Co, health insurer United Health and jewellery seller Richemont where Macdonald says luxury goods are 'surprisingly stable'.

The fund manager clearly has a knack for picking stocks given Brunner's shares are up by 4.9% since we said to buy last November.

INDIAN TRUST STRUGGLES

Our bullish call on **JPMorgan Indian Investment Trust (JII)** made in June 2018 is down nearly 7% following a volatile share price ride since last summer.

By far the biggest of the dedicated India specialist trusts by total assets, JPMorgan Indian has a five-year track record of outperforming the benchmark but struggled last year as a result of not holding strongly performing heavyweights Reliance Industries, Hindustan Unilever and Infosys.

A more recent GDP growth slowdown in India (Q4) and the India-Pakistan crisis are hardly helping to foster positive sentiment. Nevertheless, we still believe the trust is worth owning, offering exposure to one of the world's most exciting long-term growth markets with a focus on the exciting financials theme, while trading at an attractive 11.5% discount to NAV.

DISCLAIMER: Keystone Investment Trust has a holding in AJ Bell which is the owner of Shares magazine. The authors of this article also hold shares in AJ Bell.

By **Daniel Coatsworth, James Crux and Tom Sieber**

EUROMONEY
(ERM) £12.58

Gain to date: 7.3%
Original entry point:
Buy at £11.72, 20 December 2018

ASHTEAD
(AHT) £20.24

Gain to date: 2.9%
Original entry point:
Buy at £19.67, 18 October 2018

THE ANNOUNCEMENT that **Daily Mail & General Trust (DMGT)** will return its 49% stake in **Euromoney (ERM)** (plus £200m in cash) to shareholders may have resulted in some short-term pain for the share price of the latter but could be positive in the long term.

Investment bank Liberum believes Euromoney's

stock liquidity should increase and institutional investors may be more interested now the Daily Mail share overhang no longer exists.

In the support services sector, equipment rental group **Ashtead (AHT)** delivered another strong set of results driven by its US division.

Group rental revenues were up 19% over nine months, consistent with the first half, while signs of growth in the UK A-Plant business are encouraging.

The shares are trading slightly above our October entry price of £19.67 and represent good value given the company's history of rising shareholder returns.

As well as raising its dividend consistently, Ashtead has begun buying back its shares.

The psychology of stock market bubbles

We look at examples from history and hot investing themes from the present day to learn some lessons

The US investor John Templeton famously observed that bull markets 'are born on pessimism, grow on scepticism, mature on optimism and die on euphoria'.

Indeed, by the final stages of a bull market many investors have come to believe that either they have some magic gift or that they are destined to make money from everything they touch.

In fact, all that is happening is that the market is going up, and by having money in the market they are profiting, nothing more.

Perhaps the best way to spot a bubble is identifying a certain topic *everyone* is talking about, such as cobalt last year – the price is down 40% this year.

COLLECTIVE WISDOM BEGETS COLLECTIVE MADNESS

There is a popular argument that collective wisdom is a force for good in business, economics and even society because together 'the many' are smarter than individual experts.

Where stock markets are concerned however, collective wisdom frequently morphs into collective mania and greed.

As the journalist Charles Mackay said, investors 'go mad in herds' and 'only recover their senses slowly, one by one'.

Even the most rational investor finds it near-impossible to stand by and watch other people make money for what seems like little risk and no effort.

During the South Sea Bubble of the 1720s, no less a figure than Sir Isaac Newton was lured into playing the final stage of the bull market and lost a fortune.

Having doubled his money in the early stages of the bubble and sold out, Newton became swept up in the fever for South Sea shares and went back in at what turned out to be the very top.

Instead of keeping his £7,000 profit, he lost over £20,000 prompting him to rue that he could 'calculate the motions of the heavenly bodies, but not the madness of the people'.

CONDEMNED TO REPEAT THE MISTAKES OF THE PAST

Investors have such short memories that in the decade since the financial crisis half a dozen new bubbles have been inflated in various asset classes.

Some have burst, while some are being sustained by ultra-low interest rates which are driving people to chase better returns than they can get on cash.

In early 2017 the price of crypto-currencies soared on speculation that one day they would come into widespread use as an alternative to cash.

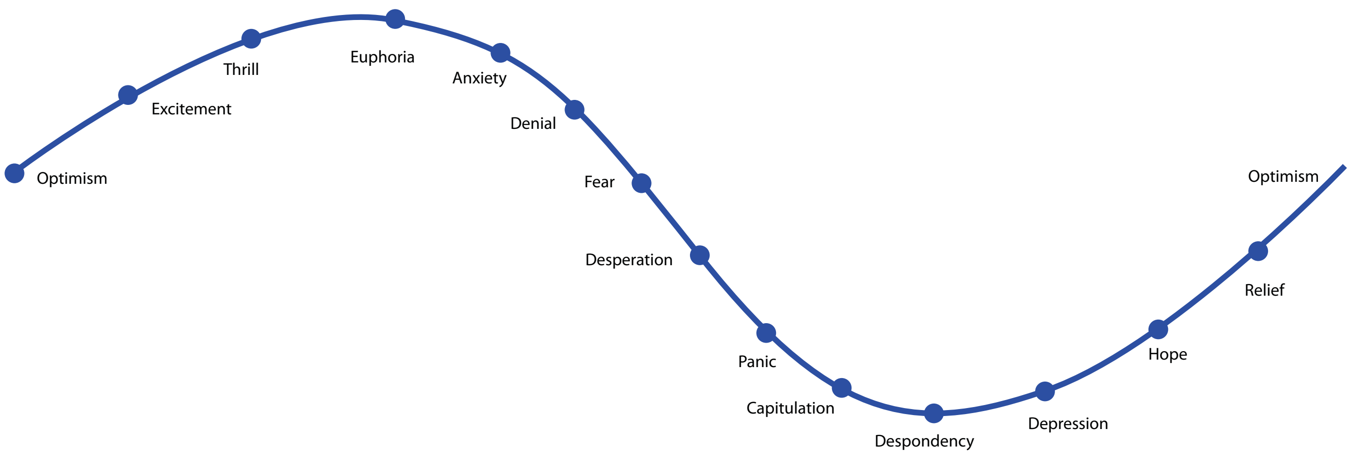
From less than $950 at the start of 2017, the price of Bitcoin hit $17,500 by the end of the year. Today the price of Bitcoin is less than $4,000.

While the Bitcoin bubble was inflating, another bubble was developing in cannabis or 'pot stocks' on the premise that governments around the world would legalise its use for medicinal purposes.

Between July and December of 2017 shares in Canadian producer Aphria jumped from

'Pot stocks' are an example of a bubble with producer Aphria's shares jumping from less than C$7 to C$30 in six months

The cycle of stock market emotions



less than C$7 to C$30 per share.

Shares in rival producer Canopy Growth also rallied from below C$7 to C$30 over the same period but carried on to hit C$75 last October.

There was also a bubble in 'low volatility' of all things with traders bidding up the price of the XIV index – which paid the inverse of the VIX volatility index – by 2,200% over five years.

That bubble burst spectacularly last February when in a single day the VIX index doubled, causing the XIV to collapse and forcing the issuer, Credit Suisse, to shut the product down.

THERE'S ALWAYS A BUBBLE SOMEWHERE

Views differ as to whether the US market and in particular the 'FAANG' stocks (Facebook, Amazon, Apple, Netflix and Google/Alphabet) are in a bubble.

There is clearly a bubble in leveraged lending (effectively loaning cash to companies with bad credit ratings). This trend has drawn dire warnings from central banks and the International Monetary Fund.

> **The fine wine market has also seen a resurgence of interest with first-growth Bordeaux leading prices higher**

Less than a decade on from the financial crisis there are new bubbles in residential property in Amsterdam, Hong Kong, London, Munich, Toronto and Vancouver, spurred on by low interest rates.

Fine art prices have soared since the crisis, with a growing number of works crossing the £10m threshold. Last year's highest-priced work by an Old Master fetched £11.5m against its pre-sale estimate of 'just' £1.5m.

The fine wine market has also seen a resurgence of interest with first-growth Bordeaux leading prices higher and more 100-point 'perfect' scores awarded.

Last month, for the first time in Bordeaux history, four leading critics have given the same wine the perfect score – 2016 Mouton Rothschild, a snip at £600 per bottle after tax and duties.

Lastly, it's debatable whether the bubble in classic car values has ever deflated. Prices for the most sought-after cars such as pre-1958 Ferraris barely blinked during the financial crisis and have more than doubled in the last decade.

Even fairly modern cars like 1980s and 1990s Porsches regularly command six figures today with prices up by 20% to 30% in the last year alone for certain models.

By **Ian Conway**
Senior Reporter

Janus Henderson
INVESTORS

The Anatomy of a Good Company: ASML

James Ross, Fund Manager of Henderson EuroTrust, provides a snapshot of the typical analysis undertaken on every company considered for the portfolio. In this case, he explains the rationale behind the inclusion of the Dutch technology company ASML.

When considering an investment for the Henderson EuroTrust portfolio, we tend not to focus on market noise or any technical factors; the main thing we are doing is trying to establish whether what we are looking at is a good company or not. This is a key part of the research process.

There tend to be many features that most good companies have in common, but there are myriad characteristics and features to analyse that will be unique to each and every business. By undertaking detailed analysis of the 50 or 60 companies we have on our radar (a portfolio of ~40 positions and a watch list of 10-20 names) we try to ascertain whether a business is a good business and if so, whether now is the right time to be invested or not. In this article we will highlight aspects of our process using one of our portfolio companies, Dutch lithography tool manufacturer ASML.

WHAT DOES THE COMPANY DO?

Based in Veldhoven, Netherlands, ASML is the global leader in the production, sale and aftermarket care of lithography tools. Lithography tools are used by semi-conductor manufacturers to etch 3D patterns onto silicon wafers; an essential part of the complex process of building up a transistor.

Over time, ASML has built up an extremely strong market position. Historically, it has had two competitors (Nikon and Canon), but the huge investment burden (capital intensity and research & development intensity) has taken its toll on its competitors, leaving ASML with a market share of roughly 85% (80% share in immersion technology 'DUV' and 100% market share in next-generation EUV technology). Without significant technological change, it is very difficult to see ASML's market share being challenged in the medium term. Crucially, ASML's strong market position has been partly created through the support (equity investments) of their main customers (Samsung, Intel and TSMC).

DOES THIS COMPANY GENERATE STRONG RETURN ON INVESTED CAPITAL (ROIC)?

The firm's gross margins (total revenue minus cost of goods sold) are high at 47%; and are expected to climb to more than 50% by 2020. The high overall gross margin is driven by the company's market position and ensuing pricing power.

Research and development (R&D) costs are relatively high at about €1.5bn per annum making up around 14% of sales - the equipment used in the lithography tool-making process can be the size of a bus and cost several hundred million Euros; so the R&D burden is a big barrier to entry. Other operating costs make up only a few percent of sales leaving an operating margin of around 28%. In terms of invested capital, most is tied up in working capital and in fixed assets used in the production process. Whichever way you cut the numbers, the above financial characteristics result in a business generating strong double digit ROIC, well above market/industry averages.

WHAT ARE THE RISKS TO THE BUSINESS AND TO THIS ROIC PROFILE?

ASML currently has a very strong market position with very few clear challenges. In the absence of significant technological change, ASML is likely to continue to generate a very strong ROIC. However, this is a field of complex technology. It is more difficult to have a strong insight into this industry than with other more straight-forward businesses, like a drinks company, for example. With complex technology, big changes can happen very quickly that you don't see coming at all and new players can come in with a completely new technology or approach. So the risk with ASML is the unknown; that a competing technology could come in and challenge the business' market position, achieving the same thing but in a different, better way.

Aside from the company's ROIC profile, the other risk with ASML, as with any good company, is that the share price valuation is high. This is a relatively expensive stock with a 2019 price-to-earnings* (P/E) ratio of around 27x, which is high versus other companies in the market. The high valuation means any doubts from the market about the company's ability to deliver on its targets could see the share price underperform. So, the valuation itself makes it risky.

IS THERE SCOPE FOR GROWTH?

To some extent, we have covered the 'supply-side' of the business above. As to the 'demand-side', a medium term outlook of sustained (but cyclical from quarter-to-quarter) demand growth looks likely. Microchips have gone from something we associated mainly with computers,

FUND MANAGER,
JAMES ROSS

to something that we now see in televisions, mobile phones, watches, heating systems, fire alarms and locks, to name but a few – microchips have become completely ubiquitous, so we know the demand side is very healthy. The demand for microchips is likely to grow very strongly over the next 5-10 years as the trend towards the 'internet of things' continues to drive adoption.

INVESTMENT DECISION?

For us, ASML fits into a buy and hold strategy; we find the business very attractive on a long term basis and see a medium term outlook of high, sustainable ROIC together with plenty of means of capital deployment (an attractive and rare feature of a high return business). We might trim or add exposure around different events but principally we want to hold it for as long as possible.

GLOSSARY

Price-to-earnings (P/E) ratio: A popular ratio used to value a company's shares. It is calculated by dividing the current share price by its earnings per share. In general, a high P/E ratio indicates that investors expect strong earnings growth in the future, although a (temporary) collapse in earnings can also lead to a high P/E ratio.

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.

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SHARES

AJBell

THE ESSENTIAL GUIDE TO MONEY IN RETIREMENT

WELCOME TO THE SECOND OF OUR TWO-PART SERIES AIMED AT HELPING INDIVIDUALS TO BE FINANCIALLY FIT IN LATER LIFE.

Across seven articles we explain how much to save for retirement, how the tax rules work and how to manage your money in your golden years.

THIS WEEK: Managing your money in retirement

- Generating an income and managing your portfolio
- Guaranteed income choices
- Tax-free cash: the rules and what to do with the money
- Inheritance planning

LAST WEEK (28 Feb): Preparing for retirement

- How much do you need to save?
- How do SIPPS work and are they right for me?
- A simple guide to pension tax rules

TAKING AN INCOME IN RETIREMENT: HOW MUCH SHOULD I WITHDRAW A YEAR?

WE LOOK AT VARIOUS STRATEGIES SO YOU CAN PAY THE BILLS AND ENJOY A DECENT LIFESTYLE

Changes in 2015 to the way pensions could be accessed mean you no longer have to buy an annuity with your pension, thereby opening the door to a wide range of options for retirees, and some conundrums in how to invest.

You can still choose to buy an annuity to obtain a guaranteed income for life. But what are your choices if you reach retirement and want to keep your money invested? How do you know where to invest and how much income to take? This article offers some answers to these questions.

HOW MUCH INCOME CAN I TAKE EACH YEAR?

In order to work out what you should be invested in as you near retirement, you need to first work out how much income you want to take each year. Usually people base this on a percentage of their initial pension pot size.

The key is balancing the amount you take off in income each year with the amount the pot is growing each year or the amount of income it's generating.

If you draw off more income and invest in lower-returning assets then you are likely to exhaust your pot more rapidly and be left with nothing. It's a tricky balancing act.

3 DIFFERENT PENSION WITHDRAWAL SCENARIOS: PENSION POT VALUE AT YEAR END

Year	4% withdrawal	7% withdrawal	10% withdrawal
1	£496,156	£480,651	£465,147
2	£492,183	£460,652	£429,120
3	£488,076	£439,979	£391,881
4	£483,831	£418,610	£353,388
5	£479,444	£396,522	£313,600
6	£474,908	£373,690	£272,472
7	£470,220	£350,090	£229,961
8	£465,374	£325,696	£186,018
9	£460,365	£300,480	£140,596
10	£455,187	£274,416	£93,645
11	£449,835	£247,475	£45,115
12	£444,302	£219,626	-£5,050
13	£438,584	£190,841	
14	£432,673	£161,086	
15	£426,563	£130,330	
16	£420,248	£98,539	
17	£413,720	£65,677	
18	£406,972	£31,710	
19	£399,997	-£3,401	
20	£392,787		
21	£385,335		
22	£377,632		
23	£369,669		
24	£361,439		
25	£352,931		
26	£344,138		
27	£335,048		
28	£325,652		
29	£315,940		
30	£305,901		
31	£295,524		
32	£284,798		
33	£273,711		
34	£262,250		
35	£250,404		
36	£238,160		
37	£225,503		
38	£212,420		
39	£198,896		
40	£184,918		
41	£170,469		
42	£155,533		
43	£140,095		
44	£124,137		
45	£107,643		
46	£90,593		
47	£72,969		
48	£54,752		
49	£35,921		
50	£16,457		
51	-£3,662		

Source: AJ Bell. Notes: Based on initial £500,000 pot, with a 60:40 split between equities and bonds. Equity returns are 5.3% a year, and bond returns are 4.4% a year, with annual charges of 1.5%. 4% withdrawal is £20,000 a year, 7% withdrawal is £35,000 a year and 10% withdrawal is £50,000 a year.

Let's take the example of someone who has reached the age of 65 with a £500,000 pension pot. If they want to take 7% income, that would represent £35,000 a year.

If your pot is split with 60% in shares and 40% in bonds, assuming average long-run returns for each of 5.5% and 4.4% respectively and 1.5% annual fees, how long does that last you?

Taking £35,000 each year lasts you for 18 years, at which point you have £31,710 left in your pension pot and would be 83 years old.

If you took 4% of the initial £500,000 as your income each year you'd have £20,000 annually. This withdrawal (assuming the same return figures as before) would last you for 50 years – so until you reached the ripe old age of 115.

At the other end of the scale, if you ramped up your withdrawal to a £50,000 a year your pension pot would run out after just 11 years, when you're only 76 years old.

You need to balance withdrawal targets with how much you think you'll actually need to live on during retirement.

The answer largely depends on what lifestyle you plan to have in retirement, so how much travelling you plan to do, for example, and also your living situation – do you own a home mortgage-free or are you renting?

The general rule of thumb is that you need two-thirds of your working age income during retirement. This broadly assumes that you are paying no rent or mortgage. You need to tot up how much income you'll get from other sources, such as the state pension, any defined benefit pensions, any rental properties and other investments you own.

SHOULD I KEEP ALL MY PENSION INVESTED IN THE MARKET?

Once you've decided on a withdrawal target, how can you make sure you pension pot delivers?

One option that some financial advisers recommend is to split your pension pot into two. You add up all the essential costs in your life, namely bills, food, transport and any housing costs, and you compare that figure to the state pension you'll receive.

If there's any shortfall you use some of your pension pot to buy an annuity that delivers that income.

This means your essentials are secured and the income you'll take from the remainder of your pot is for all the fun stuff – holidays, entertainment, buying a new car, gifts for family, day trips etc.

Once you've determined what income you need to generate from you investments you can organise them and make sure you're in the right assets.

DIVIDEND-PAYING INVESTMENTS

The general wisdom from many investors is that they need to invest in income-generating assets in order to be able to take their required money out each year. This means moving to funds focused on income and to dividend-yielding stocks.

This is certainly not a bad idea, particularly at a time when the FTSE 100, the UK's main stock market index, is currently yielding more than 4%.

There are also various income-producing funds and investment trusts that have long-standing fund managers who have proven their worth over time. The UK equity income funds space is one of the most competitive with some of the highest-profile fund managers for a reason.

If you take this route you'll need to target

investments that have a similar yield to the one you're hoping to draw off. If you're aiming for 4% yield then that will leave you with a wealth of options, but if you're aiming for 7% yield then you'll find you need to invest in riskier assets and will have fewer to choose from.

One key factor when hunting out yield is to look for a payout that has grown over time. You don't want to just be drawn to something that's delivering high income today. Instead, you want to know that it can continue growing over time and ideally keep pace with inflation.

Don't miss the 21 March issue of *Shares*: we'll profile some of the best income funds on the market

The Association of Investment Companies' website has a helpful list of 'dividend hero' investment trusts – trusts that have increased their dividends for each of the past 20 years or more – which is a good place to start. This income approach means that you may invest in assets that sacrifice some capital growth for income, but if you invest in the right assets you could end up drawing off the natural income from your portfolio and leaving the pension pot untouched.

This is a great option if you aim to pass on your pension to future generations, or if you want to be able to take lump sums from your pension too.

> "You don't want to just be drawn to something that's delivering high income today. Instead, you want to know that it can continue growing over time and ideally keep pace with inflation"

OTHER STRATEGIES TO CONSIDER

However, this isn't the only option. You could instead take a more holistic approach and just aim to maximise the growth on your investments, whether that's capital growth or income and then take your income through a mixture of natural yield and selling units of funds or shares.

This means you're not restricted to just focusing on income-producing assets and can get a mixture of different assets and of growth and income.

For example, if your portfolio generates 2% income and 5% capital growth you could draw off this income and then sell units or shares to take out that capital growth, in order to take your income.

A word of warning: if you're selling shares or units of different funds you'll incur higher charges than just drawing off natural income. When you sell a fund or share you incur transaction costs, and you'll need to account for these in your calculations.

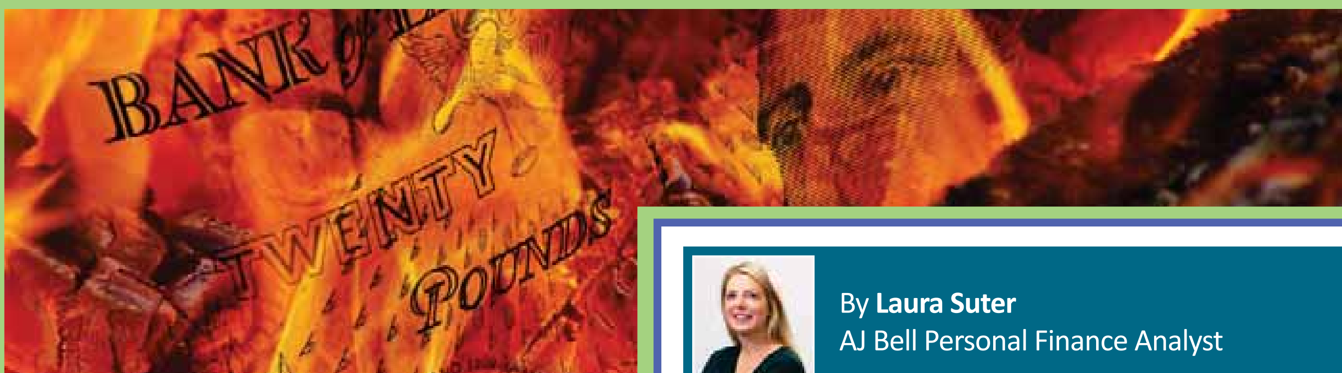
WHAT IS POUND COST RAVAGING?

When markets fall, drawing a set income off your pension pot, regardless of what has happened to the value of it, can have disastrous effects. This process is known as 'pound cost ravaging' and is when assets that have fallen in price are sold to fund withdrawals.

When markets fall you need to sell more shares or units of a fund to generate the same level of income. This means you are leaving fewer assets to profit when markets rebound as you have effectively cashed in a larger lump of your savings at lower prices.

Therefore markets need to rebound by an even higher figure to restore your pot to sufficient levels to keep drawing off the same income.

In particular, if your pension suffers from bad investment returns in the early years this can have a long-lasting effect. Even good returns in future years might not be able to restore the balance because your pension has to work extra hard to recover from the initial loss.



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

GUARANTEED INCOMES: DEFINED BENEFIT PENSIONS, ANNUITIES AND THE PRICE OF FREEDOM AND CHOICE

WE EXPLAIN DIFFERENT WAYS YOU CAN GENERATE AN INCOME FROM YOUR RETIREMENT SAVINGS

If you were offered £1m today or £1,000 a week for the rest of your life, which would you choose?

This was the very real – and admittedly enviable – dilemma facing 18-year-old Canadian Charlie Lagarde when she won the lottery in March 2018. In the end, she sensibly went for the weekly income option (given her age it was a bit of a no-brainer).

Millions of savers are facing a similar decision as they approach retirement, albeit often with much smaller sums of money.

So what factors do you need to consider when you're choosing between pension flexibility and the security of a guaranteed income such as an annuity or a defined benefit pension? This article addresses all the main points.

SHOULD I TRANSFER OUT OF A DEFINED BENEFIT PENSION?

Over the past few years thousands of savers with defined benefit pensions have opted for billions of pounds in cash today (to be invested in another pension scheme) rather than a secure income tomorrow.

Defined benefit schemes are expensive pensions to maintain for employers, hence why many companies are eager for employees to leave their schemes by offering generous lump sums.

If you're thinking about doing the same and transferring out of a defined benefit pension, make sure you know both the value of what you're giving up and the new risks you'll be exposed to as a result.

WHAT ARE DEFINED BENEFIT PENSIONS?

Defined benefit pensions pay you a guaranteed income stream from a set date (usually referred to as your 'normal pension age').

The amount you receive will be based on how long you've been in the scheme, with members accruing pension rights for every year they work for the company and are a member of the scheme. These rights will normally be based on either your career average or final salary.

For example, someone in a final salary defined benefit scheme with 1/60th accruals will earn the right to 1/60th of their final salary for each year they are an active member of the scheme. If they had a final salary of £60,000 and accrued 20 years of pension rights, they would get £20,000 a year in income in retirement.

To give you an idea of how much this might be worth, it would not be unusual for an employer to offer £400,000 or more today for someone to give up the right to this level of retirement income in the future.

A big part of the value in defined benefit pensions comes through protections attached to the plan. Usually defined benefit members enjoy inflation proofing on their guaranteed pensions, meaning their income keeps pace with rising prices. In addition, their spouse will often receive at least 50% of their pension income after they die.

RISKS TO CONSIDER

For those who accept the offer of a cash lump sum today over a retirement income tomorrow, there are various new risks to consider.

Responsibility for 'longevity risk' – that is ensuring your fund lasts as long as you – will shift directly onto your shoulders. You will need to manage your withdrawals in a way that ensures you have enough money to live on both today and throughout your retirement.

Taking out too much, too soon could leave you short of money in later years, while you also risk being hit with an unnecessary tax bill as 75% of your withdrawals will be taxed in the same way as income. It often makes more sense to take a steady, regular income from your fund to minimise the tax you pay.

As well as having control over your income levels, you'll also be able to pick and choose your investments. This means you'll be exposed to the fluctuations of the stock market – so the value of your fund might go down as well as up.

If markets take a turn for the worse you might have to rein in your retirement spending. And while you can take as much or little risk as you want, most people will at the very least want their investments to at least keep pace with inflation.

CONSIDER THE COSTS

There will also be extra costs and charges for you to pay, including the administration of your pot and for fund management, which previously would have been borne by your employer as part of a defined benefit pension. Keeping these costs as low as possible is a crucial part of retirement investing.

You must pay extra attention to your pension and understand the risks you'll be taking if you choose to leave the safety of defined benefit for the flexibility of a SIPP (self-invested personal pension)

That is not to say you shouldn't transfer – this is a personal decision only you can make, based on conversations with your financial adviser. On that point, it is important to note that Government rules mandate anyone with a defined benefit pension worth £30,000 or more must take regulated advice before transferring.

FIVE POINTS TO CONSIDER BEFORE YOU TRANSFER OUT OF A DEFINED BENEFIT PENSION

There are a number of clear drivers for those choosing products like a SIPP (self-invested personal pension) over defined benefit pensions. However, you must weigh up the pros and cons of both pension types before making your final decision. Here are five important points to consider.

1. Although defined benefit schemes are relatively safe (provided the employer responsible for paying your pension remains in business), they are also rigid. For many savers, a SIPP is attractive because it allows them to adjust their income levels to fit with their lifestyle and invest in a way that suits them.

2. The rules around death benefits are extremely attractive for SIPP investors. While defined benefit schemes might provide a 50% spouse's pension, SIPPs allow anyone who dies before age 75 to pass on their entire fund to their loved ones tax-free. If they die after age 75 their fund will be taxed in the same way as income.

3. Those who are ill or have life limiting illnesses might be able to take a larger income after they have transferred – either through drawdown or by purchasing an enhanced annuity (we'll come back to this later in this article) – than if they stayed in their defined benefit scheme. This is because with a shorter expected life span, larger payments can potentially look more sustainable.

4. A defined benefit pension promise is only as strong as the company guaranteeing to pay it. With a number of notable company failures in recent times – including the likes of BHS and Carillion – many members are understandably nervous about the prospect of pension cuts if the company sponsoring their scheme does go under.

   But even in the worst circumstances the Pension Protection Fund (PPF) exists as a valuable safety net, meaning you should still receive something in retirement. Broadly speaking, if you have yet to start drawing your pension you'll get 90% of its value as a retirement income from the PPF, while if you have already retired you'll get 100%.

5. You could also lose inflation protection if you leave a defined benefit pension. Those who have yet to retire with very large entitlements may have these capped. The level of this cap will depend on the age at which you are due to receive your pension benefits. For example, in 2019/20 the cap for a 65-year-old will be just over £40,000, while for a 60-year-old it is just under £35,000.

THE SIMPLE GUIDE TO ANNUITIES

Guaranteed retirement incomes are not just about defined benefit pensions. For those who have built up a retirement fund in a product such as a SIPP, there is the option of converting some or all of it into a guaranteed income for life by purchasing an annuity.

An annuity is similar in design to a defined benefit pension, except rather than an employer guaranteeing to pay a retirement income it is an insurance company taking responsibility. The other key difference is that things like inflation protection and spouse's pensions are optional – so they can be bought, but at extra cost.

WHY BUY AN ANNUITY?

The primary drivers for buying an annuity are, unsurprisingly, similar to the reasons someone with a defined benefit pension would decide to remain in the scheme rather than transferring out.

The main benefit of an annuity is that it provides certainty of income. So if you want a steady stream of money throughout your retirement and don't have the time or inclination to manage your own investments, an annuity could be a suitable option.

For example, a healthy 65-year-old with a £100,000 pension pot might be able to buy a single-life, inflation-protected annuity paying an income £3,478 of year.

If you're considering going down this route make sure you get an individually underwritten annuity which takes account of any illnesses or lifestyle factors which might entitle you to a better rate. The difference between a 'standard' and 'enhanced' annuity rate can be 30% or more, potentially making an enormous difference to your quality of life in retirement.

It's also absolutely vital you shop around because once you've bought an annuity, there's no going back. Some investors opt to have some of their retirement savings in an annuity and the rest kept invested in the market via a pension.

A good place to start your research is Money Advice Service's website which has various useful tools to see how much you might get.

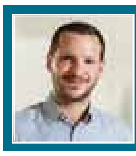
You can buy annuities from companies such as life insurance providers or through a broker albeit the latter will take a commission which will be reflected in your quote.

HOW MUCH COULD I GET FROM AN ANNUITY?

- A £200,000 pension pot could buy a healthy 55-year-old an inflation-protected income worth £4,391 a year.

- A £300,000 pension pot could buy a 60-year-old who has smoked 20 cigarettes a day for 20 years, drinks 10 pints of lager a week and has both high blood pressure and high cholesterol an inflation-protected income worth £9,765 per year.

If a person of the same age and with same pension pot didn't smoke, drink or have these health conditions the income would fall to £8,310 per year because they would be expected to live for longer.



By **Tom Selby** AJ Bell Senior Analyst

PENSION TAX-FREE CASH: WHAT ARE THE RULES AND DOES IT ALWAYS PAY TO TAKE IT?

WE LOOK AT DIFFERENT SCENARIOS AROUND HOW YOU MIGHT MANAGE YOUR RETIREMENT SAVINGS

Of all the benefits of saving in a pension, perhaps the best understood is the ability to take a quarter of your fund tax-free from age 55. As a result, getting at this money is a priority for millions of people approaching retirement.

In fact, research carried out by the Financial Conduct Authority, a regulator, suggests accessing tax-free cash is by far and away the biggest reason cited by investors for entering drawdown.

This article looks at the rules governing pensions' tax-free cash, the options and whether you should always take it as soon as you can or leave your money invested in a pension?

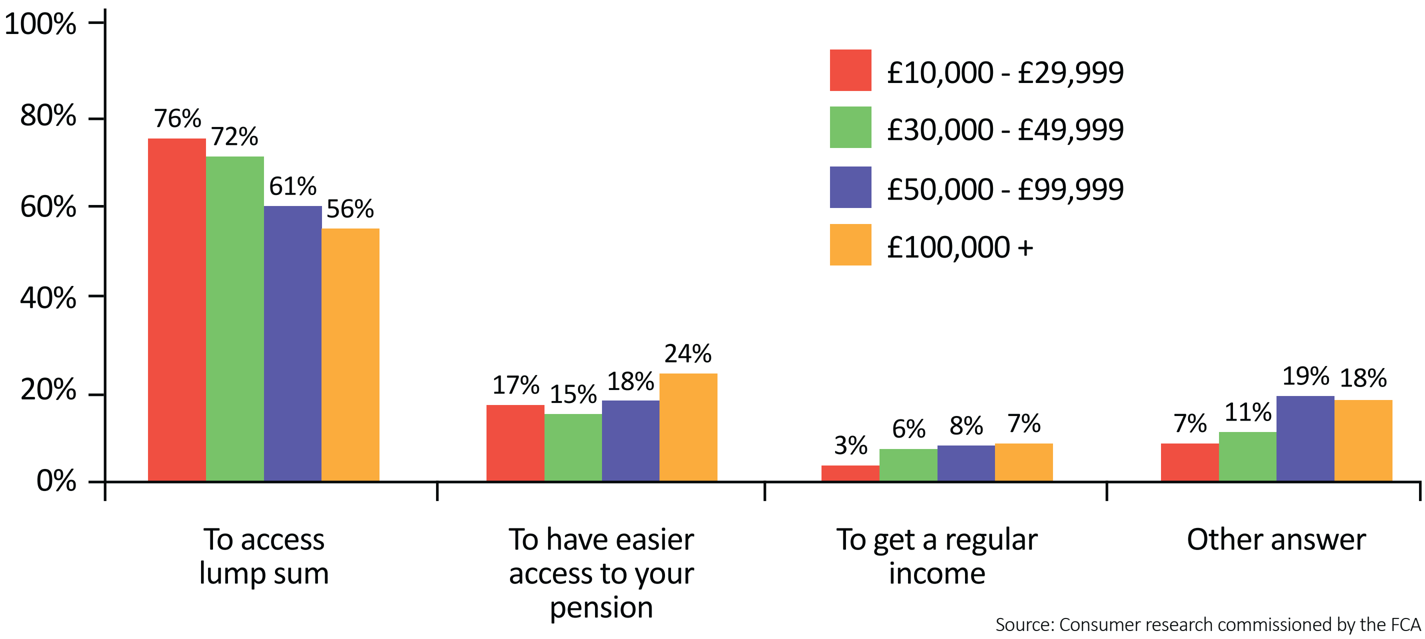
HOW TO GET YOUR TAX-FREE CASH

There are two ways you can access tax-free cash from your pension from age 55.

1. The first and most popular is to take the full 25% as a lump sum. In order to do this you must choose what to do with the rest of your fund – the normal decision is to either stay invested in the stock market and take an income through drawdown or buy an annuity from an insurance company.

It's worth spending some time considering which

REASONS FOR MOVING TO DRAWDOWN, BY POT SIZE



Source: Consumer research commissioned by the FCA option best suits your needs. This is particularly important if you're going to buy an annuity as this decision is irreversible.

For those entering drawdown it still makes sense to review your investments, provider choice and withdrawal strategy when you access your tax-free cash, but you don't have to start taking an income from your remaining pension or alter your underlying fund if you don't want to. Indeed, in many cases entering drawdown will have no impact on your investment strategy.

2. Alternatively, you can take ad-hoc lump sums from your fund (referred to as 'Uncrystallised Funds Pension Lump Sums' or 'UFPLS' in the jargon). If you go down this route, 25% of each withdrawal will be tax-free with the remaining 75% taxed in the same way as income.

TAKE IT OR LEAVE IT?

Just because you *can* do something doesn't necessarily mean you *should*. While taking your pension tax-free cash as soon as possible might be tempting, in some cases it can be better to hold off. You should at least consider what you're going to do with the money before taking it out.

Research commissioned by AJ Bell suggests around 14% of money withdrawn from personal pensions is invested in bank accounts. If the account pays low or zero interest, its value will be eroded over time by inflation.

Take someone with a £100,000 pension pot who, rather than accessing their tax-free cash at 55, holds off 10 years until they are 65.

If their fund grows by 4% a year after charges, at age 65 it will be worth £142,000 – generating almost £36,000 in tax-free cash. Or to put it another way, £11,000 more tax-free cash than if they'd taken it at age 55 and put it in a bank account paying 0% interest.

If you need to take some income from your fund and don't want to take your entire 25% tax-free cash right away, taking ad-hoc lump sums from your fund could be an option worth considering.

In the above example, someone who took £5,000 a year from their fund through UFPLS in each of the 10 years would have a fund at age 65 worth just over £85,000 (again assuming 4% investment growth after charges).

If they then took 25% of their remaining fund as

tax-free cash at age 65, they would have received almost £34,000 in tax-free cash in total – £9,000 more than if they had invested the money in a bank account 10 years earlier.

THE INHERITANCE TAX DILEMMA

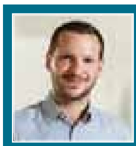
Anyone who prioritises passing money on to loved ones might also want to consider leaving their tax-free cash invested in their pension. Any money taken out of a pension will become part of your estate and subject to inheritance tax, meaning it could be taxed at 40% if your other assets are worth more than the £325,000 threshold.

In a pension, on the other hand, the entire fund can be passed on tax-free if you die before age 75 and it will be taxed in the same way as income if you die after 75.

So if your main aim is to enrich your beneficiaries, leaving your tax-free cash in your pension can make financial sense.

This is not to say you should always delay taking your tax-free cash. Those with high cost debts, for example, might be better off using some of their tax-free cash to pay off their borrowings. Equally some might prefer to use the money to help their children pay for university or get on the housing ladder.

Ultimately the choice of what to do with your tax-free cash from age 55 is entirely yours. But whatever you decide, it is sensible to consider carefully what you want to do with the money and which of the options fit best with your overall retirement plan.



By **Tom Selby** AJ Bell Senior Analyst

WHAT HAPPENS TO MY PENSION WHEN I DIE?

WE RUN THROUGH THE RULES AROUND INHERITANCE TAX ON RETIREMENT SAVINGS

People often talk about leaving their assets for their dependents but the vast majority don't how their money will be handled on their death or how it will be taxed.

Research by AJ Bell last year found that just 7% of people know how their pension will be dealt with on death, with a quarter saying they didn't know and half saying they think it will go to their beneficiary. In fact, your pension provider decides who it goes to, taking into account your nominated beneficiaries.

What's more, just 4% of those questioned by AJ Bell knew how their pension would be taxed on death, with 58% saying they had no idea. This article looks at all the important bits of information to make you better informed.

WHO IS YOUR PENSION LEFT TO?

Many people assume their pension will be covered by their will or that it will automatically go to the person they have stated is their nominated beneficiary. Actually your pension provider has the discretion of who to pass the pension pot on to. This is because of the complicated inheritance tax rules around pensions (more on this later).

Providers will take into account what's on your beneficiary form, but they must take into account all potential beneficiaries.

Family circumstances change frequently and people don't update their nominated beneficiaries regularly. It's important to make sure your beneficiary letter is as up-to-date as possible and that you regularly review it.

A lump sum can be paid to anyone, but the pension income can only be paid to certain dependants, nominees and successors.

A dependant is typically the deceased's spouse or civil partner, or their child under the age of 23. A nominee is a beneficiary who has been nominated by the deceased on a death benefit nomination. A successor is a beneficiary who has been nominated by a dependant or nominee.

HOW WILL IT BE TAXED?

Pensions are typically free of inheritance tax (IHT). Pension death benefits are exempt from IHT in most cases because your pension provider has discretion around to whom they are paid. The Inheritance Tax Act 1984 explicitly exempts contributions and undrawn funds that remain in a pension scheme.

But exceptions to this apply, such as where the pension provider does not have discretion, meaning that IHT is due.

Another exemption is if someone transfers their pension when they know they have a terminal illness and then dies within two years, the pot could be subject to inheritance tax.

But what about any tax charged once the pot has been passed on? The introduction of the pension freedom rules in April 2015 brought in far greater benefits for passing on wealth. Pensions can be passed on free from tax if the individual dies before the age of 75, as long as the money is passed to the beneficiary (or put in a pension scheme in their name) within two years.

However, any pension pot will usually be subject to tax at the beneficiary's marginal rate if the individual dies from the age of 75 onwards.

This money can also be subsequently passed on to future generations, with the same rules applying.

EXAMPLE: PASSING THE POT ON

Katy dies at the age of 77, leaving her £350,000 pension pot to her son Barry, who is a basic-rate taxpayer.

He draws some of the pension off and is charged 20% income tax on any money he takes out of the pot.

Barry dies at the age of 73 and £200,000 of the original pension pot remains. This is passed on to his daughter, Jenny, who is a basic-rate taxpayer. She withdraws the entire pot, but because Barry died before the age of 75, she can take this money tax free.

One area you need to note is the size of the pot in question. If you have breached the lifetime allowance, which is the maximum you're allowed to save in your pension over your lifetime, then your family may have to pay a tax charge on the money left behind. The lifetime allowance is currently £1.03m but is rising to £1.055m from April this year.

You also need to consider the point at which you take your 25% tax-free lump sum.

If this money is transferred out of your pension and is still sitting in your bank account when you die, unspent, then it will form part of your estate. This means that inheritance tax might be due on it, if your estate is above the inheritance-tax threshold.

This is true of any withdrawals you've made from your pension. This is also true of any money that you've withdrawn from your pension, either as income or as a lump sum, even if you've already paid income tax on it.

Because pensions are more inheritance-tax-friendly, many people who plan to pass on their wealth will want to exhaust their ISA savings first. This is because ISAs form part of your estate for inheritance tax purposes, unless they are passed on to your spouse, and so may end up being hit with a 40% tax charge.

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

HOW I INVEST:

Hoping for good returns in retirement

Peter explains how he has built up a portfolio to get him and his wife through their golden years

Peter from Bromley has been investing in the stock market since the 1980s when he bought shares in British Gas. Now aged 71, the former solicitor is retired and living off a pension and various other investment accounts.

With his children grown up and living elsewhere, Peter and his wife downsized some years ago and used some of the proceeds from selling a bigger house to top up their retirement savings. The children also received some of the money.

Peter runs his own money through a SIPP (self-invested personal pension), an ISA and a dealing account and has his investments spread across a range of funds, investment trusts and shares.

'I went into drawdown before I retired and initially took out more than I needed to on the principal that on death it would have gone anyway. Later when the rules about having to take an annuity were relaxed I rapidly took more care of it and withdrew less. I instead took other savings such as my ISA to bump up my withdrawals on the basis it is more tax efficient,' he says.

HOW PETER SAVED

Before he retired Peter was self-employed and had to make his own pension arrangements. 'I saved as and when I had spare cash. As with most people during the early years it was not a priority and only later did I increase contributions.'

He has accumulated numerous company shares over the years. The best performing ones have been sold and Peter is now left with the laggards. He's also made some mistakes over the years such as investing in companies that have subsequently gone bust including construction services group Carillion.

'The lesson I think is to be wary of equities and stick to funds and investment trusts,' he remarks.

Judging by his comment, it is perhaps not a surprise to discover that Peter has shifted his portfolio towards collective products run by a fund manager.

And on the rare occasion that he puts money into the markets today Peter says he is only likely to put his faith in investment trusts.

WHAT'S IN HIS PORTFOLIO?

'I have always preferred investment trusts to funds and took up some from the JPMorgan range way back to the time of PEPs because they had a far more extensive range of investment trusts than anyone else,' reveals Peter.

'I hold a number of products from this asset manager in my ISA and SIPP comprising **JPMorgan Claverhouse (JCH)**, **JPMorgan European (JETI)**, **JPMorgan European Smaller Companies Trust (JESC)**, **JPMorgan Emerging Markets (JMG)**, **JPMorgan Japanese (JFJ)**, **Japanese Smaller Companies (JMI)** and **Mercantile Investment Trust (MRC)**.'

Peter says his largest fund holding is **Artemis Income (B2PLJJ3)** which aims to provide investors with a steady and growing income as well as long-term capital growth. This product provides exposure mainly to companies listed in the UK but also the odd overseas-listed ones as well.

It has been run by Adrian Frost since 2002 and has delivered 11.36% annualised returns over the past 10 years, according to Morningstar.

Artemis Income's portfolio includes stakes in oil producers **BP (BP.)** and **Royal Dutch Shell (RDSB)**, media group **RELX (REL)**, life insurer **Aviva (AV.)**, supermarket **Tesco (TSCO)** and pharmaceutical giant **GlaxoSmithKline (GSK)**.

Peter says he is attracted to these types of funds in the hope of achieving a good return.

Now enjoying his golden years, the Kent resident says he has found investing 'immensely enjoyable' and wishes he had more spare cash to expand this interest.

By **Daniel Coatsworth**
Editor

WOULD YOU LIKE TO FEATURE AS A CASE STUDY IN SHARES?

We are looking for individuals or couples who can discuss their experience with investing and some details about their portfolios.

Anyone interested should email **editorial@sharesmagazine.co.uk** with 'case study' in the subject line.

Please note, we do not provide financial advice and we are unable to comment on the suitability of any investments you have made. If you're unsure please consult a suitably qualified financial adviser.

Why China is too big to ignore for JPMorgan Asian

Sell-off through 2018 is starting to reverse as bargain opportunities emerge for this investment trust

Emerging markets have swung back into favour with investors who spent most of 2018 pulling cash out of these higher risk regions.

Last year the MSCI EM Index fell 14.6% versus an 8.7% decline for the MSCI World Index, which includes major markets in Europe and the US.

Well-documented trade tensions between the US and China, a strong dollar (many emerging markets' national debt is dollar denominated) and muted earnings made for a tough time last year.

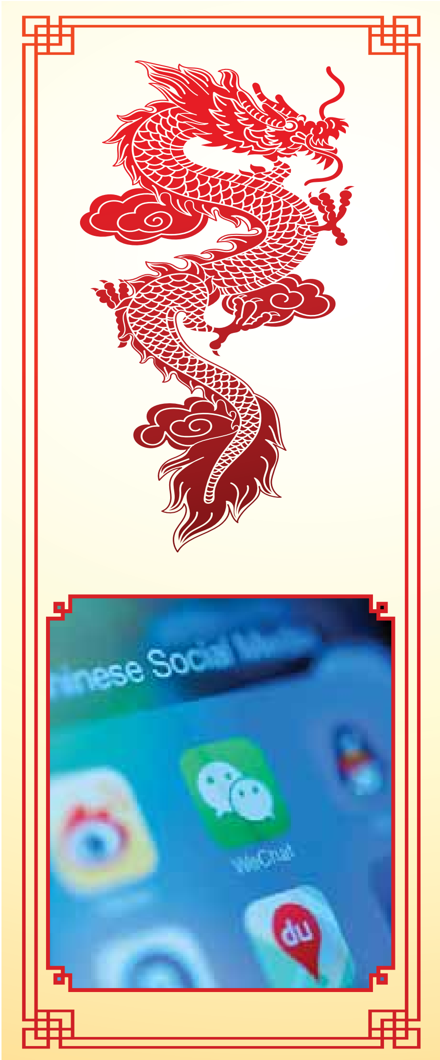
'It's been disappointing,' says Ayaz Ebrahim, one of the co-managers of **JPMorgan Asian Investment Trust (JAI)**.

But January told a different story with the MSCI EM index having outperformed its global equivalent by 12.5%. Opportunity has come knocking.

'China was very cheap compared to long-term averages,' says Ebrahim who has been building positions in the country in recent months in spite of the nation already representing by far the trust's biggest geographic allocation.

More than 36% of assets are in China. Add exposure to stocks in Hong Kong and Taiwan (heavily influenced by Chinese authorities) and you've got nearly 60% of the fund in one place.

About half of the trust's top



10 holdings are China-based, including social media giant Tencent, its biggest single stake. The recent momentum has also seen the average 11% or so discount to net asset value narrow to around 7%, based on the current 354p share price. That's not out of kilter with other Asia and emerging market funds.

The trust has also been investing in boots on the ground, its army of investment professionals across Asia now in excess of 100 people.

CHINESE MARKET HAS MATURED

Ebrahim has been managing funds in Asia since the early 1990s and he believes that a lot has changed in China and elsewhere in Asia over the years. 'Chinese companies are less state-owned while transparency and governance has got a lot better,' he says.

For many investors, China has simply become too big to ignore. The World Bank believes that China leads the pack when it comes to economic growth. Even if growth is slowing, in the three years 2017 to 2019 the supra-national organisation expects it to account for 35.2% of global GDP growth.

The US (number two on the World Bank's list) stands at 17.9% and the UK a piddling 1.6% by comparison.

China has long held a fascination for investors. The world's most populous nation has multiple structural growth levers to pull; increasing life expectancy requiring better and more widespread health and financial services, access to improving education and communication, and many others.

This allows JPMorgan Asian to

make decisions for the long-run and largely ignore the short-term volatility that comes with issues outside of its control, such as elections. Citizens are due to go to the ballot box in India and Indonesia (both April) and the Philippines in May, following those in Thailand last month.

TUNING OUT THE BACKGROUND NOISE

Ebrahim bats off threats of political change, believing that reforms already in place are unlikely to be reversed even if, for example, Narendra Modi is ousted from office by Rahul Gandhi's Indian National Congress, Modi's chief rival in India.

The investment trust manager isn't especially keen on India at present, citing such reasons as a banking sector still stinging from bad debt pressures, and company valuations that are 'still a bit towards the higher end'.

Indonesia has been a more favourable hunting ground for JPMorgan Asian in recent times, reflected in its 2.9% stake in manufacturing conglomerate Astra International, one of the trust's top 10 holdings.

But no decision is forever and following a strong end to 2018 for Indonesian markets, Ebrahim and his team have begun to reduce holdings this year.

Companies that might attract his attention in the future are likely to feature good corporate management teams, strong balance sheets and very good operational execution, dynamics that mean 'these companies can continue to deliver'.

Before clocking up the air miles with company visits, prospective investments must first pass through JPMorgan's proprietary *Expected Returns Framework* system.

The system crunches a deluge of operational, financial strength and valuation metrics modelled over a five year period, producing a single rating that can be used to compare businesses of different size, industry, location etc.

It looks at areas such as earnings growth, return on equity and price to book metrics, currency impacts, dividends, cash flows and changes in valuations.

JPMorgan Asian currently has about 55 holdings, according to Ebrahim, split between higher conviction larger stakes in bigger businesses sprinkled with higher risk but lower exposure to smaller enterprises.

JPMorgan Asian's top 10 holdings

Tencent	6.9%
Taiwan Semiconductor	6.4%
Samsung Electronics	5.8%
AIA	5.6%
HDFC Bank	4.2%
China Construction Bank	3.9%
Alibaba	3.2%
China Overseas Land & Investments	3.2%
Ping An Insurance	3.1%
Astra International	2.9%

JPMorgan Asian's geographic spread

China	36.1%
South Korea	13.9%
Hong Kong	12.7%
Taiwan	10.8%
India	9.5%
Indonesia	6.2%
Singapore	4.0%
Asia Pacific Emerging Markets	2.8%
Thailand	2.2%
Others	1.8%

Source: Trustnet

By **Steven Frazer**
News Editor

Is the US Federal Reserve stuck between a rock and a hard place?

We look at the US central bank's position in the current market environment

As the central bank calibrates policy, pulling on levers such as interest rates and its unorthodox quantitative easing (QE) programmes, it is logical to assume that the US Federal Reserve is the lord of all that it surveys.

After all, one goal of record-low interest rates and QE was to inflate asset prices in an attempt to create a wealth effect. It has certainly succeeded, at least with regard to the first half of that mission, with the S&P 500 and Dow Jones Industrials stock averages sitting less than 5% from last year's all-time highs.

But while the Fed has had success – in some eyes at least – with low rates and QE it is encountering greater difficulty in extricating itself from these supposedly temporary measures and taking monetary policy back to more 'normal' paths.

After a gradual series of nine interest rate rises over a three-year span from December 2015 and a 12%, $530bn shrinkage in its balance sheet the Fed has started to backtrack, putting rates on hold and hinting that it may end quantitative tightening this year.

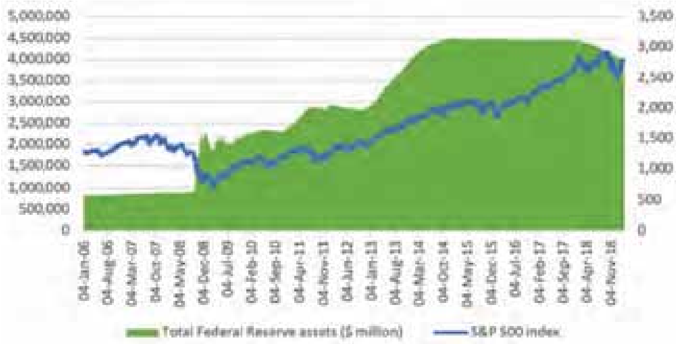
The Fed has cited economic concerns – but with unemployment near 50-year lows, wage growth humming along above 3% and US President Donald Trump proclaiming an economic miracle in his State of the Union speech many will wonder why it is so concerned.

POLICY POSER

Perhaps the Fed has been shunted around by the financial markets which protested about the withdrawal of cheap and plentiful cash.

Share and bond prices wobbled badly in late 2018 – even though US interest rates reached just 2.5% compared to the 2006 peak of 5.25% and QE swelled the Fed's balance sheet by $3.5trn or 350% – and it seems as if chair Jay Powell and his colleagues are backing off as a result.

THE FED HAS SO FAR WITHDRAWN JUST 12% OF ITS QUANTITATIVE EASING STIMULUS



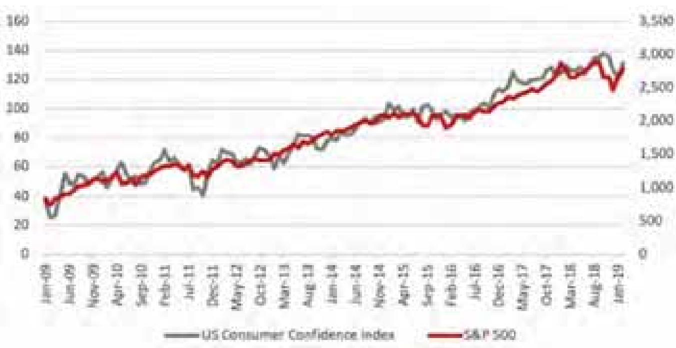
Source: FRED - St. Louis Federal Reserve, Refinitiv

One reason may be the swoon in US consumer confidence which accompanied last year's stock market dip.

Consumer confidence, as measured by the Conference Board, has soared alongside the S&P

500 since the end of the global financial crisis in 2009 – something which says the Fed's asset-price-promotion and wealth-creation policies have worked.

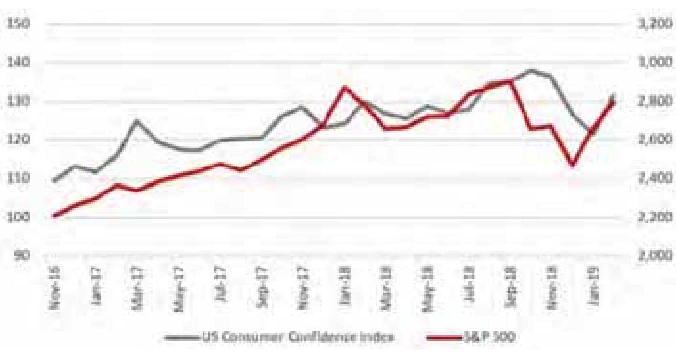
US CONSUMER CONFIDENCE AND THE S&P 500'S PERFORMANCE MAY BE LINKED ….



Source: Conference Board, Refinitiv

But as soon as the Fed tried to tighten policy, the US stock market wobbled and seemed to take consumer confidence with it, as even the FAANG companies tumbled briefly into bear market territory, with a drop in their aggregate market value that exceeded 20%.

… AS THE FED'S MOVE TO TIGHTER POLICY SEEMED TO HIT BOTH



Source: Conference Board, Refinitiv
Data covers the period of the Trump Presidency

PRISONER'S DILEMMA

Equally, stock prices – and consumer confidence – have surged again now that the Fed has begun to adopt a softer line.

This begs the question of who is in charge of whom? Is the Fed able to bend the markets to its will – even if Powell has said on several occasions that it was not the central bank's job to stop people losing money on their investments – or

are asset prices simply too integral to the US economy, thanks to the Fed's wealth-creation plan, meaning that the markets are dictating policy to the Fed?

We may find out in the coming months but the launch of QE-II, Operation Twist and QE-III after stock market slides under the Ben Bernanke-led Federal Reserve would suggest the central bank is paying acute attention to stock prices, despite any denials to the contrary.

We could end up with a situation whereby a financial market wobble knocks consumer confidence and that in turn hits the US economy hard.

Equally, any pause (or reversal) in policy to avoid that scenario could conceivably prompt stock markets and other asset prices to start melting up once more, ironically in the wake of any Fed move to stop a meltdown.

That brings dangers all of its own and conceivably makes it harder for the central bank to tighten policy in the future.

This is a wretched position for Powell to inherit but it shows that even the US central bank is still finding out what may be the possible unintended consequences of a decade's worth of unintended policy.

And remember that this policy's main architect, Bernanke, did not envisage low interest rates and QE lasting for anywhere near this long when they were introduced in 2009, itself a sign that it is too early to declare whether they really did work or not.

By **Russ Mould**
AJ Bell Investment Director

Why Merlin is looking to China and the US for future growth

The company wants to dramatically change its geographic sales exposure

China and the US could become more vital for growth for theme park operator **Merlin Entertainments (MERL)** as it aims to generate approximately 33% of sales each from the Asia Pacific, Europe and the UK, and the US over the long term.

Merlin currently generates over 50% of sales from Europe and the UK, compared to 27.5% from North America and 17.6% from Asia Pacific.

The company wants to expand across China and the US through investment over the next 10 years, yet the principles behind its strategy remain the same.

Merlin plans to develop new attractions and boost visitor numbers via promotions, annual passes and use its e-commerce ticketing platform with **Accesso (ACSO:AIM)** to upsell services and cut queues.

It also wants to target visitors taking short breaks by opening more themed rooms based on the *Lego* and *Gruffalo* brands.

Expanding Legoland overseas is a priority with new parks set to open in New York and Korea over the next three years, and potentially another Legoland in China if ongoing discussions are successful.

However, Merlin is not solely dependent on organic expansion as it is constantly looking for the right acquisitions to drive growth in a fragmented market.

Merlin wants to add another Legoland to its Chinese portfolio of parks

Yet its ability to do deals may be affected by significant net debt, which totalled £1.2bn at the last count, and its substantial capital expenditure requirements.

WHY HAS MERLIN STRUGGLED?

Merlin hopes its core strategy will help it bounce back from underwhelming trading over the last few years, which has been affected by extreme weather, concerns around terrorism and operational performance.

Analysts have expressed scepticism over whether the company can deliver the targeted returns for its Midway roll-out, particularly as the upfront investment is impacting returns in the short term.

People may already be familiar with many of Merlin's UK Midway attractions, including the London Eye and Madame Tussauds. Merlin also generates sales from its *Legoland* theme parks and resort theme parks, including *Thorpe Park* and *Alton Towers*.

Shares in Merlin have plummeted by more than 25% over the last two years thanks to a combination of headwinds and negative market sentiment.

This spurred activist investor ValueAct Capital to take a 5.4% stake in the company in early 2018. While ValueAct has not made its aims public, there has been speculation Merlin could be broken up.

WHY ARE CHINA AND THE US ATTRACTIVE MARKETS?

Merlin is looking to the US and China for future growth as people are spending more time and money in these countries enjoying leisure activities.

Instead of focus purely on opening expensive theme parks, the company plans to launch smaller attractions, based on the likes of *Peppa Pig* in locations such as shopping centres.

A *Peppa Pig* attraction traditionally measures up to 1,200 square kilometres, has a capital cost of between £2.5m and £3m and can be built usually within a year. In comparison a Legoland theme park takes five years to construct and has a much bigger footprint and involves significantly more initial capital expenditure.

In 2017, Merlin struck a deal with **Entertainment One (ETO)** to gain multi-territory rights for the *Peppa Pig* brand, allowing it to roll out attractions and themed accommodation based on the popular children's TV character.

Merlin wants to open Midway attractions that match the interests of populations in specific markets by, for example, opening Legoland Discovery Centres for the US market and launching Sea Life exhibitions in China.

Madame Tussauds in Bejing

In 2019, the company plans to open 10 new Midway attractions.

TRADING IS STARTING TO IMPROVE

It's early days but Merlin is starting to see an improvement in trading as Midway London recently returned to growth and record levels of accommodation openings supported *Legoland*'s growth.

A better performance is expected this year at Legoland by analysts as the latest Lego movie should drive more visitors to the park amid a rebound in *Lego* sales.

In its financial results for the year ending 29 December 2018, underlying earnings before interest, tax, depreciation and amortisation (EBITDA) of £494m beat analysts' forecasts of £488m.

The earnings beat was supported by Merlin's investment in its brands, including the high profile launch of Alton Towers' *Wicker Man*, which helped attract more visitors.

Following the high-profile *Smiler* rollercoaster crash in 2015, the company has been working hard to restore Alton Towers' fortunes.

WHAT DO THE ANALYSTS THINK?

Berenberg analyst Owen Shirley remained sceptical about future growth in a research note from October. He argued Midway's issues are structural and are unlikely to go away anytime soon.

'We believe visitation on a same-site basis has been declining since the end of 2013, and that Merlin's ability to mitigate that with pricing is diminishing,' comments Shirley.

Not everyone is so pessimistic. Barclays analyst Vicki Stern expects the firm to deliver long-term earnings per share growth at a compound annual growth rate of 8% underpinned by a 'structural growth story'.

Stern also flags several short-term catalysts at Merlin, including continued growth at Midway and the potential trading boost to *Legoland* from the latest *Lego* movie.

By **Lisa-Marie Janes**
Reporter

Are bonds making a comeback?

We look at fixed income funds and their role in a diversified portfolio

Bonds have had to work hard for investors' attention in recent years. At a time when equities have been strong (barring the final quarter of 2018) and paying healthy dividends to boot, bonds have seen their spreads squeezed and their attractions dwindle.

UK investors pulled an eye-watering £2bn out of fixed income in 2018, according to figures from the Investment Association.

But as global economies start to recover and central banks talk of raising rates and unwinding quantitative easing (QE), bonds could start to increase in appeal once more.

The Strategic Bond sector was the third best-selling fund sector in December as nervous investors looked for safer havens while stock markets were volatile.

Those who made such a call have likely enjoyed decent gains since. The average strategic bond fund is up 2.2% over the past three months, corporate bonds by 2.4% and high yield also 2.4%.

STELLAR START TO 2019 FOR BONDS

Andrew Jackson, head of fixed income at Hermes Investment Management, says: 'January and February are usually difficult months for the credit markets but this year they have been stellar.'

Tom Becket, chief investment officer at Psigma Investment Management, adds: 'High yield bonds have, so far this year, recovered all of the losses they suffered in 2018 and more. But I don't think this trend will continue, we may have seen all of the gains of 2019 in its first seven weeks.'

There are a number of issues on the horizon for bond investors. Rock bottom interest rates and quantitative easing, where central banks have been buying bonds and other assets to stimulate and increase liquidity in the financial system, have been a huge experiment and there is no telling what the effects will be as they are unravelled.

Those locked into longer duration bonds may particularly suffer; a 1% increase in the yield of a 10-year bond, for example, roughly equates to a 10% loss of capital.

CAUTIOUS INVESTORS COULD FEEL SOME PAIN

Ironically, it is cautious investors who may feel the worst of the pain as they are likely to have the highest allocations to bonds within their portfolios.

Aside from rising rates and central bank policy, there are other issues afoot that are likely


Trade tensions between the US and China could affect fixed income investors

to affect fixed income investors, not least the trade tensions between the US and China and, of course, Brexit. Becket is also unconvinced that we have seen the last of QE in the US.

He explains: 'The Fed has a complete lack of focus on its deficit and we are seeing a lot of Treasury bonds coming to market. If investors start to become concerned about a supply/demand imbalance these could be difficult to sell and the Fed will have to step in.'

Becket is being cautious about which fixed income assets he invests in at the moment, focusing on those with a bias to niche or specialist areas. He likes the **TwentyFour Dynamic Bond (B5KPRZ3)** fund because of its allocation of mortgage-backed securities – the fund has 11% of its portfolio in asset-backed securities.

Becket says: 'I also prefer funds which are not too big as it means they can be nimbler. Huge bond funds end up having to be quite passive because they have to participate in the larger new issues that come to market.'

Meanwhile, Terence Moll, chief strategist at Seven Investment Management, says he has been holding fewer bonds in recent years to protect portfolios from capital losses. He says: 'We would prefer to give up the 1.1% coupon offered by gilts (UK Government bonds) to avoid the potential 5% capital losses. For cautious investors, a permanent loss of capital is the key thing to avoid.'

CENTRAL BANKS AWARE OF RATE HIKE RISKS

Still, it is important to realise that central banks are very aware of the havoc that raising rates too quickly could have on both markets and economies. The US Federal Reserve, for example, has taken two years so far to raise rates from 0.5% to 2.5% and now appears to have paused the operation to avoid spooking markets.

Elsewhere, the pace of change is even slower. The Bank of England has edged rates up in two tiny increments to 0.75%, the European Central Bank has indicated the first of its hikes is unlikely to happen before the summer, while in Japan there is talk of ramping up QE.

Moll adds: 'We often hear people say that interest rates have gone up and nothing bad has happened to bond markets, but that statement is missing the word "yet". So far, the pain hasn't happened but that does not mean the risk has vanished.'

A PLACE FOR BONDS

Bonds may still have a place in many portfolios despite these concerns. It's worth remembering that often the reason for choosing government bonds, for example, is not for their growth or income prospects but for the protection they can provide in a portfolio.

The fact that default is unlikely is sometimes worth taking a small loss for, as evidenced when Germany Bunds were producing a negative return in 2016 – it was effectively losing investors money to back these bonds but what they wanted was the protection they provide.

Becket says: 'Investors should be taking a diversified approach, you don't have to choose between equities and bonds or any other asset class, you can blend them.'


By **Holly Black**

KEY

- Main Market
- AIM
- Investment Trust
- Fund

KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

8 March: Bodycote, SIG. **11 March:** Old Mutual.
12 March: 888, Computacenter, Domino's Pizza, G4S, Pendragon, Pennant. **13 March:** French Connection, John Menzies, Advanced Medical Solutions, Balfour Beatty, Burford Capital, Dignity, Hikma Pharmaceuticals, Lookers, WM Morrison, Provident Financial, Standard Life Aberdeen.
14 March: Capita, Marshalls, Quilter, Cineworld.

Half year results

11 March: River & Mercantile.
14 March: DFS Furniture.

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All charts' data sourced by Refinitiv unless otherwise stated

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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.