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SHARES

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CONCLUSIONS FROM \$47BN TOBACCO MERGER

What next after
BAT bid for
US rival?

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Senior profit
shock reveals
sector in descent

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WHY VOTE MATTERS TO UK INVESTORS

HOW **AMAZON** IS EATING EVERYONE'S LUNCH

The long-term cost of incoming M&A

A certain amount of deal making is healthy but not if London loses some of its best companies

A recently published report from Bambridge Accountants reveals the slump in sterling is sparking a wave of investment by the 200,000 US expats living in the UK, with a three-fold increase in the number of Americans making big investments since the Brexit vote.

ASSET GRAB

This asset grab, which mainly involves property, could well be repeated in the corporate space as the pound teeters at the \$1.22 mark. In the short-term this could provide a further catalyst for a FTSE 100 already buoyed as its overseas earnings carry more weight in sterling terms.

On the face of it the \$47bn merger between **British American Tobacco (BATS)** and **Reynolds American (RAI:NYSE)** (21 Oct) (see page 6) and fund manager **Henderson's (HGG)** £6bn capture of US peer **Janus Capital (JNS:NYSE)** (3 Oct) run counter to this narrative but in fact both deals are essentially reverse takeovers. Henderson has already said it will cancel its London listing and there can be no guarantee BAT won't follow suit if



its own deal goes through.

HOLLOWED OUT MARKET

Any near-term boost from M&A needs to be weighed against the long-term impact on London as a financial market. To date the one, really big high profile victim in the wake of the EU referendum is probably ARM, with Japan's SoftBank completing its £24bn acquisition in September but this is a big loss for a market which

is already under represented in terms of the technology space.

Engineering group **GKN (GKN)** is one of a number of firms which look vulnerable to a bid – even if a growing pension deficit represents something of a poisoned pill to any prospective acquirer – while reports suggest US luxury brand **Coach (COH:NYSE)** might seek a merger with its UK peer **Burberry (BRBY)**.

The longer sterling remains in the doldrums the greater the risk that London becomes a hollowed out market with its best names snapped up by opportunistic bids from abroad. (TS)

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We use traffic light symbols in the magazine to illustrate broker views on stocks.

Green means buy, Orange means hold, Red means sell.


The numbers refer to how many different brokers have that rating.

Eg: **4** **2** **1** means four brokers have buy ratings, two brokers have hold ratings and one broker has a sell rating.

The traffic light system gives an illustration of market views but isn't always a fully comprehensive list of ratings as some banks/stockbrokers don't publicly release this information.

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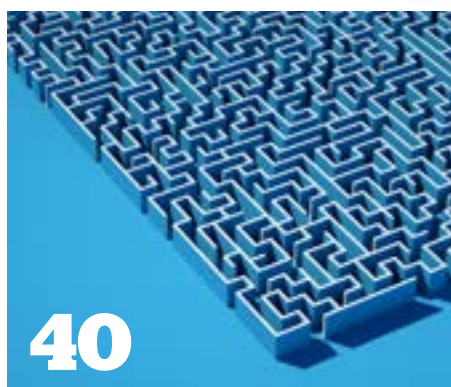
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Deal lights up tobacco sector

Mega-merger could be precursor to wave of consolidation

The tobacco industry looks poised for further M&A as **British American Tobacco (BATS)** makes its long speculated move for US tobacco giant **Reynolds American (RAI:NYSE)** through a proposed merger (21 Oct) which values the business at \$93bn (£76bn). In particular **Imperial Brands (IMB)** could now be in play.

SURPRISE MOVE

UK-listed BAT already owns 42.2% of the US supplier of Pall Mall and Newport brands and a tie-up between the two companies has always been considered a longer term possibility.

But the timing of the deal was described as a 'surprise' by investor Guy Ellison, head of UK equities at Investec Wealth Management.

Investment bank Berenberg also seemed shocked, saying a deal had not been anticipated in 2016 or 2017.

'The timing is a surprise, but the strategic rationale makes perfect sense, pivoting BAT further towards the high value US market, consolidating some strong brands and Reynold's position in next generation tobacco,' said Ellison.

'Despite relatively modest synergies, the deal is still seen adding value for shareholders in the first full-year after completion. The ball is now in the court of Reynold's board and shareholders to consider the offer.'

IMPERIAL BRANDS NOW IN PLAY?

BAT's decision to launch the deal now may have been driven by Reynolds' acquisition last year of



parts of rival Lorillard for \$27.4bn, which consolidated its market share in the US.

Another catalyst, according to analysts at investment bank Jefferies, is the availability of low cost debt financing to companies with good credit ratings.

'This may pave the way for further consolidation in the sector,' adds Jefferies analyst Owen Bennett.

'Given the attractiveness of the US market (both cigarettes and vapour), we believe **Japan Tobacco (2914:TYO)** would want greater exposure and **Philip Morris International (PMI:NYSE)** also.

'Logical deals therefore could be JT buying Imperial Brands and PMI coming back in to merge with Altria.'

\$93BN MERGER PROPOSAL

Shareholders in Reynolds, number two in the US market behind Marlboro supplier **Altria (MO:NYSE)**, are being offered \$47bn for the shares BAT does not already own.

Valuing Reynolds at \$65.50 a share, BAT is proposing to pay \$20bn in cash and to issue \$27bn of shares to Reynolds shareholders.

Including BAT's 42.2% stake, the deal values Reynolds at a total enterprise value of \$93bn compared to a trailing 12 month earnings before interest, tax, depreciation and amortisation (EBITDA) result of \$5.7bn, a multiple of 16.3.

The offer still needs to be approved by Reynolds' shareholders and meet necessary regulatory hurdles before it can go ahead. (WC)

Disclosure: The author owns shares in BAT

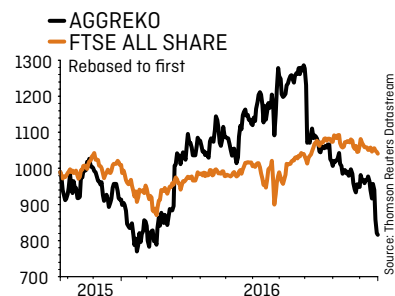
Aggreko hit by Panmure 'sell' note

Profitability could be at risk in key markets says analyst Donnelly

MOBILE POWER GENERATION provider **Aggreko (AGK)** slumps 15% as Panmure Gordon analyst Michael Donnelly slaps a 'sell' rating on the stock. We think the outlook is more positive for a stock which is one of our top picks for 2016.

Donnelly, who flagged concerns about **Utilitywise (UTW:AIM)** and **Capita (CPI)** ahead of similar sell-offs, says low growth, struggling end markets and poor cash conversion are Aggreko's key problems.

Aggreko is now in its fourth year of 'effectively zero growth' writes Donnelly. Revenue growth is important, according to Donnelly's analysis, if management is to achieve a return on capital target of 20%.



End markets are also struggling, Donnelly adds, flagging 40% of profit earned in North America, Latin America and Africa

as potentially at risk from lower renewable energy prices and competition.

Finally, Donnelly says the stock is 'very expensive' on a calendar year 2017 free cash flow yield of 5.3% and a dividend yield of 2.9%.

Arguing a more bullish case in August, Aggreko chief executive Chris Weston said Aggreko's fleet on hire in Utilities, its largest and most profitable division, is expected to head towards 85% of capacity later this year. That would be the highest since 2012 and lead to material year-over-year gains in revenue and margins moving into 2017.

Donnelly's earnings per share estimate in 2016 is 65p, rising to 74p the year after. Shares in Aggreko trade at 816p.

SHARES SAYS: ↗

If this is the bearish case on Aggreko investors should actually be fairly encouraged.

BROKER SAYS

3 7 7

Fair wind behind Hurricane

£70m placing to fund expanded drilling programme

UK OIL AND gas play **Hurricane Energy (HUR:AIM)** looks to maintain its current upwards momentum raising more than £70m through a placing and accompanying open offer (20 Oct) to drill two new exploration wells on its Lincoln and Warwick prospects.

Drilling is expected to commence in November.

The fundraising is another demonstration of investor faith in the stock after a premium-priced £52.1m placing in April.

These funds were used to drill an appraisal on its Lancaster discovery and in September (9 Sep) the highly encouraging results of this well helped boost the shares.

Hurricane is targeting fractured basement reservoirs, a largely untapped source of hydrocarbons in the UK which has been exploited in Yemen, Libya and Vietnam.

FinnCap analyst Dougie Youngson reiterates his 'buy' recommendation and ups his price target from 66p to 72p.



SHARES SAYS: ↗

At 40p we continue to see upside potential. Farm-out discussions are another potential catalyst before the end of the year, with Hurricane negotiating from a position of strength.

BROKER SAYS

3 0 0

Laird can rebound after warning

Brave investors may be willing to back self-help turnaround

A substantial profit warning (19 Oct) from electronics and high performance materials firm **Laird (LRD)** leaves the shares at their lowest levels in more than five years. This will come as no surprise to regular *Shares* readers, but is also raises the potential for a recovery play.

Laird warned in its third quarter trading update that underlying profit before tax for the full year to 31 December 2016 will now come in at about £50m. That's about 30% below the £71m the market had pencilled in, according to consensus forecasts. The market's response was to slash the share price almost in half, from 308p to 159.7p.

Pressure has emerged in the supply chain for **Apple (AAPL:NDQ)** where volumes, pricing and margins appear to be well short of expectations despite anecdotal evidence suggesting solid end demand for iPhone7. This may suggest that Laird's structural position within Apple has changed, 'most likely due to stronger competition,' says Nick James, analyst at broker Numis Securities.

CEO Tony Quinlan's challenge is to reshape the business to meet its current and future



opportunities in new markets, including substantial scope to cut costs.

SHARES SAYS: ↗

Some level of restructuring looks inevitable and that could cap investor enthusiasm in the short-term. But this looks a recovery opportunity if management action is fast and effective, though the risks are high.

BROKER SAYS

2 3 1

Whitbread's coffee hit

COFFEE PRICES AT a two-year high are a significant headwind for Costa Coffee and Premier Inn owner **Whitbread (WTB)** which is also absorbing costs associated with IT investment and the introduction of the National Living Wage. First half results (25 Oct) included a 5% dividend hike and an otherwise pretty robust performance in the wake of the Brexit vote but the market remains unconvinced. Year-to-date the stock is down 16% at £36.87. (TS)

£100m cash windfall

IT INFRASTRUCTURE SUPPLIER **Computacenter (CCC)** is expected to unlock a cash return to shareholders worth around £100m next year. This would imply a rough 80p to 85p per share payout on top of regular dividends forecast at nearly 25p per share. Buying the stock at the current 733.5p would, by our calculations, net investors a 15% cash yield. (SF)

Fight for French Connection

FADING FASHION BRAND **French Connection's (FCCN)** unloved shares have been enlivened by further whispers of an impending bid. Loss-making French Connection, where founder, CEO and chairman Stephen Marks doggedly holds sway with a 41.6% stake, is reportedly being circled by US private equity firm Neuberger Berman and UK-based Rutland Partners. (JC)

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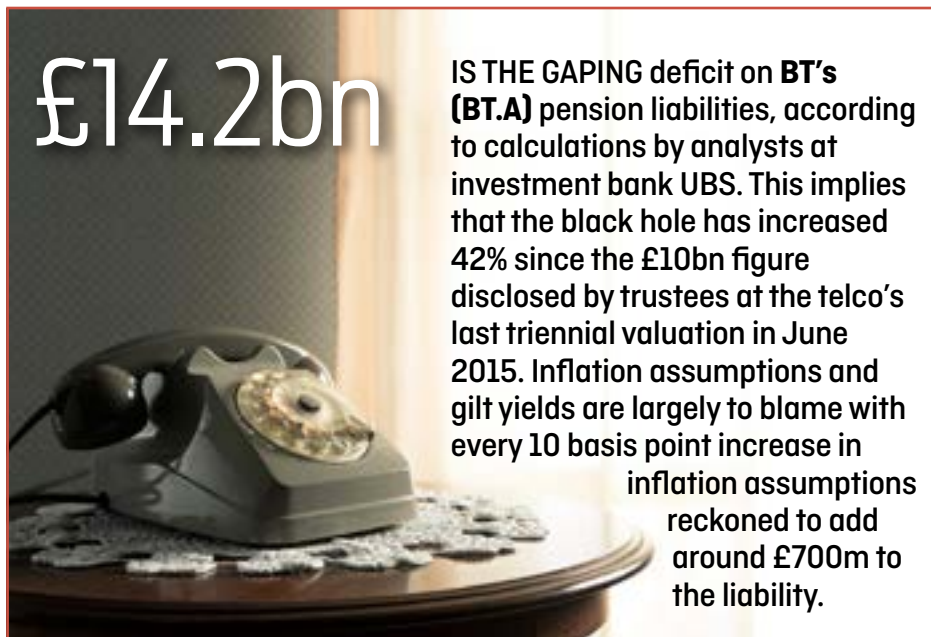
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THIS IS THE staggering scale of cyber crime in the UK, 40% of all crime committed and involving 5.8m recorded incidents last year to 31 March 2016, according to official estimates from the Office of National Statistics (ONS). One in 10 Brits have been a victim of online scams, virus raids, ID theft or some other variation of hacking attacks. Read our recent cyber security investment feature, see, *Shares* 6 October.



IS THE GAPING deficit on **BT's (BT.A)** pension liabilities, according to calculations by analysts at investment bank UBS. This implies that the black hole has increased 42% since the £10bn figure disclosed by trustees at the telco's last triennial valuation in June 2015. Inflation assumptions and gilt yields are largely to blame with every 10 basis point increase in inflation assumptions reckoned to add around £700m to the liability.



IN A WEEK littered with profit warnings, two of the biggest fallers will have been well known to *Shares* readers.

Antenna systems specialist **Laird (LRD)** plunged 50% after it admitted full-year forecasts were too optimistic. *Shares* 25 August headline was *Laird Facing Profit Shock*.

Back in May, we questioned whether investors in **Motorpoint (MOTR)** were being sold a lemon after punchy pricing on an initial public offering (IPO). The stock now trades more than 25% lower than its IPO price.



HOME BUILDER Bellway (BWY) says selling volumes and prices in the London market are being supported by Help to Buy, a government incentive scheme for first-time buyers.

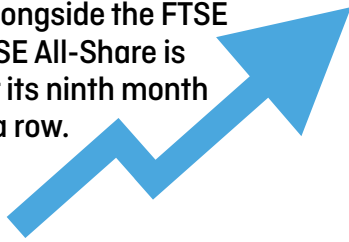
Around 39% of Bellway's customers which made reservations in the capital used the scheme according to Ted Ayres, chief executive officer. Bellway's projects are mostly in the more affordable suburban regions of the capital, with an average selling price of £377,000, insulating it to an extent from some of the aggressive price cutting at the luxury end of the market, Ayres claimed alongside full-year results. Three-quarters of the builders' operations are outside London.

9 months

SHARES IN THE FTSE 100 index are nearing their ninth straight month of gains as October comes to a close.

The UK's blue chip benchmark is up around 14% year-to-date and logged declines in only one month, January, when the index declined 3.1%.

In October, the FTSE 100 is up around 2% at *Shares* publication deadline. Alongside the FTSE 100, the FTSE All-Share is gunning for its ninth month of gains in a row.



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THIRTEEN ACQUISITIONS ADDED 13% to **Rentokil's (RTO)** top line in the third quarter as the pest control specialist's growth starts to take off under chief executive Andy Ransom.

Third quarter revenue growth, excluding contributions from newly-acquired units, increased 3.1% at constant exchange rates helped by a 5.9% gain in Rentokil's flagship Pest Control unit.

Overall, Rentokil has completed 33 acquisitions in the last nine months contributing annualised revenues of £109m as it seeks to extend its market leading position in pest control.

How well capitalised are the banks?

Ratio of regulatory capital to total assets



Source: Berenberg. Note: Equity Tier 1 ratio, Q2 2016

BEST & WORST - US EQUITY FUNDS (FLEX CAP)

Fund	Year-to-date (%)
Legg Mason Opportunity Class LM	58.5%
Legg Mason ClearBridge Tactical Dividend	26.5%
Wells Fargo (Lux) Worldwide Fund I	31.8%
CRM US Equities Opportunities A	31.0%
GAM Star GAMCO US Equity Institutional	31.0%
GAM Star Capital Appreciation US Equity	16.4%
Wellington US Capital Appreciation Fund	16.2%
Perinvest (Lux) Sicav Harbour US Eq C	8.7%
Legg Mason Opportunity Fund Class X	-9.9%
Fourpoint Funds - America R	-15.9%

Source: Morningstar. Note: Different fund classes with same manager and similar portfolios excluded

FTSE 350 IN A MONTH

BEST PERFORMERS

	COMPANY	(%)
1	Evraz	34.22
2	Vedanta Resources	31.18
3	Tullow Oil	29.80
4	KAZ Minerals	28.37
5	Anglo American	23.10
6	Hunting	23.06
7	Glencore	20.52
8	Petra Diamonds	19.49
9	Tesco	18.66
10	Victrex	16.43

WORST PERFORMERS

	COMPANY	(%)
1	CMC Markets	-14.34
2	Polymetal International	-15.44
3	AA plc	-16.08
4	Aggreko	-17.00
5	IP	-17.53
6	Senior	-23.63
7	Keller	-26.37
8	NCC	-37.01
9	Capita	-37.25
10	Laird	-48.40

* Excluding Equity Investment Instruments, Nonequity Investment Instruments

Date to 25 October 2016

Source: Thomson Reuters Datastream

Aiming for a hat-trick with Hogg

High quality travel management outfit Hogg Robinson's a winner

After delivering gains of 40% and 20% over the past couple of years it has featured among our portfolio of top picks, we're again backing dependable corporate travel specialist **Hogg Robinson (HRG)**.

Hogg operates in a competitive market with some big hitters – slugging it out with **American Express' (AMEX:NYSE)** Travel Services division in a market worth \$1.5trn (£1.8trn) and growing 6% a year.

While it not might be as well known as industry heavyweight American Express, Hogg is no minnow at roughly one-third of the Amex Travel division's size as measured by fee and commission income.

And Hogg has a solid brand of its own having started business in 1845.

On top of these attributes, the Basingstoke-headquartered business has the potential to deliver shareholder value through its fast-growing Fraedom technology unit and also has an earnings cushion from a weaker currency following the UK's vote to leave the EU.

DIGITAL GROWTH

Revenue declines in recent years mask significant developments in Hogg Robinson's business model.

Online booking and expense management represents 50% of Hogg's business today, up from 27% in 2012. While group

revenue has stalled, profit continues to grow because Hogg's digital Fraedom travel and expense management tool enjoys higher margins than its traditional consultant-led business.

Whitman Howard analyst Andrew Smith says Fraedom's growth gives Hogg chief executive David Radcliffe a couple of options.

Heavier marketing spend could be used to help the unit capture more market share as it grows.



HOGG ROBINSON BUY

(HRG) 69p
Stop loss: None

Market value: **£235m**

Prospective PE Mar 2017: **9.6**

Prospective PE Mar 2018: **9.2**

Dividend yield: **3.7%**

Analyst price target: **95p**
(Whitman Howard)

'Alternatively, Hogg could crystallise value and go for an initial public offering or trade sale especially given the multiples achieved by similar companies for on-line travel businesses.'

CURRENCY BOOST

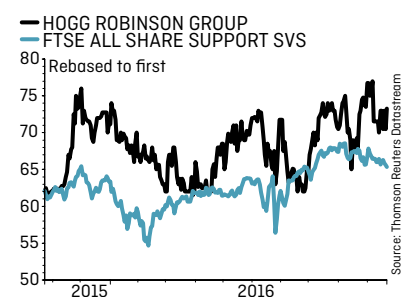
Generating around 60% of its sales abroad, Hogg is a beneficiary of sterling weakness according to Whitman analyst Smith.

Smith's says Hogg's foreign exchange exposures indicates a 7% boost to operating profit on top of a previously forecast 5% improvement, though these have not been added to the analyst's forecasts.

Hogg Robinson chief executive David Radcliffe said in a 22 July trading update that revenue was 3% lower after stripping out foreign exchange movements and noted 'an initial softening' of demand following the EU vote.

Risks include a large pension deficit and some economic cyclicity in the corporate travel services market.

BROKER SAYS:   



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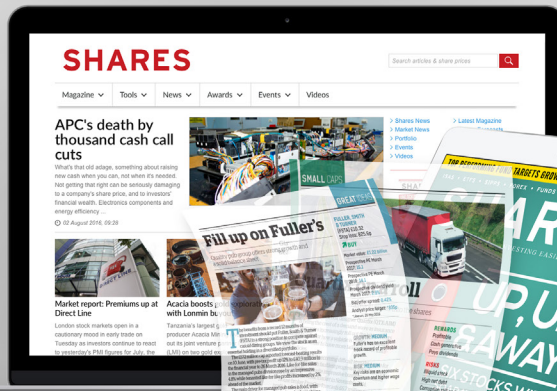
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Unique security at a discount

GB blip the investment opportunity investors have been waiting for

We are seeing a fresh start for **GB Group (GBG:AIM)** and prospective investors in the stock. First, the identity security management specialist will have a new CEO from 1 April 2017 in former **Experian (EXPN)** executive Chris Clark, appointed to replace the retiring Richard Law, 14 years in the top job. Secondly, the shares are now cheaper than they've been in years, opening the door for many new investors.

That's because of mildly disappointing growth in the first half of the year to 30 September, and a slow start on a GOV.UK Verify programme. We think the resulting sell-off is big over-reaction to a short-term blip for an otherwise excellently-placed IT security business.

In a world of increasing security threats GB is a world leader in 'exactly the right area' of online identity verification, says FinnCap analyst Lorne Daniel. 'No one else does what GB does, and it is backed by macro trends,' agrees Peel Hunt's technology analyst Paraag Amin.

OUTSTANDING GROWTH

GB has been turned from a micro-cap company into a £337m-odd client partner for a host of identity checking services, including employee background searches, identity verification and wider fraud-fighting. During the



past five years alone company revenues have increased by more than 130% to £73.4m for the year to 31 March 2016, on which GB turned in £13.2m pre-tax profit before one-off items.

The shares have long since reflected the dynamic growth of the business, providing shareholders with an average annual total return of 43%, according to Morningstar data. The FTSE 100 has put up 8.7%.

SHORT-TERM SETBACK

The GOV.UK Verify programme is designed to validate citizens for online interaction with government services.

Government IT projects have a nasty habit of delays and FinnCap has trimmed £4m from sales forecasts for full year 2017 and similar for 2018, but here's the really interesting bit of the broker's commentary. 'We see little profit impact and make minimal changes to the earnings lines,' which actually amounts to no change this year (9.5p), and 0.1p per share shaved off next year's earnings per share (EPS) to 11.3p. GB is very confident that it can make up any lost margin elsewhere in the business.

Typically trading on price to earnings (PE) multiples of 30-plus, the 31 March 2018 PE is 22.4 now.

GB GROUP BUY

(GBG:AIM) 253p

Stop loss: 202p

Market value: **£337.8m**

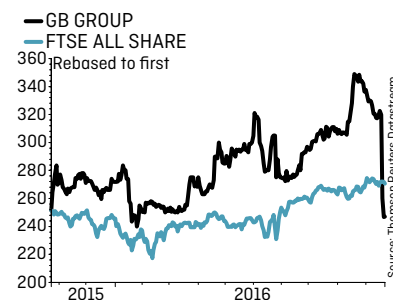
Prospective PE Mar 2017: **26.6**

Prospective PE Mar 2018: **22.4**

Prospective dividend yield: **1.4%**

Analyst price target: **350p**
(FinnCap)

BROKER SAYS:

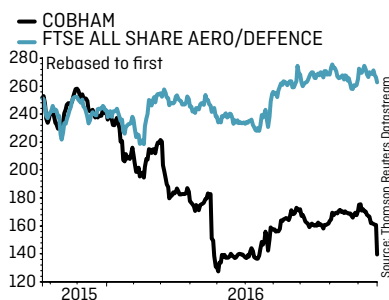


COBHAM

(COB) 139.9p

Loss to date: 2.7%**Previous Shares view:****143.9p**, 23 Jun 2016

OUR RECOVERY PLAY on aerospace and defence firm **Cobham (COB)** is now in the red as the company serves up its third profit warning in less than 12 months (25 Oct). A re-setting of expectations was a risk we flagged but something we probably didn't expect until the incoming CEO David Lockwood and finance director David Mellors were in place. The company was forced to trim guidance from the previous £290m to between £255m and £275m after a weak third quarter contribution from its satellite communications and wireless businesses. JP Morgan says: 'We see three key issues for investors: 1) implications for the balance sheet; 2) implications for the dividend; 3) lack of guidance on 2017 pending arrival of new management.' When launching its £507m rights issue this spring the company said it would maintain its dividend and the new funds would help reduce its net debt to earnings before interest,



tax, depreciation and amortisation (EBITDA) to less than two times – it now expects a year end ratio of 2.6 times. (TS)

SHARES SAYS: ↗

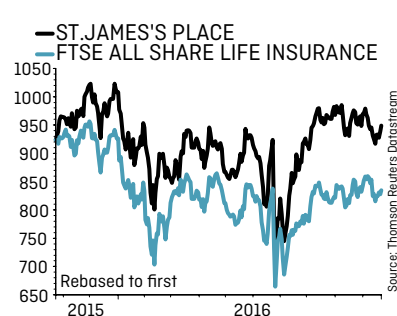
We hope the company has hit rock bottom but concede new management face a big challenge.

BROKER SAYS: 4 12 3**ST JAMES'S PLACE**

(STJ) 998p

Gain to date: 29.9%**Previous Shares view:****769.5p**, 07 Jul 2016

WEALTH MANAGER **St James's Place (SJP)** continues to reward our faith after we highlighted a buying opportunity created by the Brexit-related sell-off. In fact the result of the EU referendum appears to have been a positive for the business which reports (25 Oct) third quarter assets up 8.9% thanks to robust demand for advice in the wake of the vote and amid low interest rates. The slide in sterling has helped boost UK shares and thus the value of its assets and the company says it is yet to see any weakening in investor sentiment. The £5.1bn cap has proven resilient during previous periods of economic and stock market turbulence, partly due to its focus on high net worth clients with £50,000 and £5m of investable assets. Shore Capital reiterates its 'buy' recommendation on the stock and comments: 'Despite considerable political upheaval and market volatility, St James's Place has issued



an excellent Q3, reporting inflows and funds under management which comfortably exceeded both our and the market's expectations.' (TS)

SHARES SAYS: ↗

The company continues to perform strongly and we see no reason to shift from our positive stance. (TS)

BROKER SAYS: 10 6 1



BRACE YOURSELF

WHY VOTE MATTERS TO UK INVESTORS

The US presidential election on 8 November 2016 matters to UK investors. It could have a significant impact on the value of stocks, bonds, currencies and commodities.

Economic strength – as influenced by the president's policies – will also drive interest rates in the US. They are, in turn, highly influential on interest rates elsewhere in the world.

We believe a Trump victory would trigger a short-term sell-off in global markets as investors are not currently pricing in this scenario. We then foresee a sharp recovery rally in US equities and select UK stocks. Longer-term, Trump wouldn't be good for the US economy, in our opinion.

A Clinton victory may prompt a muted reaction, but certain sectors would rise or fall as we discuss later in this article.

IMPACT ON YOUR ISA OR SIPP

The UK's stock market, as represented by the FTSE 100, could be *heavily* influenced by the choice of US president.

Many of its constituents do business in the country or have their products or services priced in US dollars.

The US has trade agreements with numerous countries around the world including the UK. Any amendments to trade deals and/or higher import tariffs could eventually have a negative impact on UK companies who do business in the US.

It might take a long time implement any changes so there is no rush to avoid FTSE stocks which do business in the US.

WHAT TO BUY AND SELL

Construction and defence businesses could be winners under a Trump or Clinton presidency, so buy **BAE Systems (BA.)**. Both have pledged to spend more on infrastructure – so likely beneficiaries would include plant hire firm **Ashtead (AHT)** and road building materials group **CRH (CRH)**.

Clinton would be good for companies involved in energy efficiency as she seeks to make utilities better run. Her pro-renewables stance is bad for oil producers. Her plans to push up the minimum wage would hurt profit margins at companies with large numbers of staff such as retailers and restaurant operators.

A Trump win may favour US domestic banks, oil and mining service firms and technology companies. Possible beneficiaries on the UK market

include **Hunting (HTG)**.

An election victory for Trump could also benefit shares in drug companies – simply because Clinton's threat of a price cap on medicines would have gone away. In that situation, buy **Shire (SHP)** or **AstraZeneca (AZN)**.

Theoretically under Trump leadership you could see US equities rally once the initial result has sunk in. We'd buy UK funds, exchange-traded funds and investment trusts that have a large proportion of US equities in their portfolio. Good examples include **BlackRock North American Equity Tracker Fund L Acc (GB00B7QK1Y37)** and **CF Miton US Opportunities B Acc (GB00B8278F56)**.

Finally, it would probably be worth holding gold as a hedge against Trump's unpredictability.

TRUMP STILL HAS A CHANCE

We do not believe that Donald Trump can be ruled out of the race, despite lagging in the polls, making deplorable comments about women and tabling allegations of voting fraud.

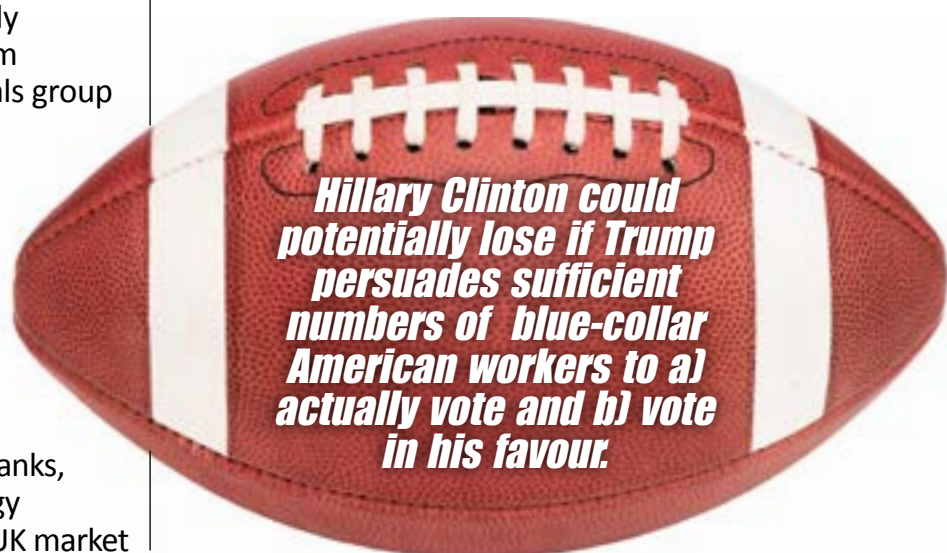
The shock Brexit vote in June has proved that opinion polls are not always accurate.

Hillary Clinton could potentially lose if Trump persuades sufficient numbers of blue-collar American workers to a) actually vote and b) vote in his favour.

Although much of his rhetoric can be dismissed as so much hot air, his pledge to cut corporate taxes could actually encourage businesses to expand and hire more people and the prospect of greater job opportunities would appeal to many voters.

WHERE NEXT FOR MARKETS?

A Clinton win may encourage the Federal Reserve to raise interest rates in the US, says ETX Capital markets analyst Neil Wilson. 'That could suppress



equities heading into the New Year,' he comments.

The market isn't pricing in a Trump victory at present – so he could trigger a shock-term negative shock in global stock markets if elected, in our opinion. That may be a short-lived event, just like the UK market reaction to the EU referendum.

Wilson believes a Trump win could dissuade the Fed from hiking interest rates in December this year, 'which would support further frothy, central bank-led equity strength heading into 2017'.

INVESTORS WILL WANT A BIGGER RETURN

The equity risk premium is likely to shift higher if Trump wins. That's the amount of return an investor wants to make from the stock market over and above the risk-free rate.

The risk-free rate is the return you can get from government bonds like gilts and treasuries. That's essentially handed to you on a plate. The equity risk premium is the bit on top – think of it as your reward or compensation for taking the risk of investing in the stock market.

Asset manager Lombard Odier believes the equity risk premium would rise in the US – and more broadly – given uncertainties surrounding Trump's political plan and the larger policy changes. It believes US treasuries will initially benefit from 'safe haven flows'.



TOP TRADES FOR THE US ELECTION

TRUMP VICTORY

BUY

BAE Systems

Ashtead

CRH

Hunting

Shire

AstraZeneca

BlackRock North American Equity Tracker Fund

CF Miton US Opportunities

Gold

National Grid

Hill & Smith

Wood Group

Weir

Meggitt

Ultra Electronics

G4S

Worldwide Healthcare Trust

Biotech Growth Trust

Source: Shares

CLINTON VICTORY

BUY

BAE Systems

Ashtead

CRH

Hill & Smith

Meggitt

Ultra Electronics

SELL

Shire

AstraZeneca

WHAT HAPPENS IF TRUMP WINS?

SHARES GO DOWN, THEN UP

Trump winning the US election would be positive for equities, believes Gero Jung, chief economist at Mirabaud Asset Management. 'He wants to increase fiscal stimulus and he wants to decrease corporation tax to 15%. Trump also doesn't want to change the national minimum wage, unlike Clinton.'

Those factors combined could, theoretically, give a boost the US economy. They could encourage corporations to invest more in their business as tax would be lower; in turn that could drive greater consumer confidence if employment prospects looked brighter.

Trump wants US companies to repatriate an estimated \$1.5tn cash held overseas in order to avoid being hit with the 35% corporate tax rate. He has proposed to lower the tax to 10% and use the cash proceeds for capital spending and job creation.

Jung suggests consumer staples and the financial sector could prosper under a Trump presidency. 'He wants higher interest rates which is generally better for banks' profitability.'

TAXES AND TARIFFS

The IT sector could benefit from lower corporation tax levels and US materials stocks could prosper, believes Jung. 'Trump wants stricter tariffs on Chinese imports, for example, and he wants to change export subsidies.'

This is protectionism – shielding the country's domestic industries from foreign competition by taxing imports.

'Larger fiscal stimulus, repatriation and protectionism should support the US dollar, particularly against the Mexican peso and China's renminbi,' says Sophie Chardon, investment strategist at Lombard Odier.

Trump seems eager for US companies to do all the work in the country. He also wants consumers to buy US-made products. This could drive up the cost of living as many products are imported from other countries into US because they are cheaper than domestic goods.

One would presume Trump believes that US manufacturers would be able to reduce costs through economies of scale. The more products they sell to the local market, the lower the overall cost of production. The consumer would only benefit if manufacturers passed on such cost savings through lower selling prices.

WHAT THE FUND MANAGERS ARE BUYING

Jake Robbins, fund manager at **Premier Global Alpha Growth Fund C Acc (GB00B6740K61)**, has been buying US domestic cyclical stocks ahead of the election. 'They've underperformed for the last five years and I see value there now.' Retailers **Foot Locker (FL:NYSE)** and **American Eagle Outfitters (AEO:NYSE)** are two examples of stocks Robbins has added to his fund.

A stronger economy would give the Federal Reserve a reason to raise interest rates. That would be beneficial for US domestic banks as their profitability should be higher. A rise in federal debt could also push interest rates higher.

The key flaw in Trump's policies is the potential to significantly increase the federal deficit because of the massive cost of lost tax revenue.

'We suggest Clinton's proposals would likely be modestly stimulative in the short-run, but Trump's proposals suggest a more uncertain outlook that include the risks of a boom-bust in economic activity,' suggests David Page, senior economist at AXA Investment Managers.

**THE
ECONOMY
COULD BOOM
– AND THEN
BUST**



WHAT HAPPENS IF TRUMP WINS?



UK STOCKS TO BUY IF TRUMP IS ELECTED

CONSTRUCTION/ENGINEERING

Trump and Clinton are pro-infrastructure spending. 'We are encouraged by both presidential candidates' commitment to increased spending on infrastructure,' says Investec analyst Gerard Moore.

'Clinton has outlined a \$275bn five year plan which, in a blue sky scenario, could boost US construction spending by 5% per year.

'Trump has indicated that this is a "fraction" of what's required, but there is limited detail to his own \$1trn proposal. Securing a funding plan for such an ambitious programme will be a challenge and influenced by the final make-up of the US Congress.'

BUY: Wolseley (WOS), National Grid (NG.), Hill & Smith (HILS), Ashtead (AHT), CRH (CRH).

NATURAL RESOURCES

Trump wants to restart all the coal mines, pump as much oil as possible and have plentiful gas flowing through pipelines. This would be good for oil and gas service companies and engineers in the short to medium-term, but bad for commodity prices. You should definitely look at suppliers of kit such as pumps and valves to the US shale gas and oil operators as that industry looks to be a clear beneficiary of Trump's policies.

BUY: Hunting (HTG), Wood Group (WG.), Weir (WEIR)



DEFENCE

Both the Democratic and Republican presidential nominees want to raise the military spending cap, thereby creating a bigger defence budget.

BUY: BAE Systems (BA.), Meggitt (MGGT), Ultra Electronics (ULE)



SECURITY

Private security firms and prison operators could be asked to assist with immigration policy changes.

BUY: G4S (GFS)

HEALTHCARE

We imagine drug stocks will rally if Trump is elected – purely because Clinton's price cap strategy is no longer a threat.

BUY: Shire (SHP), AstraZeneca (AZN), Worldwide Healthcare Trust (WWH), Biotech Growth Trust (BIOG).

WHAT HAPPENS IF CLINTON WINS?

DANCE TO BEAT OF STATUS QUO

Jung at Mirabaud believes US stock markets won't move too much up or down on a Clinton victory, saying her election would just result in the 'status quo'. He suggests there could be a shift in sector trends but overall the market could stay 'range-bound'.

Jake Robbins at Premier Asset Management says Clinton is regarded as 'a safe pair of hands'. He adds: 'She has different policies to Obama, but nothing revolutionary. I don't think there's anything that would impact markets in a significant manner over the long term.'

Whatever Clinton said in election campaigning should be taken 'with a pinch a salt', says Richard Champion, deputy chief investment officer at Canaccord Genuity Wealth Management. 'You're unlikely to get a clean sweep in the House of Representatives so her legislative programme will be constrained.'

ARE THERE ANY OBVIOUS WINNERS?

Consumer discretionary stocks such as those in the retail sector could benefit from a Clinton win, from a macro perspective.

She wants to push up the minimum wage. While that would increase retailers' wage bills, it could also put more money into the large number of people who work for retail businesses. They would, theoretically, have more money to spend in the shops – thereby helping to drive the economy.

Companies engaged in energy efficiency could benefit under a Clinton presidency as she wants to drive more efficiency in the utilities sector.

WHAT ABOUT THE LOSERS?

The healthcare sector stands to suffer the most if Clinton wins, at least as far as immediate reaction from global stock markets. The US spends just over 17% of its GDP on healthcare, so this is also a key issue for voters.

UK stocks most at risk of falling upon a Clinton win are **Shire (SHP)** and **AstraZeneca (AZN)** which have the biggest exposure to the US out of the FTSE's blue chip drug companies.

'Hillary Clinton historically hasn't been a friend of the pharmaceuticals sector, stemming back to Hillary Care back in 1993,' says Patrick Close, co-manager of the **Neptune US Opportunities Fund C Acc (GB00B7K9LQ88)**.

'Her comments on price controls last year has led to a lot of selling in pharma and associated sectors, and we anticipate more risk to the downside in the lead up to and after the election.'

The issue is relevant to Trump as well. Both candidates have expressed concern over the cost of healthcare with Clinton being the most aggressive, especially on the prices of pharmaceutical drugs, says David Osfield, co-manager of the **EdenTree Amity International Fund B Inc (GB0008449075)**.

'The impact to the wider sector is likely to be slightly negative as both candidates campaign aggressively at this late stage. In the medium to long-term, the sector remains in rude health, with the large cap companies showing strong cash flows, rising dividends and supported by robust balance sheets,' says Osfield.

MARKETS
COULD DO
NOTHING
IF CLINTON
WINS

UK STOCKS TO BUY IF CLINTON IS ELECTED

CONSTRUCTION / ENGINEERING:

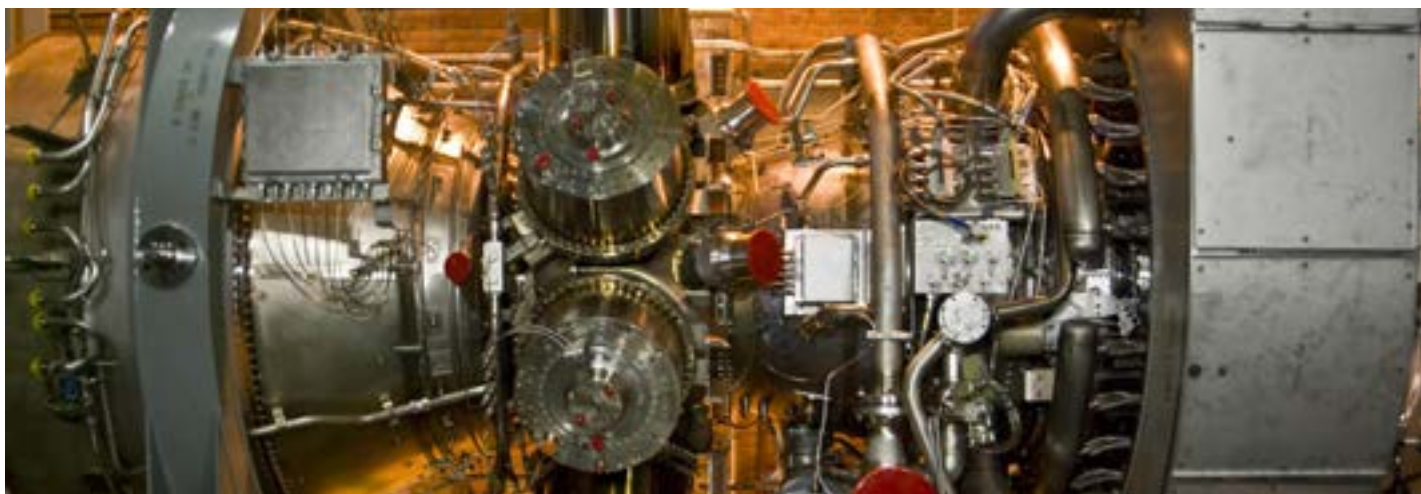
'Clinton would increase infrastructure spending by over quarter of a trillion dollars over a five year period,' says Andrew Herberts, head of Private Investment Management, Thomas Miller Investment.

Subject to what infrastructure Clinton's administration focused on, Herberts suggests **Hill & Smith (HILS)** as a potential beneficiary. 'It has a presence in the US and has cited this factor in having potential both in its infrastructure, but also its galvanising business,' he remarks.

BUY: Wolseley (WOS), National Grid (NG.), Hill & Smith (HILS), Ashtead (AHT), CRH (CRH).

Aerospace stocks reeling as orders slow

Investors should heed warning of aerospace industry supplier Senior



A profit warning from aerospace and defence firm **Senior (SNR)** is evidence of a civil aerospace market in decline with negative implications for peers like **Meggitt (MGGT)** and **Rolls Royce (RR.)**.

After years in which aerospace exposure was seen as preferable to defence and afforded a higher rating by the market, this situation could now be in reverse.

On 20 October Senior blamed issues in its Aerospace division as it warned on full year earnings – Investec expecting consensus pre-tax profit forecasts to come down 10% for 2016 and 2017.

The company is facing a slower than anticipated ramp up in some major new aircraft programmes, a continuing decline in the business jets market as well as undisclosed supplier issues and unresolved discussions on price increases

with major customers.

It is the first two of these factors which demonstrate the wider issues facing the sector and which may have investors in Meggitt and Rolls feeling twitchy ahead of updates on 15 November and 16 November respectively.

POST-CRISIS TAKE OFF

In the wake of the financial crisis the civil aerospace sector has been a notable bright spot. High oil prices have fuelled a desire for more efficient aircraft, passenger numbers have been strong as budget airlines have expanded and emerging markets have provided a third leg to this growth story.

Around 13,000 commercial jets were ordered over the five years to the end of April 2016, according to Flight Ascend Consultancy, while the backlog of commercial jet deliveries was worth \$952 billion in mid-2016.

However, according to John Harzich, senior security analyst at Aviva Investors the cycle may now have peaked.

‘There is evidence that the likes of **Boeing (BA.:NYSE)** and **Airbus (AIR:EPA)** have been overproducing aircraft recently - with production reaching high rates at both manufacturers, just as order books appear to be slowing,’ says Harzich.

Both Boeing and Airbus endured disappointing order intake at the industry’s flagship event the Farnborough Air Show in July 2016 and the latter is reported to be considering a major restructuring and cost-cutting programme. This is bad news for engine manufacturers like Rolls and makers of other aircraft components like Meggitt and Senior.

ENTERING A TAILSPIN

Signs of overcapacity and decline were first in evidence in

the business jets space. 'Until recently, the sector enjoyed strong demand from emerging markets but that has started to wane because economic growth has slowed; particularly in oil-dependent economies such as Russia, with the Middle East and some countries in East Asia also affected,' says Harzich.

'The economic slowdown in China is also biting, while US companies are bearing down on costs and this is hitting demand for business jets.'

Now the same headwinds are starting to hit the wider space, exacerbated by falling oil prices, which reduces the rationale for bringing on newer, more efficient aircraft and the impact of global terrorism on appetite for air travel.

MIXED FORTUNES

Against this backdrop the fortunes of narrow-bodied planes like the Airbus A320 and Boeing 737 are diverging with wide-bodied aircraft such as the Airbus A380. Nearly 85% of Airbus orders in 2016 through to the end of September were for narrow-bodied craft. This is despite years of heavy



'TRADITIONALLY, WHEN THE AIRLINE INDUSTRY ENTERS A WEAKER PART OF THE CYCLE, DEMAND FOR WIDE-BODIED AIRCRAFT FALLS FASTER THAN FOR NARROW-BODIED'

investment from the company in wide-bodied jets in the belief this was the future of air travel.

Various factors lie behind the dominance of narrow-bodied jets according to Harzich. 'Traditionally, when the airline industry enters a weaker part of the cycle, demand for wide-bodied aircraft falls faster than for narrow-bodied,' he says. 'This reflects the greater flexibility that narrow-bodied planes offer in terms of the number of routes they can operate on, whereas wide bodied tend to be used on

particular missions, notably long haul.'

ALTITUDE WARNING

Like Airbus, the of-late accident prone Rolls-Royce is potentially on the wrong side of this trend.

'The seeds for recent profit warnings were sown back in 2011 with the decision to exit narrow-bodies and compete with **General Electric (GE:NYSE)** in large engines without any distinctive competitive advantage and a weaker balance sheet,' says Panmure analyst Sanjay Jha.

'The gulf between RR and GE (and now Pratt & Whitney) is set to widen from 2017 as the next-generation narrow-bodies (A321neoLR, 787 MAX 8) begin to penetrate the medium haul routes and threaten the cash flows expected from RR's growing wide-body installed base,' he adds.

'RR may have the opportunity in the narrow-body market should Boeing decide to launch a replacement for B737, but it will need fresh equity given c£2.5bn needed to develop a new engine.'

We recently flagged Meggitt as a secure income play (see *Rock Solid Income*, 14 Jul 2016). The company has enjoyed a 12% bump in the share price in the interim to 450p and a strong balance sheet and decent cash generation means we remain confident the dividend can be sustained. Meggitt is our top pick in the sector.

However, investors should watch upcoming announcements closely to discern if it will fall victim to the negative dynamics affecting aerospace. (TS)

AIR PASSENGER TRAFFIC GROWTH SLOWS

Sector	2015 RPK* growth	May, June, July 2016 RPK growth
US Airlines	3.90%	2.50%
European network airlines	4.40%	0.40%
Major Asian airlines, ex India, China	5.80%	2.20%
Chinese & Indian airlines	15.30%	14.50%
Low cost carrier sample (EU/Asia)	10.20%	12.60%
Russian airlines	-6%	-12.60%
Rest of the world	8.80%	7.50%
World	6.60%	4.50%

*Revenue Passenger Kilometres

Source: Flight Ascend Consultancy

All rise for Reckitt

EPS growth continues at Gaviscon-to-Cillit Bang supplier despite South Korean hit

A pull-back at consumer products colossus **Reckitt Benckiser (RB.)** following a disappointing third quarter update (19 Oct) presents a buying opportunity.

With slower end markets and a South Korean humidifier sanitiser issue hogging headlines, it is easy to overlook the fact that earnings per share remain very much in an upwards trajectory, highlighting the resilience of the globally-diversified consumer brands business.

DAMAGING DOWNGRADES

Reckitt Benckiser downgraded 2016 like-for-like revenue guidance from 4-5% to 4% following its Q3 like-for-like sales miss. The FTSE 100 giant's reputation has taken a hit in South Korea, where more than 100 people died of lung injuries caused by a steriliser sold by Reckitt which was put inside humidifiers; a £300 million charge has been taken in relation to the tragic episode.

While South Korea, Russia and Brazil are challenged markets, Reckitt is internationally diversified, seeing strength in India, China and Turkey for instance, and *Shares* is sticking with our positive stance – see Plays, 17 Mar 2016. Reckitt's health, hygiene and home portfolio is spearheaded by enviable 'Powerbrands' including Nurofen, Strepsils, Gaviscon, Durex, Scholl, Cillit Bang and Air Wick, which confer pricing power and underpin Reckitt's dependable cash flows and reliably progressive dividend.

PRICING POWER

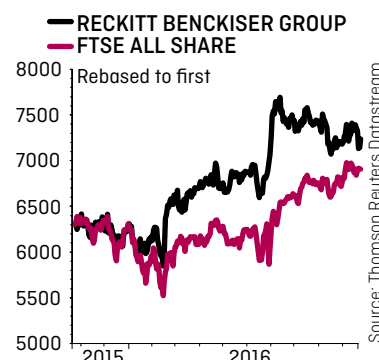
Pricing power is a sign of a great business, though as the 'Marmitegate' spat between **Unilever (ULVR)** and **Tesco (TSCO)** showed, hiking prices isn't easy in the current retail environment. Sterling's slump is driving up the costs of imports to Britain at a time when consumer goods firms face fierce competition from retailers' own-brand products and weaker emerging markets. Nevertheless, we're in agreement with the generally bullish consensus on Reckitt.

Liberum Capital maintained its 'buy' and £84



price target following the Q3 update and even upgraded its 2016 earnings per share estimate given a tailwind from sterling weakness and support from share buy-backs. Transforming into a global powerhouse in consumer health,

Liberum argues relentless innovator Reckitt has scope to double turnover in ten years as it benefits from strong secular growth trends coupled with M&A. For 2016, the broker forecasts pre-tax profit of £2.731 billion (2015: £2.341 billion) for earnings of 295.1p, rising to £3.128 billion and 344.4p respectively in 2017. The shareholder reward is forecast to rise from 139p to 149.8p this year ahead of a 174.8p payout next. (JC)



SHARES SAYS: ↗

A pullback from July highs to £72.63 presents a buying opportunity at Reckitt, a global consumer health colossus with brand strength and pricing power, though some may still find the rating overly rich.

BROKER SAYS: 14 10 0

Green shoots of recovery at Immunodiagnostic

Research labs supplier delivers first steps in turnaround plan

Arally at in-vitro diagnostics (IVD) specialist **Immunodiagnostic Systems (IDH:AIM)** could be a sign of things to come if ambitious growth targets can be met.

Immunodiagnostic recorded an underlying revenue decline of 9% in the six months to 30 September an improvement from full-year declines of 18.4%. And there are a number of other lead indicators in the business which show the business' turnaround may be starting to gain traction.

Before moving into the financials, it's important to understand what Immunodiagnostics does.

BUSINESS MODEL

Research laboratories use specialist equipment, referred to as analysers, to run tests. Analysers are used, for example, to test blood, urine or other samples for traces of compounds which identify associated medical conditions.

Along with a sample from a patient, standardised samples called immunoassays are needed to run the tests. As a result, customers that use Immunodiagnostic Systems' analysers need to regularly purchase immunoassays.

Immunodiagnostic Systems' business model is to supply its analysers to research laboratories for free. It hopes to cover the cost of the analysers and make a profit through selling the immunoassays needed to run tests on the machines.

KEY INDICATORS

Key performance indicators in the turnaround at Immunodiagnostic include the number of analysers it has managed to place with clients and the number of immunoassays it is able to provide.

Net placements of new analysers in Immunodiagnostic's first half were five compared to minus 10 in the same period last year, taking Immunodiagnostics' installed base to 305. Two new assays were also

TURNAROUND PLAN

IMMUNODIAGNOSTIC - KEY PERFORMANCE INDICATORS

	Analysers (net placements)	Assay launches
1H 2016	5	2
2016	-12	1
2015	14	2
2014	35	0
2013	88	2
2012	87	2
2011	88	2

Source: Immunodiagnostics

launched, taking the total to 17 in Europe and 10 in the US. Customers are more likely to use one of Immunodiagnostics' analysers if it has a wider range of immunoassays available, Wittek says.

Profitability may be a big ask in its current financial year, the 12 months to 31 March 2017.

PROFITABILITY CHALLENGE

Revenue in Immunodiagnostic's Automated In-Vitro Diagnostics division will need to almost double to around £50m before it is able to turn

a profit, according to estimates by chairman Burkhard Wittek. Its other two divisions, Manual IVD and Licencing, have historically been the group's profit drivers and both are now struggling.

The bullish case for investors is continued progress in new analyser placements and assay launches and partnerships. Mitigating some of the undoubted risk in Immunodiagnostic's turnaround plan is a cash balance net of all liabilities which stands at £15.8m versus a market cap of around £53m, providing some flexibility. (WC)

SHARES SAYS: ➔

Impressive first steps in what is likely to be a bumpy though potentially rewarding turnaround.



Vislink crosses fingers on sale funding

US buyer's financial position needs clarification

Questions are being raised over the funding arrangements behind Nasdaq-listed **XG Technology's (XGTI:NDQ)** \$16m acquisition of part of broadcast technology specialist **Vislink (VLK:AIM)**.

On 20 October the UK company reported the planned sale of its core Vislink Communication Systems hardware business to US-based, and once AIM-quoted, XG Technology.

That proposed deal sparked a huge surge in the share price of Vislink, the stock almost doubling (up 98.9%) from 7.6p to the current 15.12p. The reason for the rally is that, if it concludes, the sale will clear most of Vislink's debts and confirm the company's transition to a broadcast software-only business.

But investors are being cautioned against counting their chickens too soon. According to IT analysis consultancy Megabyte, XG Technology is far from financially sound, with 2016 revenues of \$3.7m (based on annualised first quarter figures) and losses of \$17.6m. The company has 'burned through \$200m of shareholders' money,' in the years since its 2002 foundation, says analyst Philip Carse.



The business had \$0.5m of cash as of 31 March this year, although 'we understand that it plans an equity fund raise, and we assume that Vislink will have done its due diligence and XG will have ensured the funding would be available before signing a binding contract.' (SF)

SHARES SAYS: ↘

Vislink may have pulled a rabbit out of a hat if this sale goes through and it will leave the UK company in a far stronger position going forward, both strategically and financially. But the stock's rally despite the funding uncertainty surrounding XG suggests to us that caution is needed until the deal is confirmed.

Bond's final hurrah

THE ANTE HAS been raised again in the battle for control of **Bond International (BDI:AIM)**, the recruitment software provider. US private equity firm Symphony Technology has re-entered the frame, trumping a rival buyout offer worth 121p per share by Constellation Software by tabling between 127p and 129.5p, depending on takeover costs. (SF)

Firestone's diamond comeback

LESOTHO-BASED **FIRESTONE Diamonds (FDI:AIM)** is back in production after a three-year break. It has built a new processing plant to avoid the problem of breaking large stones. The miner has already found a fancy yellow stone from processing material stockpiled during the redevelopment of the mine and previous pilot plant operations. (DC)

OMG pulls plug on Life

MOTION CAPTURE TECHNOLOGY supplier **OMG (OMG:AIM)** has killed off its OMG Life arm after consistently failing to generate revenue. The Life business tried to licence intellectual property. 'The total folly that was OMG Life should never have been started, let alone been allowed to consume many millions of shareholders' money,' says Rob Warensjo, Megabyte analyst. (SF)

WELCOME TO 'YOUR VIEWS'

This is your platform to talk about key investing issues.

Each week we will pose a question and publish the best comments in a future edition of *Shares*. You can comment on our Facebook page, send us an email or interact via our Twitter account.

This week's question...

What are the best books for learning about investing?

Alongside classics such as Jim Slater's *the Zulu Principle* and Benjamin Graham's *Intelligent Investor*, I have found Michael Cahill's *Making The Right Investment Decisions* really helpful. The company helps you zero in on the things that really matter about a company and why shareholder value has nothing to do with short-term fluctuations in earnings per share.

Michael Dalby, Email

@SharesMagDan
@SHARESmag huge fan of 'Free Capital' by @guy_thomas, was pivotal for me as an investor seeing how "one size doesn't fit all"

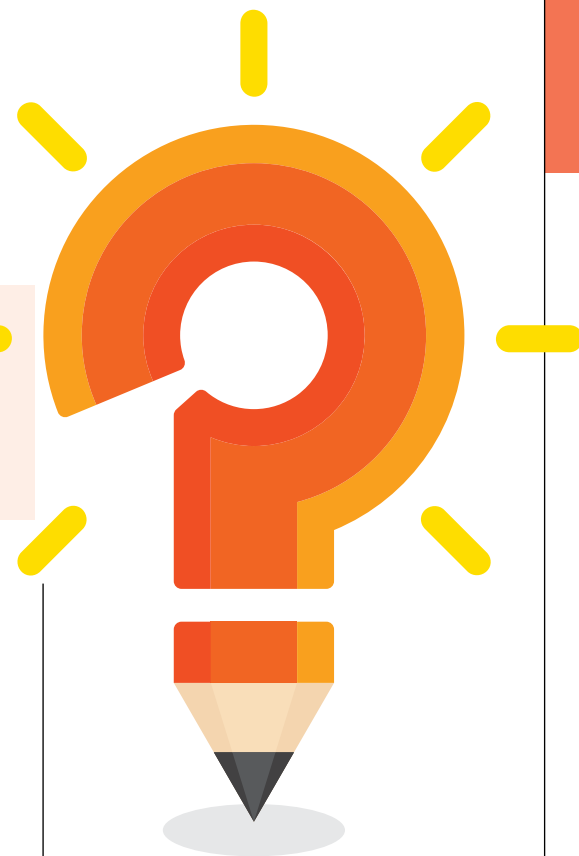
Norbert Colon @vodkaquickstep

John Cotter's *Cotter on Investing* by the late veteran of the finance industry is an excellent beginners' guide to the markets and has a refreshing lack of jargon. Interesting examples such as how he cottoned on to the potential of online fashion retailer ASOS by picking up on his daughters' devotion to the site help bring it to life.

B. Jones, Email

@vodkaquickstep
@SharesMagDan Agreed. Shows there are many genuinely different ways to invest & be successful It's divided into useful parts

David @Carmensfella



@sholdsworth1963
@Carmensfella
@vodkaquickstep
@SharesMagDan Agreed! I see I still have the top review on Amazon

Steve Holdsworth
@sholdsworth1963

THE BIG QUESTION FOR NEXT WEEK

What sectors do you perceive as too complex to invest in?

Please feel free to comment on the reasons behind your choice.



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RedT looking for power surge

Energy storage designer a unique investment option, but it needs funding



Driving down the cost of manufacturing its vanadium redox flow energy storage units has been a major focus for **RedT Energy (RED:AIM)** over the past year or so, and management remain hugely optimistic. Success here will help a market seeding programme now in progress, and more crucially, accelerate commercial units sales that will put the company on a firm path to profits.

It has some way to go. Half year results to 30 June showed still modest revenues of €4.5m (it reports in euros) and after stripping out cost of sales and admin expenses, it left the £62m firm nursing a loss before tax of a little more than €2.5m. During the period €3.6m of cash was chewed through leaving about

€5.5m net cash on the books, and that's including the £3.5m (approximately €3.9m) of fresh funding raised in January this year. A further growth cash call early in 2017 looks a pretty safe assumption.

But this is not to detract from enormous strategic progress over the past couple of years, a period in which the company has transformed itself into an energy storage technology pure play, or very nearly.

AN ENERGY STORAGE SOLUTION

RedT has developed a new and proprietary energy storage technology which enables the efficient and sustainable storage of electrical energy in liquid form. It's taken something like 15 years of heavy research and

development (R&D) but RedT now has viable units based on its patented vanadium redox energy storage technology, many already scattered among several customers across the globe in the utilities, renewables and telecoms industries in proof-of-concept trials.

'RedT is now focused, ungeared and has a properly developed and engineered product with which to go to market,' says Raymond Greaves, analyst at broker FinnCap. The company is closing in on completing its planned 10 'market seeding' orders with which it can showcase its technology in a wide range of applications and geographies.

The company has also started work alongside boffins at Newcastle University aimed

HOW REDT'S TECHNOLOGY WORKS

REDT ENERGY STORAGE machines use proprietary Vanadium Redox Flow Battery (VRFB) technology to efficiently and sustainably store energy in liquid form. This technology relies on the ability of Vanadium to exist in four different oxidation states (V2+, V3+, V4+, and V5+), each of which holds a different electrical charge. The

electrolyte in the negative half-cell contains V3+ and V2+ ions, whilst the electrolyte in the positive half-cell contains V4+ and V5+ ions.

VRFB technology utilises the flow of this vanadium electrolyte, separated by an ion exchange membrane. A perfectly reversible electrochemical reaction allows

electrical energy to be stored and subsequently returned. The setup of the electrolyte and the membrane stack can be compared to that of an engine and fuel tanks. The membrane stack (engine) delivers power rated in kilowatts (kW), while the fuel (the vanadium electrolyte) delivers energy rated in kilowatt hours (kWh).

at developing a hybrid energy storage solution that will blend its own technology with others. That's a three-year early stage R&D project that adds little to the investment case at this point.

The other part of its business, Camco Clean Energy, provides environmental and clean energy consultancy services, mainly in Africa where its roots are. But this bit looks increasingly likely to be used as a marketing workhorse on whose back the core RedT business can ride.

MANUFACTURING MUSCLE

Having signed a manufacturing contract with New York-listed Jabil Circuit, the global electronics and engineering manufacturer, RedT has developed containerised, modular energy storage machines. This standardised modular design means the size and cost of the energy storage machines has been driven down hard while additional functionality and usability features have been built in.

But perhaps most importantly for the future, a modular system means units are easier to transport, install, maintain and

decommission at the end of their useful life, which should make using them a far more attractive proposition for potential customers.

WHAT IS THE COST?

CEO Scott McGregor steers away from details of the implied costs of its generation one (Gen 1) units, claiming that the information is locked into commercially sensitive arrangements with current trial partners, including European energy giant E.ON. But the CEO has explained that its latest units, the Gen 2, are operating on a rough \$700 per kWh (kilowatt hour), importantly a low enough

cost, in McGregor's view, for mass market take-up.

That progress has largely come from adapting parts and streamlining manufacturing, mainly of the electrode and membrane 'stack' components, and of the electrolytes, the tanks of chemically charged liquids. Work is already under way on Gen 3 and Gen 4 versions, and potentially this could cut the kWh cost still further.

Which means this year and 2017 are largely about steady scale-up of units volumes while still driving further manufacturing cost down. FinnCap anticipates rapid volume growth to kick-in through 2018. (SF)

SHARES SAYS: ↗

A unique energy storage play on the UK stock market, at 13.62p RedT is a high risk but potentially high reward investment option at this stage. FinnCap analysts were looking for revenues of €4.6m in 2016, a figure virtually hit in the first half, although that may suggest some agreements came in early. Even so, it does raise confidence in the broker's €23.9 million turnover estimate for 2017, although maiden profits are unlikely until 2018 and beyond. Which means cash burn and the prospects for shareholders to continue carrying losses and feeding further cash in are the big question marks for potential investors. Definitely one to watch, although more conservative investors will probably be more comfortable looking on from the sidelines until there is greater clarity on the strategy's success.

Put land of opportunity in your portfolio

We pick two investment trusts to give your ISA or SIPP a flavour of North America

The US stock market continues to surge ahead despite uncertainty surrounding who will win the presidential election.

Two of the country's main stock market indices have this year hit record highs – the S&P 500 and the Dow Jones Industrial Average. The economy is growing and the labour market is fairly strong.

There may be short-term jitters around the election result, but this major economy deserves a place in a diversified investment portfolio on a long-term basis.

UK-listed investment trusts are one of the easiest ways to obtain exposure to the US market. We think Aberdeen Asset Management's **The North American Income Trust (NAIT)** and **BlackRock North American Income Trust (BRNA)** are good products to consider.

NOT AS EXPENSIVE AS YOU'D THINK

The S&P 500 has risen by 73% in the past five years. It has richly rewarded shareholders – but has all the easy money been made? We think not.

We also believe it is wrong to dismiss the market because it looks expensive on a price to earnings (PE) ratio.

'The US market looks expensive versus other geographies because it has a high weighting of technology stocks. They always



look expensive as companies are growing fast,' says Premier Asset Management fund manager Jake Robbins. It is fair to say PE ratios aren't necessarily the best way to value fast-growth stocks.

FUND MANAGERS LOVE THE BANKS

Economic recovery, the potential for higher interest rates and stronger balance sheets led many fund managers to increase exposure to the US banking sector.

'The banks are well capitalised; it's not like what it was (during the global financial crisis,' says Fran Radano, who runs The North American Income Trust.

His portfolio includes American banking giant **Wells Fargo (WFC:NYSE)** and **BB&T**

(BBT:NYSE), a regional bank in the south east and mid-Atlantic regions.

Radano says BB&T has fee income 'well above peer levels' which reduces its reliance on higher interest rates to drive earnings. 'It has a strong, long standing management team with a well-diversified loan book.'

BlackRock North American Income has a big position in the banking sector, having recently added to its holdings in **Bank of America (BAC:NYSE)** and also being invested in **Citigroup (C:NYSE)**.

Equity income darlings before the financial crisis struck, banks are now 'at an interesting inflection point', says Tony DeSpirito, co-manager of the BlackRock fund.

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NOT A CLASSIC DIVIDEND FUND

Aberdeen's Radano says The North American Income Trust is 'not your classic dividend fund' stuffed with utilities and telecoms stocks. 'If you screen for high yield stocks, we don't necessarily own them.'

The investment trust seems to favour value opportunities which also pay dividends. It says it will only invest in companies capable of generating cash and which is also reinvested into the business.

It bought jeweller **Tiffany & Co (TIF:NYSE)** in the 'mid \$60's' and the stock now trades at \$73.09. The shares have been volatile over the past year, yet the manager saw an opportunity buy cheaply with a view that trading problems would only be temporary.

'This is a classic durable brand that we know will still be around in 50 years' time,' says Radano.

'In a strengthening dollar environment, tourism takes a hit with the currency rate, so Tiffany's product has been less attractive from a price perspective. There's also been

talk of millennials less interest in big purchases and more interested in experiences. Furthermore, China has clamped down on the culture of buying expensive gifts.'

The fund manager says Tiffany's remains cash generative and took comfort that the management feel confident about cash flows. 'The dividend is a healthy 3%; historically it has only been 2% to 2.5%.'

He adds: 'There's only a few times a decade you have the opportunity to buy this stock cheap.'

BETTER THAN THE MARKET

BlackRock North American Income Trust and The North American Income Trust tend to yield in the range of 2.8% to 3%. Although less than you'd expect from a UK equity income fund, they are generous in comparison to the 2.1% you'd currently get from the S&P 500 index.

BlackRock uses covered call options as a way of enhancing its yield. 'The options portion of the portfolio since inception has been between 10-18%,' explains

DeSpirito, 'and serves two key roles within the strategy for clients.

'First, it increases the income generated by the trust. The options have added around 125 to 150 basis points in income.' DeSpirito also explains the options 'dampen volatility within the trust, helping to ensure that in market drawdowns we are doing our best to protect shareholders' capital.'

SUPERIOR CRITERIA

Strategically, the BlackRock investment trust classifies itself as both an equity dividend fund and dividend growth fund.

DeSpirito seeks out superior dividend growers with a superior return on equity. He looks for high quality franchises with wide economic moats, companies that generate a good return on invested capital and have strong balance sheets to see them through volatile times.

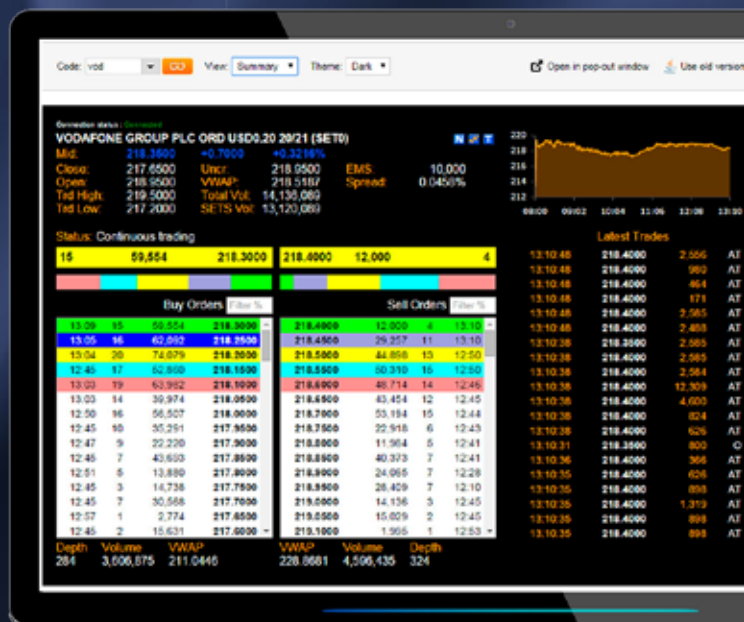
He also seeks companies with improving earnings and cash flow trends and stresses 'we want these characteristics at a good price'. (DC/JC)





7 DAY

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depth of the market



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the relative number of
shares in each price tier
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as a whole

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HAVE WE HIT 'PEAK' EVERYTHING?

HAS THE CONSUMPTION OF
GOODS REACHED SATURATION
POINT AND WHAT ARE THE
IMPLICATIONS FOR INVESTORS?



In the 1980s I remember writing an economics homework essay about how the world was going to run out of oil by the year 2000 — Marion King Hubbert's original 'peak oil' thesis. Well, predictions are tricky, especially about the future. However, the peak, and indeed trough, thesis seems particularly appropriate to the rather odd world we currently live in.

PEAK STUFF

Sure, we have had peak government and peak car but new terms are entering the lexicon: peak stuff, peak globalisation and even peak tech. We in the west, actually consume less stuff than we did ten years ago. My garage is full of stuff, which I have no need for even though 'Aunt Amazon' keeps knocking at the door (not sure my wife subscribes to the peak stuff philosophy). Most interesting is the significant weakness in global trade, which has been shrinking for a couple of years now — peak globalisation?[1] Maybe I am not the only one who wants nothing for Christmas; my wife says I'm miserable — I probably am.

PEAKED OR TROUGHED?

It seems everything has peaked out or indeed the opposite; many seem to be going through a trough. Virtually every industry we can think of has too much capacity — airlines, shipping, steel, autos and retail — all with no pricing power. As seasoned readers will know we don't lend to these industries; if it 'flies, floats or rolls' or indeed, if it is one of the three Rs, 'retail, restaurant or the rag trade'. Take

shipping for an example; it is an appalling industry, plagued by capacity build ups and no growth — witness the demise of South Korea's Hanjin Shipping among others.

On a recent holiday to the Seychelles, I was amazed to read in the airport that there are 35 international flights a week into the Seychelles at an average capacity of 40% (breakeven load factor for airlines, the point at which operations start to make money, is currently around 60-65%). The Arab carriers, among many others, are throwing capacity at this route, increasing their market share and aiming to dominate it. Granted, this is good for cheap holidays as someone else is subsidising the costs.

ENTER THE 'SHARING' ECONOMY

It was the Ikea executive, Steve Howard, who recently spoke about peak stuff; how it was



**John Pattullo, Co-Manager
with Jenna Barnard,
Henderson Diversified
Income Ltd**

unlikely they could sell any more furniture as everybody has enough already. This chimes a chord with us and seems hugely relevant to the shared economy. The average car only moves 4% of its life. So in the future we will need less cars and will simply be sharing them (arguably US car production is peaking out at the moment).





Airbnb could hugely lower the need for extra hotel rooms as we simply share existing houses; peak RevPAR (revenue per available room)? The effects could be hugely deflationary. Just look at the effect Uber is having on London private hire firm Addison Lee's profitability, where they have recently fallen by two thirds.

So we can add to our list peak taxi fare, peak hotel room and peak car ownership.

GROWTH TROUGHS, ASSET INFLATION PEAKS

Post the 'Global Financial Crisis', economic growth has been pitiful. Economic growth, inflation, defaults, volatility, productivity, trade, credit demand and bond yields all seem to have troughed while asset inflation peaks (S&P 500, NASDAQ indices) on an almost daily basis. There are a number of complementary theories to explain this.

Jenna and I have spoken about Richard Koo's balance sheet recession view of the world for over five years now. This is where

individuals or corporates do not want to borrow when interest rates are lowered, as they just want to reduce their debt — peak credit perhaps? Larry Summers' secular stagnation is a similar view but emphasises excess savings as the cause of the lack of aggregate demand.

DEMOGRAPHICS OR DEFLATIONARY EFFECTS OF TECHNOLOGY?

More recently demographics have been getting another airing — not enough producers/consumers and too many older savers — those dependency ratios just keep getting worse. Other theories focus on the chronic lack of productivity and the deflationary effects of technology and the shared economy. Witness peak technology; Apple handset sales have peaked as we are all saturated with mobile phone technology (do you know anyone without a smart phone?). Apple currently trades on a price over earnings (P/E) ratio of around 12.5 times,

which would suggest it is not a growth company.

BEHAVIOURAL CHANGES MATTER

But more importantly, we think the behavioural change in the consumer is significant. My colleague, Arjun Bhandari, has highlighted the reduced desire and ability for millennials to consume as this demographic would rather purchase experiences than consumer durables.

Behaviours vary by generation but also by culture. We heard a story from a respected Japanese economist the other day — if you go to the consumer electronics district of Tokyo you will find canny Japanese consumers buying cheap 'value' Chinese made rice cookers. Whereas the 'bling' Chinese tourists tend to buy overpriced, over-engineered Japanese rice cookers. It is not until we have a change in consuming behaviour, that we may have the remotest chance of getting out of the current economic malaise.

Structural reforms, fiscal expansion and helicopters are all coming as well.

DID WE MENTION 'LOWER FOR EVEN LONGER'?

We are sympathetic to all of the above theories. We have talked about 'lower for even longer' for years but now it is getting much more mainstream acceptance among our client base. In this regard, over the past year or so we have favoured quality, long-dated (higher duration), large-cap, non-cyclical corporate bonds over high yield bonds. This has worked very well whereas some of our competitors are still in the reflation camp.

In a well-behaved world, business cycles follow the pattern of growth, boom, recession and recovery. In the boom phase excess demand leads to rising inflation, which in turn translates into higher interest rates to dampen the demand (hurting bond returns). The current prolonged period of recovery has naturally led to reflation theories. But such theories miss the important fact that the economy has now moved on from an excess in demand to an excess in supply, making the prospects of inflation even more remote.

Thus the current consensus that the boom in bonds is soon

to go out with a bang, may actually turn out to be only a whimper. In reality, however, it is impossible to predict.

MEANWHILE, IN A LITTLE CORNER OF THE FIXED INCOME MARKET...

The current economic environment has been a great time to be invested in corporate bonds. Central bank quantitative easing programmes, and more lately bond purchases by the European Central Bank and the Bank of England have made the bond drought even more severe. Peak bond maybe, but we are

not convinced.

Remember, a golden rule of investing is 'don't fight the Fed' and another is 'respect the technicals'. Today's bond markets are technical, technical and technical. If anything we prefer a more credit sensitive market, one that is more focused on the likelihood of company defaults and future earnings, but hey, who's complaining?

We continue to like large reliable lower end investment grade and top end high yield corporate bonds, in our efforts to deliver a reliable income stream for our investors.



Before investing in an investment trust referred to in this article, you should satisfy yourself as to its suitability and the risks involved, you may wish to consult a financial adviser.

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[1] The tide of globalisation is turning, Martin Wolf, Financial Times, 6 September 2016

Profit from a digital future

Neptune's tech fund manager sees growth galore in a new digital economy

We live in a paradoxical world. Global growth has stalled and there has been less productivity growth over the past 10 years, according to analysis by researchers at investment bank Morgan Stanley, yet it feels like there is more technology innovation around us than ever before. 'We see scope for digitalization to re-accelerate productivity growth,' the banks' analysts say.

If steam was the engine of the first industrial revolution, electrical power the second, it is Moore's Law that has largely driven the third – the digital revolution that is happening all around us right now.

'Our analysis suggests that the US economy is only 27% digitalised and that there are lots of inefficiencies to be unlocked, which could increase the level of digitalisation to 43% in the next five to 10 years,' they add.

The speed at which this



transformation occurs will depend on the level of investment in technological advances such as the Internet of Things (IoT), big data, and business process optimisation driven by the analytics of that data. Opportunities for investment in the digitalisation of business are not lost on Ali Unwin, who runs the **Neptune Global Tech Fund (GB00BYXZ5N79)**.

For him, the digital enterprise is not just about spending more on IT or giving iPads to workers. He believes the soul of the issue is captured best by market researcher Gartner report earlier in 2016, referencing the theme as 'the creation of new business models and processes by integrating technology with the physical world.'

PROFIT FROM THE DIGITAL REVOLUTION

But what does that really mean? 'This can range in scale from companies that dominate a

space without owning assets themselves (Facebook, Uber, Airbnb) to small businesses starting to market themselves online,' he says.

'We find from our discussions with company management teams that customers are becoming more aggressive in driving their digital transformations,' he says. 'This highlights the impact that this trend will have on a company's long-term success and, as so often in technology, we believe this change and disruption presents opportunities for investors.'

How do investors tap into the profit potential of this burgeoning space? Target the right companies, clearly, or the right fund, to cover multiple bases, the real beauty of collective investing.

Unwin has recently been singing the praises of a handful of companies, UK and foreign, large and small, that he believes are in the right place at the right

Neptune Global Tech Fund

Fund Manager: Alastair Unwin

ISIN: GB00BYXZ5N79

Minimum investment: £250 initial, £100 monthly

Three-year annualised performance: N/A

Long holdings (as at 31/08/2016): 77

Fund Facts

Launch date: 15/12/2015

Fund type: Open-ended investment company (OEIC)

Fund size: £6.4m (as at 30 Sep 2016)

12-month yield: N/A

Sector: Technology and Telecoms

TOP TEN HOLDINGS

(AS AT 30/09/2016)

Alphabet (aka Google)	9.3%
Microsoft	9.2%
Apple	7.6%
Facebook	4.4%
Visa	3.7%
Amazon	3.4%
SAP	3.0%
Oracle	2.0%
Mellanox Technologies	2.6%
Sabre	2.5%

Data as at 30 September 2016
Source: Neptune

time to capture a share from the digitisation of the enterprise.

Arguably the best-known of this handful is **Adobe Systems (ADBE:NDQ)**, largely because most of us use its *Adobe Acrobat* software to open PDF files. Some of us may also know the graphic design tool *Photoshop*, extensively used in publishing and responsible for millions of creative camera shots of family, friends and a multitude of celebrities.

COMPANIES LARGE AND SMALL

‘Adobe has been the dominant force in creative digital software for 15 years, and we believe they should benefit as digital content becomes more important and companies invest more in digital marketing and branding efforts,’ explains Unwin. Interestingly, the company is also completing a transition from a licence to a rental model for its software, a transition that can typically pinch profits early on but provide greater earnings quality in the future.

Salesforce (CRM:NYSE) is another technology industry goliath liked by the Neptune fund manager, worth around \$50bn. A pioneer of the software-as-a-service (SaaS) model, where its customer relationship management (CRM) applications are hosted in the cloud and not on a customer’s own IT equipment. The company has signed several significant deals in the past few quarters, which



Alastair Unwin

suggests that the very largest organisations see the company as a key partner in their digital transformation efforts.

It’s a similar story with \$2.5bn market value **Pegasystems (PEGA:NDQ)**. Its tools

allow organisations, including **Coca-Cola (KO:NYSE)**, **Vodafone (VOD)** and HMRC, to enhance their digital capabilities and change with their customers as they enter the digital world. ‘Customer experience will remain extremely important in the digital world, and we believe Pegasystems is likely to benefit as organisations invest more heavily in it,’ spells out Unwin.

SMALL COMPANIES, BIG POTENTIAL

While the Neptune Global Technology Fund’s remit, to hunt down the best in class companies, will inevitably see its investments gravitate to the world’s technology giants, Unwin refuses to ignore the smaller,

growth environment here in the UK. Not currently holding a stake in the business, Unwin is nonetheless a fan of **DotDigital (DOTD:AIM)**, software supplier to the digital marketing industry. Its tools allow marketing professionals to build dynamic campaigns and target them at specific audiences.

‘Marketing automation is a major growth area and recent research from Gartner shows that companies expect that chief marketing officers will spend more on IT than chief information officers by 2017.’

That would be a fascinating transition if control over company purse strings plays out as Gartner predicts, and if it does, Unwin firmly expects global PR, communications and marketing business **Next Fifteen (NFC:AIM)** to prosper. ‘We believe companies are likely to require external support as they adapt to the digital world, and Next Fifteen could use its digital heritage as a competitive advantage to win a share of this work,’ says the Neptune fund manager.

WHAT IS MOORE’S LAW

MOORE’S LAW IS the observation that, over the history of computing hardware, the number of transistors on integrated circuits doubles roughly every 18-months to two years. In other words, this means that a new smartphone today should be 100% more powerful than one bought at the start of 2015 thanks to the increased computer

processing power. It also means today’s devices could be far faster, significantly smaller and cheaper too than past models. The law is named after Gordon E Moore, co-founder of **Intel (INTC:NDQ)**, who described the trend in his 1965 paper. While our understanding of particle physics puts a limit on how far Moore’s Law can go, most experts believe there is another 30 to 50 years of development ahead of us.

How to buy 'complex' investments

Not all products can be dealt at a simple click of a button

Buying investment products such as shares, exchange-traded funds (ETFs) and investment trusts is a quick and simple process in the vast majority of cases, but if a more 'complex' product grabs your eye there are some hurdles you have to go through.

Rules laid down by the regulator, the Financial Conduct Authority (FCA), require investment platforms to assess their customers' experience and knowledge before letting them buy complicated instruments.

Products such as warrants, securitised derivatives, convertibles, structured products and other specialist instruments fall into this category. Some platforms label all ETFs as complex, but most restrict this to short and leveraged ETFs – vehicles which

multiply the positive or negative returns of an index.

Platforms decide for themselves which products are complex but this is always based on guidance from the regulator or London Stock Exchange (LSE), or in some cases product providers themselves. AJ Bell Youinvest labels stocks as complex based on a feed it receives from Interactive Data, but it can override the feed if it sees fit.

APPROPRIATENESS ASSESSMENT

At one stage it looked as if all investment trusts would have to be labelled complex as a result of an EU Directive called MiFID II, but last month the FCA said it doesn't think this should be the case.

The FCA consultation is still

ongoing, but the Association of Investment Companies, which represents investment trusts, says the regulator's announcement is very welcome.

If the FCA had said investment trusts are complex, investors buying the products would have been required by their platform to fill in an 'appropriateness' form.

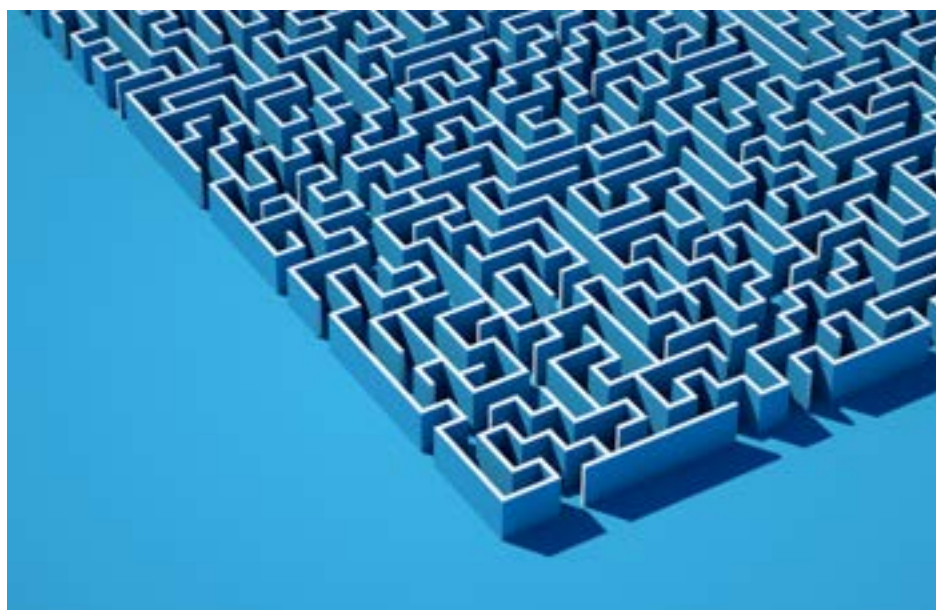
Called suitability forms in the financial advice arena, these forms ask several questions which aim to determine your expertise and knowledge of the particular investment field.

They ask about your understanding of risk and dealing experience and ask you to sign a declaration.

If you don't pass the assessment, you won't necessarily be barred from investing. AJ Bell Youinvest will send you a secure message advising you that it doesn't believe the complex instruments are suitable. You can reply with a declaration stating that you would like to proceed and the deal will go ahead. Other platforms may provide you with educational materials.

Although investment trusts aren't considered automatically complex at present, there are still several instruments which your platform will label as complex and therefore require an appropriateness form.

They include trusts with a



sophisticated structure and/or complex performance-related structure. Trusts investing in hedge funds, private equity, infrastructure, property or other illiquid asset classes can also fall into this category.

Some of these instruments are not technically investment trusts but are still grouped alongside them.

In general, if an investment trust is in the Specialist Fund Segment of the LSE it will be deemed complex by your platform.

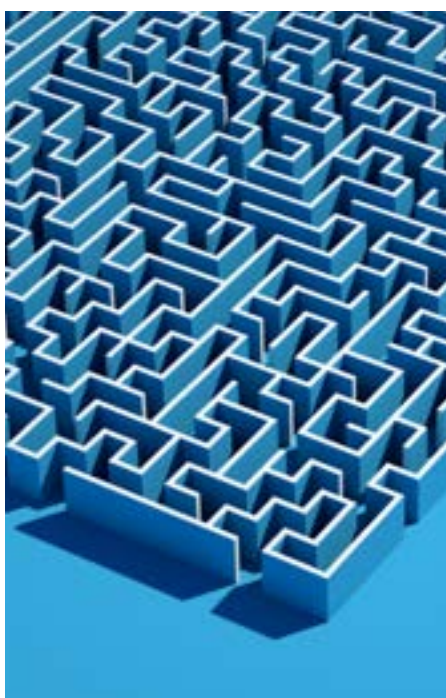
The LSE says the Specialist Fund Segment is designed for investment entities that wish to target 'institutional, highly knowledgeable and professionally-advised investors'. It cites investment managers of large hedge funds, private equity funds and certain emerging market and specialist property funds.

LISTING CRITERIA

Not all of the instruments in the Specialist Fund Segment look overly complicated; in some instances they may be in this segment purely because they don't yet meet the criteria of the Premium segment or AIM.

Graham Glass, managing director at Amberton Asset Management, which manages **SME Loan Fund (SMEF)**, says the trust is listed on the Specialist Fund Segment because of its small size and 'other reasons'. The trust invests in a range of loans across a range of durations and geographies, although it is predominantly UK-focused.

'The option of moving it to AIM as the fund grows over time is always open to us as we



have adopted many of the more rigorous rules associated with AIM versus the Specialist Fund Segment,' says Glass.

Nathan Brown, director of corporate broking at Numis Securities, broker for **UK Mortgages (UKML)** and **Fair Oaks Income Fund (FAIR)**, says listing on the Specialist Fund Segment could be seen as a recognition by the trust of its complexity, but it is also down to not meeting the stringent criteria of the Premium segment.

'UK Mortgages is on the Specialist Fund Segment because it was initially buying a single portfolio; now it is more diversified. Similarly, Fair Oaks initially had three or four investments but now it has more,' he says.

If trusts think they are becoming less complex they could apply for a Premium listing.

LOANS AND LEASES

UK Mortgages, managed by TwentyFour Asset Management, invests in a portfolio of loans

secured against UK residential mortgages.

Its first transaction was the purchase of a pool of £310 million UK buy-to-let mortgages from Coventry Building Society in November 2015. This was followed by the purchase of £250 million of owner-occupied mortgage loans from The Mortgage Lender in July 2016.

Fair Oaks Income Fund, launched in June 2014, offers exposure to US and European collateralized loan obligations (CLOs) – a type of security where payments from business loans are pooled together and passed on to other owners in various tranches. Loans include leveraged buyouts made by private equity firms.

Another collective in the Specialist Fund Segment is **DP Aircraft (DPA)** which buys aircraft and then leases them out. It owns four Boeing 787-7 aircraft, of which two are leased to Norwegian Air Shuttle and the other two to Thai Airways International.

A more well-known instrument in the Specialist Fund Segment is **Marwyn Value Investors (MVI)**, which invests in mid-cap UK, European and North American businesses.

Current investments include **BCA (BCA)**, which owns WeBuyAnyCar.com; French footwear brand Le Chameau; telecommunications investor **Zegona Communications (ZEG)**; and media technology company **Gloo Networks (GLOO:AIM)**. It was previously one of the cornerstone investors in global film, television and music company **Entertainment One (ETO)**. (EP)

Death and taxes

How pensions have become a key element of inheritance planning

In this world nothing can be said to be certain, except death and taxes.' So said US Founding Father Benjamin Franklin, in a letter written following the establishment of the Constitution.

In pensions, death used to be followed by a huge 55% tax hit on any money you left behind to your loved ones. However, rules introduced last year mean it's now possible to pass on your entire pension pot to your beneficiaries, tax-free.

HOW IT WORKS

Here's how it works. If you have a SIPP and die before age 75, you can pass on your entire fund to your beneficiaries without them paying any tax at all. The money can be passed down as a cash lump sum, or transferred into a drawdown account.

If you die after age 75, the money you leave behind will be taxed at the marginal rate of the person you nominate to receive the money. So if your beneficiary has taxable income of £43,000 and receives an extra £10,000 lump sum from your SIPP when you die, they will only get £6,000 after tax. This tax bill can be minimised if the fund is left invested and withdrawn in smaller chunks as and when your beneficiary's taxable income reduces in later life.

If your beneficiary dies before withdrawing the pensions bequeathed to them, they in turn can pass the funds on under the same tax rules.



Indeed, it's possible to have unlimited successors, meaning a pension can be passed on from generation to generation. You also don't need to pass on your pension to just one person – you can nominate multiple people to get different shares of your hard-earned savings pot.

The reforms effectively mean pensions are now much more than simply a retirement savings vehicle – they are an inheritance tax planning tool as well.

THE REALLY IMPORTANT BIT!

Unfortunately, pension providers are not mind readers, so you'll need to fill in a SIPP death benefit and expression of wishes

nomination form in order to make sure your retirement pot is passed on in the way you want. It will only take a few minutes but must be done if you want to make sure your money is distributed to the right people when you die.

Any unused funds must be 'designated' to your beneficiaries within two years of your death. This just means that the money needs to be transferred into the beneficiaries' names.

So when it comes to pensions, Franklin's maxim wasn't quite right. Death may be certain, but taxes are not.

TOM SELBY
Senior Analyst, AJ Bell

FRIDAY 28 OCTOBER

TRADING STATEMENTS

Berendsen	BRSN
Elementis	ELM
Royal Bank of Scotland	RBS

AGMS

Ideagen	IDEA
---------	------

ECONOMICS

UK

Mortgage Approvals

US

Advance GDP

MONDAY 31 OCTOBER

TRADING STATEMENT

Senior	SNR
Smith DS	SMDS

AGMS

Red Emperor Resources	RMP
-----------------------	-----

TUESDAY 1 NOVEMBER

RESULTS

Finals

Egdon Resources	EDR
-----------------	-----

Interims

Apax Global Alpha	APAX
BP	BP.
First Derivatives	FDP
Royal Dutch Shell	RDSA



ROYAL DUTCH SHELL

Royal Dutch Shell (RDSB) is set to update on third quarter trading the same day as rival BP (BP.) (1 Nov) with focus on its dividend. Shell has not cut its payout since the Second World War but has not been able to fund the dividend from organic cash flow for years.

Shire	SHP
-------	-----

TRADING STATEMENTS

Go-Ahead Group	GOG
Moneysupermarket.com	MONY
Standard Chartered	STAN
Weir	WEIR

AGMS

Aggregated Micro Power Holdings	AMPH
---------------------------------	------

ECONOMICS

UK

Manufacturing PMI

WEDNESDAY 2 NOVEMBER

RESULTS

Interims

Livanova	LIVN
Millennium & Copthorne Hotels	MLC
Smurfit Kappa Group	SKG



NEXT

Expectations are subdued ahead of former retail sector darling Next's (NXT) third quarter update on 2 November. Q3 was the clothing-to-homewares colossus' best performing quarter last year, so comparatives are testing.

TRADING STATEMENTS

Next	NXT
Persimmon	PSN
Just Eat	JE.
Wetherspoon J D	JDW

ECONOMICS

UK

BRC Shop Price Index y/y

Construction PMI

US

ADP Non-Farm Employment Change

Crude Oil Inventories

FOMC Statement

Federal Funds Rate

THURSDAY 3 NOVEMBER

RESULTS

Finals

Matchtech	MTEC
-----------	------

Interims

Howden Joinery	HOWN
Indivior	INDV
Inmarsat	ISAT
Lancashire	LRE
Randgold Resources	RRS
Tate & Lyle	TATE

TRADING STATEMENTS

Coca-Cola HBC	CCH
Croda International	CRDA
Morrison Wm Supermarkets	MRW
RSA Insurance Group	RSA

Schroders	SDR
-----------	-----

Smith & Nephew	SN.
----------------	-----

EX-DIVIDENDS

Aeorema Communications	AEO	2p
Ashmore Group	ASHM	12.1p
Blanco Technology Group	BLTG	1.34p
Blackrock Greater Europe Inv Trust	BRGE	3.65p
Clinigen Group	CLIN	2.7p
Dunelm Group	DNLM	19.1p
Harworth Group	HWG	0.23p
Hilton Food Group	HFG	4.6p
James Halstead	JHD	8.5p
Laird	LRD	4.53p
Mission Marketing Group	TMMG	0.5p
Morgan Advanced Materials	MGAM	4p
New Star Investment Trust	NSI	0.3p
NWF Group	NWF	4.7p
Playtech Ltd	PTEC	0.46EUR
RTC Group	RTC	1.1p
SCS Group	SCS	9.83p
SThree	STHR	4.7p
Trinity Mirror	TNI	2.1p

ECONOMICS

UK

Services PMI

MPC Asset Purchase Facility Votes

Asset Purchase Facility

Official Bank Rate

Monetary Policy Summary

MPC Official Bank Rate Votes

BOE Inflation Report

BOE Gov Carney Speaks

FRIDAY 4 OCTOBER

RESULTS

INTERIMS

Paddy Power Betfair PPB

TRADING STATEMENTS

Informa	INF
Kennedy Wilson Europe Real Estate	KWE

AGMS

Jupiter Energy JPRL

ECONOMICS

US

Non-Farm Employment Change

Average Hourly Earnings m/m

Unemployment Rate

Trade Balance

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MIGHTY **AMAZON** WASHES AWAY COMPETITION

COMPANIES LOOKING OVER THEIR SHOULDER AT DISRUPTIVE US TITAN

Jeff Bezos' ambitions are seemingly limitless. The billionaire founder of **Amazon's (AMZN:NDQ)** Blue Origin business is competing with Elon Musk's SpaceX for commercial satellite launches and human space transportation services. On terra firma, the tech titan's tentacles reach out towards ever more industries in a growth land-grab that has numerous businesses looking nervously over their shoulders.

PHENOMENAL GROWTH

Amazon is nothing short of a phenomenon. Over the 10 years that the **Scottish Mortgage Investment Trust (SMT)** has held Amazon, the US goliath's shares have risen more than 1500%, reflecting its rise from disruptive online US book retailer to global e-commerce behemoth and dominant cloud service provider. Amazon's shares continue to ride high on strong cloud computing earnings and rapidly expanding membership for Amazon Prime, perhaps the greatest loyalty programme in history.

High street retailers have lost to Amazon and now it's taking the online grocery market seriously it could also prove a serious competitor for the big supermarkets engaged in a destructive price war. Not content with delivery drones, a Prime Video service which is a threat to **Netflix (NFLX:NDQ)**, and even a new music streaming service, Amazon is planning to build convenience stores in its latest move to expand into groceries, according to the Wall Street Journal.



The Seattle-based e-commerce giant will build drive-in locations for consumers in a rush where online grocery orders will be brought to the car. Only subscribers to Amazon's Fresh service will have access to these stores, known as 'Project Como'.

EATING OTHERS' LUNCHES

On a long-term view, there's huge potential for the e-commerce colossus to grab a greater share of the emerging digital grocery sales market. In the UK, Amazon is stepping up its battle against the supermarkets through Amazon Fresh, offered to Amazon Prime subscribers and with an initial focus on London. The arrival of Amazon Fresh, up and running in the US for about seven years, follows the online giant's inking of a deal with **Morrisons (MRW)** in March, which saw hundreds of Morrisons products made available to Amazon Prime Now and Amazon Pantry customers. The Bradford-based grocer is wholesaling shelf-stable, fresh and frozen products to Amazon, despite already operating its own website in partnership with **Ocado (OCDO)**.

Amazon Fresh looks especially alarming

for online grocer Ocado. Amazon has had ample opportunity to acquire the online retailer, yet with every week that passes, it is gaining more insight into groceries in the USA and UK. This makes a bid seem less likely and Ocado is now its key pure-play competitor in Greater London.

WHO'LL GET CLOBBERED?

September saw Amazon ramp up its apparel proposition, Amazon Fashion, 'a one-stop destination for head-to-toe style' which allows shoppers to try on clothing, shoes and jewellery and send items back via free shipping and free returns on eligible items. The launch, in the words of Shore Capital, 'is likely to have some of the management teams at current market incumbents twitching and sweating over their respective market share.'

ASOS is one name that may be in the firing line, though *Shares* sees merit in Shore Capital's argument that the ASOS proposition 'continues to be at the innovative-end of the fast-fashion market and this remains a point of difference within its competitive strategy.'

Bezos has long seen a presence in the fashion industry as a way to help Amazon achieve its long-term ambition of surpassing \$200 billion in sales. While Amazon's association with discounting turns off some high-end brands, Bezos has a long-term mindset. Amazon Fashion's launch could not have come at a worse time for UK apparel retailers, with falling sterling and rising inflation expected to impact sales and margins going forwards. September's ONS retail sales data showed weak apparel and clothing sales during the second warmest September in over 100 years.

Yes, it is still early days in terms of Amazon's entry into the clothing market, but it certainly cranks up the pressure on everyone from **Bonmarche (BON)** and **Next (NXT)** to **Marks & Spencer (MKS)**, **N Brown (BWNG)** and **Associated British Foods (ABF)** owned Primark.

TAKING SALES AWAY?

Amazon is also looking to eat into the booming market for delivered takeaway

food through recent launch Amazon Restaurants, which also so far delivers only in London. The service is free to customers signed up to Amazon Prime. Amazon's entry into UK online food delivery has negative implications for takeaway food specialist **Just Eat (JE.)**, although Investec Securities believes the overlap with Just Eat's operations is minimal.

'Amazon's online takeaway service is currently only available to c.1.3% of the UK population in certain London postcodes through its Amazon Prime Now service which costs £7.99 a month (or £79 a year),' explains analyst Alex Paterson, a buyer of Just Eat with a 650p price target. 'The choice of restaurants ranges from mid-market to Michelin-starred, attracting a more affluent demographic than Just Eat targets, and more closely mirroring the strategy of Deliveroo and UberEats.'

GROWTH PHILOSOPHY

The minimum order value is £15 on Amazon and the average order value on Deliveroo is c.£27, compared to an average order value of c.£17 on Just Eat, suggesting minimal customer overlap. We think Amazon Restaurants' expansion across the UK will be limited in the short to medium term as it requires logistics in place for under 1-hour delivery. Amazon Restaurants in Seattle, which launched in September 2015, has just 159 restaurants on its platform (Just Eat has c.4,500 in London).'

Speaking to *Wired* in 2011, Bezos explained his philosophy: 'Our first shareholder letter, in 1997, was entitled, 'It's all about the long term.' If everything you do needs to work on a three-year time horizon, then you're competing against a lot of people. But if you're willing to invest on a seven-year time horizon, you're now competing against a fraction of those people, because very few companies are willing to do that. At Amazon we like things to work in five to seven years. We're willing to plant seeds, let them grow — and we're very stubborn. We say we're stubborn on vision and flexible on details.' (JC)



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- **AIM**
- **Overseas Market**
- **Fund**
- **Investment Trust**

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