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NEW PHASE
IN HISTORY*

**NEW
DAWN
FOR
GLOBAL
MARKETS**

Everyone needs copper

Trump adds fuel to positive outlook for the base metal

A 30% rise in the copper price over the past month has put a rocket under the shares of copper miners. There are many reasons behind the unprecedented commodity price movement and most of them suggest you should stay bullish on the metal, even after the big price surge.

I believe all investors should have some exposure to the metal in their portfolio. It is an economic bellwether. If you believe the world economy is going to grow, you need a slice of copper. It is used in wiring, power grids, construction, transport, and much more.

The price of copper for delivery three months in the future traded at \$4,635 per tonne on 21 October. It had jumped to \$6,025 per tonne by 11 November. The metal had eased back to \$5,422 per tonne as of 15 November, but still very attractive.

We flagged a brighter outlook for copper in our article on miner **Savannah Resources (SAV:AIM)** on 3 November. The shares have since risen by 27% in value. Key to that stock pick was UBS' forecast that the copper market would switch from surplus to deficit in 2017 which implies a rising copper price.

MARKET DYNAMICS

The copper industry has a tendency



to experience supply disruptions as it is prone to labour strikes and production disappointments, often due to ageing mines where grades are falling.

Donald Trump's victory in the US presidential election is also supportive for the copper price. He wants to spend heavily on infrastructure which will require a lot of copper.

Macquarie earlier this week increased its copper price forecasts by 11% to 17% over the next four years

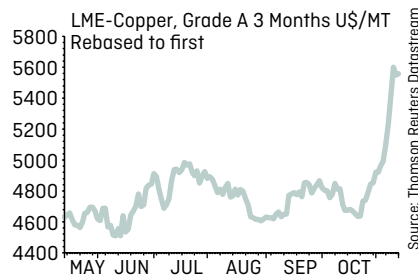
to reflect the current market situation and the Trump effect.

It doesn't believe the US infrastructure push would manifest until 2018, given the lag between policy formulation and implementation. However, it acknowledges that copper could benefit in the interim as the market starts to allocate a bigger portion of assets to the metal in anticipation of an eventual infrastructure push.

I expect to see a strong flow of money into exchange-traded funds that track the copper price.

Good copper miners to buy, in my opinion, are **Kaz Minerals (KAZ)** and the aforementioned Savannah.

Rio Tinto (RIO) also looks interesting amid extra exposure to iron ore and coal – two more commodities racing ahead in price this year.



WHO WE ARE

EDITOR: Daniel Coatsworth @SharesMagDan	DEPUTY EDITOR: Tom Sieber @SharesMagTom	NEWS EDITOR: Steven Frazer @SharesMagSteve	COMPANIES EDITOR: William Cain @SharesMagWill
FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames	JUNIOR REPORTER: Lisa-Marie Janes @SharesMagLisaMJ	CONTRIBUTERS Emily Perryman Tom Selby	
PRODUCTION Head of Production Michael Duncan Designer Rebecca Bodi	ADVERTISING Sales Executive Nick Frankland 020 7378 4592 nick.frankland@sharesmagazine.co.uk	MANAGING DIRECTOR Mike Boydell	

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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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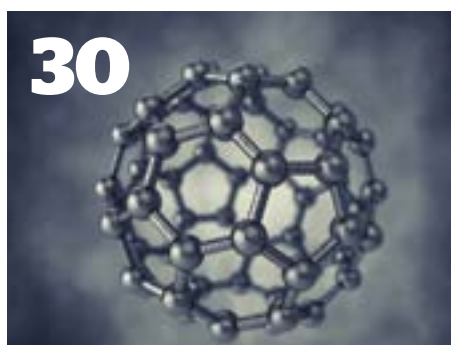
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For example, Indofood sold 9 billion packets of Indomie noodles last year, Magnit welcomed 11 million shoppers a day, Brazilians bought 78 million bottles of Ambev's beer and Dabur's Hajmola tablets were taken 26 million times a day in India.

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Year ending 30 th Sept	2016	2015	Since inception
FEET Share Price	+16.4	-11.8	+11.8
FEET NAV	+20.0	-7.8	+9.8

Source: Financial Express Analytics. Inception: 25th June 2014

Fundsmith
Emerging Equities Trust

Expensive defensives in retreat

Investors start dash for trash as government bond yields rise

Anyone looking for evidence Donald Trump's election has sparked a 'dash for trash' need look no further than the government bond market.

The best performing government debt in the world this week belongs to Greece: the country's 10 year bonds were one of only a handful of fixed income securities to gain in value since the US vote.

The price of most countries' government bonds fell, meaning their yields rose.

Equity investors are making use of the same playbook. Shares in high quality, defensive names like **Unilever (ULVR)** are down 4.5% since the election while the indebted and highly cyclical UK equipment hire outfit **HSS Hire (HSS)** is up 4.5%.

CHANGING OUTLOOK

Why? The answer is straightforward. In a low growth, low inflation environment investing in a solid company at 20 times earnings, provided it can grow modestly, makes sense. Over time, these kinds of businesses will deliver steady and occasionally spectacular returns to investors, even from high starting valuations.

On the other side of the coin are cyclical stocks. Investing in a business like HSS even at 10 times earnings is risky: its profitability and share price can go into meltdown at the mere sniff of an economic downturn.

Today, investors are betting the risk of a global economic downturn has declined. The downside risk at cyclical stocks, particularly in the US and maybe in other developed countries, is being underwritten by what markets expect to be a free-spending Republican president in the US.

In such an environment, cyclical stocks should deliver stronger earnings per share growth from low starting valuations. This would make them more attractive than more expensive, lower growth defensives. Investors are repositioning their portfolios as a result.



SUSTAINED TREND

Some commentators expect this trade to continue in the year ahead. Others, including analysts at Bank of America-Merrill Lynch (BAML), say investors may be getting too far ahead of the curve.

A BAML statistical analysis of price movements since Trump's victory indicates defensives may now be oversold.

Defensive stocks in the utilities sector, including **National Grid (NG.)**, and the utility-like telecoms sector, including **Vodafone (VOD)**, have seen the weakest performance relative to the rest of the market.

Cyclicals like miners, banks and (life) insurers are flagged by BAML equity strategist Tommy Ricketts as 'overbought'.

In the short term, statistical analysis of price movements can have some value. Longer term it is earnings that will determine the success or failure of any investment and investors should consider the relative growth.

Even BAML's Ricketts accepts that higher global economic growth would support the rally in cyclicals in the medium term. (WC)

Bright spots amid construction gloom

Sector posts worst official performance since 2012 but looks to be stabilising

THE CONSTRUCTION INDUSTRY has endured its worst quarter in four years in the wake of the Brexit vote. Dig deeper in the data and you'll find reasons to stay positive on parts of the sector.

The 1.1% decline in construction volumes flagged by the Office for National Statistics (ONS) in the July to September period is less acute than its forecast in October for a 1.4% fall in construction activity in the third quarter.

Volumes were up 0.3% month-on-month in September. Signs the market has stabilised are backed by purchasing managers' index surveys for September and October which show the rate of growth accelerating to its highest level since March.

The industry will also be hoping for support in the upcoming Autumn Statement (23 Nov).

Much of the quarterly decline in the construction

sector can be attributed to a 3.6% fall in repair and maintenance work. That's evident in profit warnings across the builders' merchants and products sectors.

SIG (SHI), **Travis Perkins (TPK)** and **Grafton (GFTU)** have all issued disappointing trading updates in the past quarter or so.

On the flipside, most housebuilders have signalled their resilience post the EU referendum. **Taylor Wimpey (TW.)** and **Crest Nicholson (CRST)** are the latest to say demand is holding up.

The main concern we draw from Taylor Wimpey's release is a guided 3% to 4% increase in build costs in 2016. The increase reflects a lack of skilled labour to keep up with the demand for new homes. This issue could be exacerbated by the Brexit vote if it becomes more difficult for the industry to recruit from the EU. (TS)

Bright lights shine on Cineworld earnings

Earnings could beat expectations if current revenue growth trend is sustained

A STRONG TRADING update on 15 November would suggest **Cineworld (CINE)** could beat market expectations if it can deliver a good performance over the next few months.

N+1 Singer says Cineworld could beat its pre-tax profit forecast by 12.5% if it can sustain the 14.6% revenue growth seen in the 45 weeks to 10 November for the rest of the year.

Market sentiment had been mixed towards the company earlier this year

as investors feared it couldn't match or beat the excellent results from 2015 as the film slate looked weaker. That now looks too pessimistic.

Last year's results were boosted by very popular films in the *Star Wars*, *Jurassic Park* and *James Bond* franchises. Recent films enjoying good box office takings include *Secret Life of Pets* and *The BFG*. The next few months sees another *Star Wars* film and a new one in the *Harry Potter* franchise.

We are buyers at 559.62p. (DC)

BAT-Reynolds deal in doubt

SPECULATION IS MOUNTING that tobacco firm **Reynolds American (RAI:NYSE)** will reject a \$47bn merger with UK rival **British American Tobacco (BATS)**. The latter already owns 42% of Reynolds. Sources suggest there may be some haggling to be done over the cash and shares offer. Both parties declined to comment. (TS)



Vodafone retains income power

Telecoms giant has mixed fortunes but cash flow is on track

Better than expected half year results from **Vodafone (VOD)** makes us confident it can continue to pay an attractive dividend, currently yielding 6.2% on a prospective basis.

The telecoms giant raised its half year dividend by 1.9% to 4.74c. That implies 4.1p per share dividend at the current 0.867 euro/sterling conversion rate. It is worth noting that Vodafone now reports in euros.

Analyst consensus for the full year dividend stands at 12.6p, according to data supplied by Reuters.

GAINING STRENGTH IN EUROPE

The main message from the half year results (15 Nov) was improving strength across much of Europe offsetting a declining UK, although the rate of reverse is encouragingly slowing.

Vodafone reported first half 2017 revenue and EBITDA (earnings before interest, tax, depreciation and amortisation) down 3.9% and 1.7% at €27.1bn and €7.9bn respectively, but up 1.7% and 4.3% on



an organic constant currency basis.

'The UK let the side down with EBITDA hit by the costs of the well-publicised billing issues, but at least revenue trends got less worse through the half, with second quarter revenues down 2.1% versus 3.2% in the first quarter,' explains Philip Carse, analyst at IT analysis firm Megabyute.

Investment bank Jefferies notes that despite a strong first quarter, service revenue growth is no longer expected in the second half of the year.

Competition in India is also biting. Vodafone has taken a €5bn write-down. It is expected to spin off the Indian business next year. (SF)

SHARES SAYS: ↗

Vodafone is increasingly becoming a high yield utility. Reaffirmed free cash flow guidance of €4bn this year means the all-important dividend looks well defended. Buy at 204.3p.

BROKER SAYS **17** **8** **2**

Aviation special dividend potential

PLANE LEASING OUTFIT **Aviation (AVAP)** says it will consider a special dividend if it agrees to sell a portfolio of 22 aircraft. Executive chairman Jeff Chatfield says there is no certainty the 'highly valuable' ATR turboprop planes will be sold as talks first revealed in October progress. The company says the aircraft generated unexpired revenue of more than \$305m as at 1 November 2016. (TS)

City rallies behind EMIS

ANALYST SUPPORT IS growing for healthcare software supplier **EMIS (EMIS:AIM)** with consensus implying 100p upside to the 836p share price over the next 12 months. The shares are down 26% this year on NHS cutbacks but the need for IT systems to create the faster, better, cheaper care required looks as strong as ever. N+1 Singer believes the stock could hit £12.50 if a buyer emerges. (SF)

Johnston Press targets disposals

NEWSPAPER PUBLISHER **Johnston Press (JPR)** is in late-stage talks to sell certain local titles to Iliffe Media. The company recently secured a deal with its lenders giving it time to raise funds by selling assets. A third quarter update revealed the group was on course to hit expectations 'provided there is no further deterioration in trading conditions'. (TS)



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Bacanora Minerals (BCN)

Peter Secker, CEO

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With the global lithium-ion battery market expected to soar from \$17.5 billion to \$70 billion by 2020, the demand for lithium is set to increase dramatically in the short to medium term. This is predominantly being driven by the automotive industry although renewable battery storage technology will also play a significant part in this growth.

Kennedy Ventures (KENV)

Giles Clarke, Chairman

The Company's equity interest in a proposed investment may range from a minority position to 100 per cent. ownership. Kennedy Ventures plc is an investing company listed on AIM, focused on principally, but not exclusively, in the resources sector. The Company has made a first investment in African Tantalum (Pty) Ltd, a Namibian based operation producing tantalite concentrate. In view of the attractive opportunities in tantalum, the Company is likely to initially focus on related projects located in Southern Africa.

Valirx (VAL)

Dr. George Morris, Chief Operations Officer

Valirx Plc is an oncology-focused Biopharmaceutical Company, developing treatments and diagnostics. Technologies are selected by using rigorous clinical and commercial processes to address unmet market needs. ValiRx's four therapeutics drugs in development, which each have the potential for meeting hitherto unmet medical needs by existing methods, have worldwide patent filings and agreed commercial rights. They originate or derive from World class institutions, such as Cancer Research UK and Imperial College.

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GOLD MINERS DOMINATED the FTSE leaderboard in early trading after Donald Trump's victory – 16 of them featured among the top 20 gainers.

A traditional knee-jerk move to political uncertainty, investors piled in to precious metal producers after the result, only for many gold stocks to quickly go into reverse.

Gold bugs have enjoyed a strong 2016 because of a variety of unexpected geopolitical events and early indications of inflation creeping back into developed economies. London-listed miners Fresnillo (FRES) and Randgold Resources (RRS) have surrendered some of those gains more recently.

1m tonnes

SUGAR PRICES ARE surging and helping **Associated British Food (ABF)** prove the benefits of its diversified business mode. It produced 1m tonnes of the commodity in the last 12 months.

Assembling two unusual businesses under one roof – budget clothing chain Primark and its specialist foods business – is helping ABF ride the sugar price bull market just as its clothing business starts to struggle.

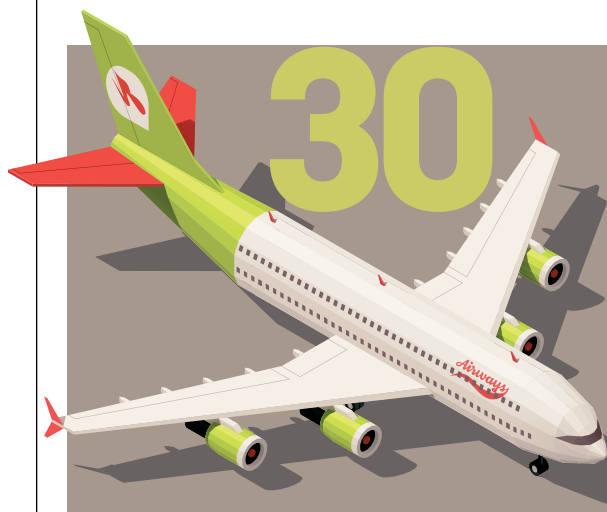
Groceries, another string to ABF's bow, are also showing signs of improvement: even in a tougher year for Primark, the business looks well placed to deliver earnings progress in 2017, chairman Charles Sinclair says.



GLOBAL MONEY SUPPLY is expanding at its fastest rate since 2009, according to economist Simon Ward at asset manager Henderson.

Money supply was an indicator followed closely by analysts from the inflationary 1970s into the mid 2000s – until its relationship with economic growth appeared to break down. But the metric has been producing bullish signals on global growth all year – and it has been correct so far.

Ward says markets have until now appeared sceptical of the prospects for a strong global economic rebound. But, more recently, investors are starting to reposition portfolios into more cyclical areas of the stock market. Ward believes this trend has further to run.



SATELLITE OPERATOR Inmarsat (ISAT) secured a deal with Austrian Airways to deliver its Global Xpress passenger broadband solution.

Among only a few commercial suppliers of satellite connectivity, Inmarsat's geostationary satellites surround the earth and can fire spot beams to antenna located on planes flying long-haul routes.

Inmarsat's big move into aviation comes at a cost – it is paying upfront for customers to install the specialist antennae in order to speed adoption. Management expects a one-third increase in group revenue from the project in coming years but analysts are fretting about financing pressure because of Inmarsat's \$3bn of net debt.

300%

2 YEARS

AIM-QUOTED Mosman Oil & Gas (MSMN:AIM) raised eyebrows when it trebled to 2p a share on the morning of Donald Trump's election victory.

As well as signing a deal to buy an oil well in Texas, shares may have been boosted by the President-elect's support for fossil fuels, the *FT* reported. Australia-based Mosman is paying \$1m for the Pine Mills well which has produced over 12m barrels of oil since it was discovered in the 1950s.

PALM OIL PRICES are around two-year highs at \$722 a tonne as output in Malaysia, a key market for the commodity, declined 2% in October.

Shares in UK-quoted producers **Dekeloil (DKL:AIM)** and **REA Holdings (RE.)** have both been boosted by the news while **MP Evans (MPE)** saw a takeover offer from Kuala Lumpur Kepong increased to 740p a share on 15 November.

Both that offer and a previous 640p bid have been rejected by MP Evans. While higher prices are a benefit to producers of palm oil this year's crop has been hurt by drought. That may impact volumes. Labour shortages are also creating problems in Malaysia.

Bond yield blowout: Change in 10-year government yields since US election



Change in ten-year government bond yields (basis points) Source: Thomson Reuters Datastream

BEST & WORST - FTSE 350 SECTORS SINCE TRUMP WIN

Fund	Year-to-date (%)
Industrial Metals	25.8%
Life Insurance	8.1%
Mining	7.9%
Construction & Materials	7.6%
Aerospace & Defence	6.0%
Personal Goods	-6.2%
Gas, Water & Multiutilities	-6.9%
Tobacco	-7.1%
Health Care Equipment	-8.4%
Electricity	-8.7%

Source: Sharepad - five trading days to 14 Nov

FTSE 350 SINCE ELECTION RESULT (8 NOV CLOSE)

BEST PERFORMERS

	COMPANY	(%)
1	KAZ Minerals	22.45
2	Antofagasta	19.86
3	Evrax	19.63
4	Ashtead	15.14
5	Hill & Smith	14.55
6	Barclays	14.17
7	OneSavings Bank	13.21
8	Keller	13.11
9	Royal Bank of Scotland	12.33
10	Cairn Energy	11.80

WORST PERFORMERS

	COMPANY	(%)
1	Tate & Lyle	-10.76
2	Ashmore	-10.98
3	Centamin	-12.10
4	Fresnillo	-12.19
5	Hochschild Mining	-12.23
6	Polymetal International	-12.34
7	Randgold Resources	-14.17
8	Acacia Mining	-15.00
9	SIG	-18.44
10	Al Noor Hospitals	-20.60

* Excluding Equity Investment Instruments, Nonequity Investment Instruments
Date to 15 November
Source: Thomson Reuters Datastream

Cranswick can fill up your piggy bank

Tesco's renaissance and Crown Chicken deal are among reasons to feast on pork processor

Investors who fear they've missed the rally at **Tesco (TSCO)** can play the supermarket's renaissance through **Cranswick (CWK)**. The pork processor's share price pullback is a buying opportunity ahead of half year results (29 Nov).

A confident Christmas outlook should stoke appetite for this attractive growth and income stock.

GOURMET PICK

Cranswick supplies UK food retailers and the food service sector with proteins spanning gourmet sausages, fresh pork and bacon. The £1.11bn cap has a formidable track record, having suffered a solitary year of pre-tax profit decline since 1990. It continues to take market share by organic and acquisitive means.

According to the latest Kantar Worldpanel grocery share figures (15 Nov), Tesco grew at its fastest rate in three years over the 12 weeks to 6 November. Sales increased 2.2% with the bulk of the gains made through own-label products including the premium Tesco Finest range.

This is great news for Cranswick, which supplies products under own labels including Tesco Finest and **Sainsbury's (SBRY)** 'Taste The Difference' and is geared into trends towards premium



products, convenience, eating out of home and food on-the-go.

CROWN-ING GLORY

Liberum Capital upgraded (11 Nov) its rating from 'hold' to 'buy' with a maintained £25 price target. The broker argues April's £40m acquisition of Crown Chicken provides an opportunity to replicate Cranswick's pork processing success in poultry.

Building on 2014's £18m takeover of Benson Park, the broker believes there is scope for vertically integrated poultry producer Crown to more than double its profit contribution to Cranswick in the mid-term.

UK food retailers do have

strong buying power and rising pig prices are unhelpful. Yet Cranswick sources 20% of its pigs internally and has pedigree in passing on rising pig prices. Given its well-invested assets and growing scale, Cranswick is primed to pick up further retail contracts in pork with competitors Tulip, Karro and Tican struggling. Exports to China, a strong market for off-cuts including chicken feet, are growing too.

For the year to next March, Liberum forecasts improved pre-tax profit of £73.9m (2016: £65.6m) ahead of £80.3m by 2018. Though Cranswick trades on a punchy 18.7 times this year's 118.7p earnings estimate, its growth potential and track record justify the multiple. Cash-generative and with a strong balance sheet, Cranswick has increased its dividend every year since 1990 and is forecast to grow the shareholder reward a further 10.1% to 41.3p this year. (JC)

BROKER SAYS: 5 3 0

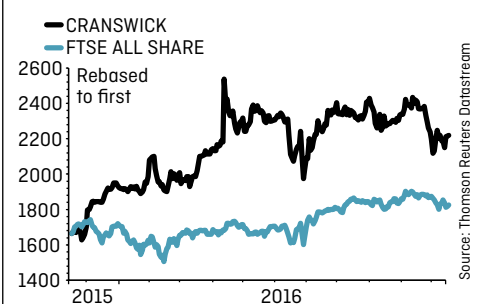
CRANSWICK BUY

(CWK) £22.16
Stop loss: £17.73

Market value: £1.11bn

Prospective PE Mar 2017: 18.7

Dividend yield: 1.86%



Auto Trader has potential to drive earnings fast

Leading market position creates scope to boost income

A 10% share price decline in online used car marketplace **Auto Trader (AUTO)** year-to-date is an excellent opportunity to pay a lower price for a cash generative, high margin growth story.

The business has delivered consistently strong results since joining the stock market in March 2015. Latest half year results (10 Nov) were no exception.

Auto Trader's main source of revenue (84%) is its Trade division which sells subscriptions on selling, buying, marketing and price optimisation services to car retailers.

The remainder is accounted for by private sellers, advertising agreements with partners in areas like insurance, car finance and vehicle checking and standard display advertisements on its website.

RIGHTMOVE LOOKALIKE

Auto Trader occupies a similar position in the automotive market as **Rightmove (RMV)** does in the property market.

It is by some distance the market leader with a 75% share. General classified advertising website Gumtree is its closest rival.

This creates a virtuous circle. Because Auto Trader's site has the most vehicle listings it is the one most visited by prospective car buyers. This makes it a must-have product for car retailers and



results in material pricing power.

Auto Trader has four 'pillars' – selling, buying, marketing and managing – which are broken up into different levels with the price points moving progressively higher.

By cross-selling and upselling the retailers on its books to a fuller suite of its services (currently being expanded) it could increase average revenue per retailer (ARPR) and drive significant earnings growth.

UPSELLING OPPORTUNITY

For indicative purposes Liberum says immediately exploiting this opportunity to the same extent as Rightmove would increase its 2017 earnings per share

AUTO TRADER ↗ BUY

(AUTO) 388.8p

Stop loss: 311p

Market value: £3.9bn

Prospective PE Mar 2017: 24.6

Prospective PE Mar 2018: 21.4

Dividend yield: 1.4%

Analyst price target: 510p (Numis)

estimate by 40%.

Increased take up of data services (increasingly important to retailers looking to optimise their stock) under the 'managing' pillar should also improve retention as Auto Trader's services become more integral.

Other earnings drivers include continued migration of offline automotive advertising spend online and an ongoing reduction in staff costs.

BUMPER CASH RETURNS

Limited capital requirements should see plenty of revenue turn into profit and cash flow.

Liberum reckons the company will return as much as 86% of its free cash flow to shareholders through dividends and share buybacks. The remainder will be used to pay down net debt which has already fallen from 3.5 times earnings at its IPO to 1.8 times.

KEY RISKS

The main risks relate to an economic downturn and high equity valuation. Encouragingly the used car market is less cyclical than purchases of new cars.

In the 2007-09 downturn, peak to trough new car registrations fell 17% and used car registrations fell 9%.

We think the stock deserves its premium rating. (TS)

BROKER SAYS: 10 3 1

THARISA

(THS) 152p

Gain to date: 96%

Original entry price:

Buy at 77.5p, 29 September 2016

SHARES IN CHROME and platinum producer **Tharisa (THS)** have surged after the miner said it expects earnings per share (EPS) for the 2016 financial year to more than double versus the previous year. It also said debt costs would fall after proving to financiers that its mine works properly.

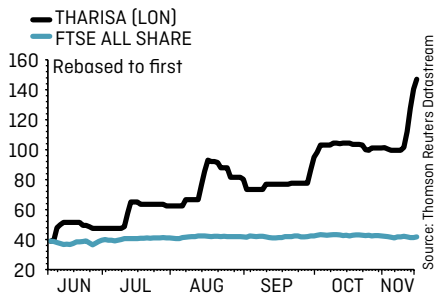
Tharisa says it expects to report 5c (+/- 10% range) for its 2016 results on 29 November. This is much lower than Peel Hunt's 10.7c forecast. 'In a conversation with management we suspect that some of the miss comes from assuming stronger revenues than is actually the case,' says the broker. 'It seems some sales we expected in 2016 financial year have been held over until 2017 financial year.'

Peel Hunt says its forecasts exclude the impact of foreign exchange movements and UK stock market listing costs.

Metallurgical chrome prices have raced ahead in 2016 and continue to rise – implying a good start to Tharisa's new financial year.

Tharisa has sold November and December deliveries at \$295 per tonne, according to the broker. In comparison, it achieved an average price of \$125 per tonne in its 2016 financial year.

Spot pricing has risen beyond \$350 per tonne since the miner locked in prices for the remainder of calendar 2016, adds Peel Hunt. (DC)



SHARES SAYS: ↗

We remain bullish given the positive outlook for metal prices and Tharisa's focus on improving operational efficiency.

BROKER SAYS: 1 0 0

SOPHOS

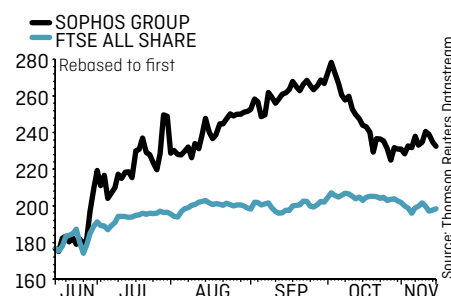
(SOPH) 234.8p

Gain to date: 6.4%

Original entry price:

Buy at 220.7p, 28 July 2016

VERY ROBUST INTERIM results from cyber security group **Sophos (SOPH)** show revenues up nearly 10% at \$257m, billings rising 16% to \$280m, and an ongoing shift to more predictable subscription sales which increased 19% to \$223m. If you really want to pick holes, adjusted cash EBITDA margins dipped from 18.8% to 18.2% but this is largely because of product development costs, an expense that underpins future profitability. The group's focus on R&D is right; the cyber security market is moving far too fast to stand still and success can be measured to a degree by its *Sophos Central* suite. That combines its end user and network products and was sold to



around 30,000 customers and contributed over 10% of subscription sales in the half year period. (SF)

SHARES SAYS: ↗

This remains a high-quality business in one of the most exciting technology spaces. That it continues to throw off large amounts of cash as it grows is another tick in the box. Investors need to watch growth rates in light of the seismic political shifts seen on both sides of the pond but analysts remain convinced that 320p share price levels remain on the cards. We agree.

BROKER SAYS: 8 0 0





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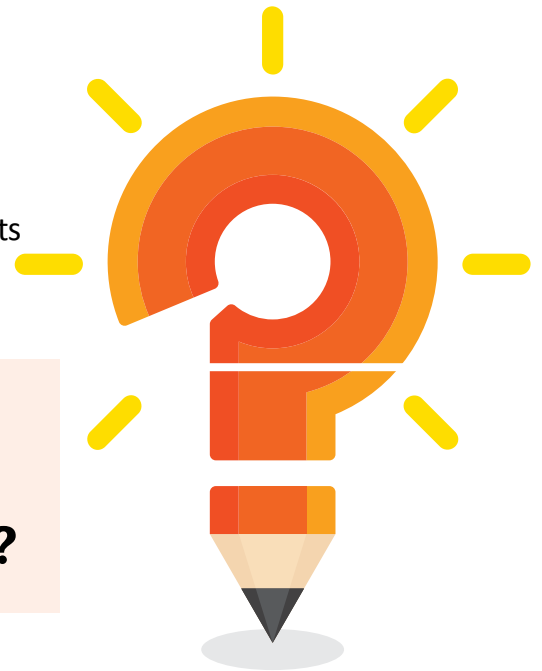
WELCOME TO 'YOUR VIEWS'

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...

How important are dividends when deciding whether to buy or sell a stock?



Absolutely vital! I rely on the income from dividend paying stocks in my portfolio. If a dividend is cut you get a double whammy. You lose your income and, usually, the shares fall as well so you have to take a capital loss. If the dividend is cut I'm very likely to sell.

Barry Johnson, via Email

For me it depends. If a company is in a position to pay a dividend, then great but for certain companies I wouldn't want that at the expense of investment in future growth. Given the returns you get from cash at the moment, there is an argument for the money being better allocated elsewhere.

Frank G, via Email

I prefer dividend growth stories to high yielders. If a company can barely cover its dividend with its earnings, or worse, is forced to dip into borrowings to sustain its dividend then that's bad news. Better to cut the dividend to a more sustainable level and rebuild.

R Smith, via Email

A big part of my return comes from reinvesting the dividend so the ability of a company to pay a dividend is absolutely vital when it comes to buying or selling a stock.

Brian Salter, via Email

Important but I prefer not to take the risk of investing in a company which might then cut its dividend – I prefer income funds where someone does the work for you and you get some diversification.

Michael Hill, via Email

THE BIG QUESTION FOR NEXT WEEK

Have you made any adjustments to your portfolio since Donald Trump was elected president? If so, feel free to explain your decisions.



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The market is so far taking Donald Trump's shock victory in the US presidential election in its stride but you need to start thinking NOW about the next major events that could move markets. These are the forthcoming European elections and the US interest rate decision in December, in our opinion.

SHIFT TO THE RIGHT

The election of Trump provides the ultimate demonstration of a wave of right wing populism spreading across the West which was previously reflected in the surprise Brexit vote in June.

It also suggests investors can have little clue ahead of time on the result of an election as most polls gave Hillary Clinton a material lead heading into the 8 November vote.

This has implications for the looming votes in several parts of Europe and suggests investors should not get complacent.

There is an Italian referendum on constitutional change, a French Presidential election and a Federal election in Germany scheduled within the next 12 months.

ANTI-ESTABLISHMENT VOTE

'An anti-establishment vote, despite what opinion polls say beforehand, should not surprise markets although we believe such victories are still likely to create market volatility given the uncertainty it will create for the policy environment,' says Derry Pickford, co-head of asset allocation at Ashburton Investments.

In the US, Trump's cabinet picks may also offer some clues into how the maverick candidate intends to govern once in office. It may provide some jolts to the market through the remainder of the year and up to his inauguration on 20 January 2017.

Finally, the Fed Funds futures market is a reliable indicator of market expectations for US interest rates.

Ahead of the polls closing on 8 November, expectations for a US interest rate hike in December were above 85%. They fell below 50% as the shock result came in; they have since moved back above 80% as we write this article.



NEW DAWN FOR GLOBAL MARKETS

IS TRUMP GOOD FOR THE MARKETS?

We rightly warned not to take the result for granted in our feature previewing the US presidential election in late October. We were also correct to say there would likely be a rally in equities post any Trump-related sell-off.

Overnight as the final votes were counted, the FTSE 100 was looking at a 4% plunge based on futures markets and taking its cue from a rout in Asian markets overnight. It didn't fall that much.

THESE WERE OUR TOP PICKS FROM OCTOBER IF TRUMP WON THE ELECTION

% CHANGE ON ELECTION RESULT

Ashtead	12.0
AstraZeneca	2.8
BAE Systems	6.8
Biotech Growth Trust	8.7
BlackRock North American Equity Tracker Fund	-2.4
CF Miton US Opportunities	-2.6
CRH	6.0
G4S	0.04
Gold	1.7
Hill & Smith	8.7
Hunting	2.4
Meggitt	3.9
National Grid	-1.4
Shire	8.3
Ultra Electronics	5.4
Weir	7.9
Wood Group	1.8
Worldwide Healthcare Trust	8.2
Average gain	4.4
FTSE All Share	0.7

Source: Shares, SharesPad, Morningstar.
Share price change on 9 Nov 2016

Surprisingly the UK blue chip index only dipped 2% at market open before swiftly recovering and actually closing higher. The S&P 500 was also in positive territory at the end of its first session with Trump president-elect.

A Clinton win, constrained by a Republican Congress, was seen as the preferred outcome as it would have represented a continuation of the status quo.

On the flip-side, many observers expected a sell-off to at least rival Brexit in the wake of a Trump victory. So why didn't it materialise?

- **Tax cuts and infrastructure spending.**

Trump looks likely to be pro-business, delivering lower corporation taxes and cutting red tape. He has also pledged to spend up to \$500bn on infrastructure projects. This could boost growth and employment and has a positive stance towards the energy sector.

- **Speculation a December rate cut would be shelved.** This now appears less likely but a feeling the Fed might retreat from a rate rise may have provided some initial support to the markets.

- **Markets unsure how to price in Trump win.** Perhaps wary of making snap judgements after their recent experience of the Brexit vote, investors may be holding fire as they wait to see what a Trump presidency means.

TOP TRUMP PICKS

Although the markets appear comfortable with Trump for now, in the longer term a series of unfunded tax cuts would likely swell the US government deficit and potentially store up risks for the future.

As a guide to which UK stocks might do well under a Trump administration we now update our views on the stocks, funds and other assets we said to buy if Trump got in.

We believe the relief rally in healthcare stocks has now played out. As such, we think the easy money has been made in terms of the removal of Clinton's price cap threat.

We are more positive on the medium-term boost Trump might provide to energy, defence and infrastructure-related stocks – that's where you should keep buying stocks and funds.

MARKETS BET ON POST-TRUMP PARADIGM SHIFT

MARKET MOVES SINCE Donald Trump's surprise US election win, for now at least, indicate markets are starting to factor in higher economic growth, inflation and interest rates in the US and potentially the rest of the world.

Trump looks set to implement a dual government stimulus package through both increasing government spending and cutting taxes, a move likely to increase US government debt in the short term.

Yields on US government bonds have increased as a result and investors appear to have flooded cash into cyclical stock market sectors including industrial metals producers and construction stocks.

Investors may be repositioning for a world where governments around the world take a more sanguine approach to deficit-financed public

spending projects.

SPEND, SPEND, SPEND

Fund management outfit Ruffer has long argued increased government spending would become the lever to which developed countries would ultimately turn in order to stave off low growth and deflation.

Ruffer runs a number of funds including the **Ruffer Investment Company (RICA)** vehicle listed on the stock market which are more or less a one-way bet on this theme.

Chairman Jonathan Ruffer has long argued that fiscal stimulus would ultimately be the weapon of choice used by authorities to stave off deflation.

Sinking raw material prices and a lack of employee wage power have, until recently, seen



most developed countries experience falling prices, says the veteran investor.

Ruffer refers to weak copper prices and the declining membership of the UK's TUC union as examples of why inflation and wage growth have been weak in recent years – and why government spending may be the solution.

DEFICIT SPENDING

'What copper and the TUC can't do today, those weasel words "fiscal expansion" can do – and there is now an intellectual framework for this to happen,' wrote Ruffer in an April commentary.

'Those who are fearful of it always go to caricature, Weimar and Zimbabwe, but a country only has a currency which becomes worthless when it is bankrupt – it can always change direction (back to austerity) when profligacy becomes too expensive.

'But it is still a dangerous thing to do and will need another bold government to follow the lead of the recently elected Trudeau government in Canada in implementing it.'

Few would have expected the next 'bold government' to throw off the shackles of fiscal discipline to be a Trump-led US administration.

To be clear, Trump has not yet assumed office and policy did not feature heavily during the election campaign.

But market reaction to the president-elect's early rhetoric appears to indicate investors believe he will follow through on his spending pledges.

GLOBAL SHIFT

Shinzo Abe is also embarking on expansionary government spending policies in Japan and even austerity-ridden Europe has been loosening the purse strings. In the UK, chancellor Philip Hammond is backing off a commitment to return the government budget to surplus by 2020.

Free-wheeling government spending might provide a boost to equity markets: though not in the places which have driven the bull market cycle of the last five years.

Expensive defensives, so-called bond proxies, like the big tobacco companies, utilities and consumer staples stocks like **Unilever (ULVR)** and **Diageo (DGE)** have been under pressure.

Banks, which benefit from higher interest rates, and cyclical industrial stocks like **Ashtead (AHT)** and **CRH (CRH)** could have further to run if the early Trump playbook is sustained.

KEEP CALM, STICK TO THE BASICS AND LOOK THROUGH THE NOISE

IT IS VERY hard to determine exactly what the lasting impact of the Trump presidency and the wider right wing populist movement will be on stocks.

The best advice for a long-term investor is to adhere to core investment principles and not to get too caught up in the background noise of day-to-day volatility.

• Focus on the fundamentals

The best way to limit the risk of loss while retaining the ability to achieve capital gain and income is to buy quality assets at prices which fail to reflect their true worth.

A share represents fractional ownership of a company but you should approach an investment as if you were buying the whole firm.

This will enable you to focus on the business fundamentals and not get too caught up in short-term price action.





WHAT THE EXPERTS SAY

HEAD OF LIONTRUST'S
MULTI-ASSET TEAM
JOHN HUSSELBEE

'In terms of our portfolios, we did not feel it necessary to "Trump proof" ahead of the election as we already felt US equities were expensive.'

**'WE WILL
LOOK FOR
ANY
BARGAINS
AS THE
DUST
SETTLES'**

'We continue to reiterate our long-term philosophy and approach: we run target risk portfolios and focus on the long term, with fundamental valuation driving our tactical asset allocation.'

'We have had cash in the portfolios for a while and will look for any bargains as the dust settles. Multi-decade returns have shown that, whichever political party in ultimately in power in the US, the economy and stock market tend to carry on regardless.'

By focusing on the fundamentals you should also avoid getting carried away by the latest investment fads and the risk of getting caught up in speculative bubbles or over-reacting to short-term sell-offs.

Asset prices collapse when bubbles burst. Even a 30% drop in an investment portfolio growing at 7% a year is going to take a long time to claw back those losses.

Equally, if you sell when investors are panicking you could crystallise a loss which could have disappeared when the market calms down.

- **Stick to your investment goals**

You must have a clear idea as to why you are investing. For example, are you looking to boost your pension pot, fund your child's education, or take the holiday of a lifetime?

Having a well defined goal should give you discipline and focus. It should help influence your targeted return, determine an acceptable level of risk and dictate your time horizon.

- **Don't put all your eggs in one basket**

It is important to diversify. If your portfolio is concentrated in just one or two holdings the impact of a sudden market shock could destroy its value.

By investing in different areas you spread risk and should hopefully not suffer a damaging loss if there is a freak occurrence such as a stock market crash, natural disaster or political upset.

WHAT THE EXPERTS SAY

**BETTINA EDMONDSTON, GLOBAL INVESTMENT ANALYST,
SARACEN GLOBAL INCOME & GROWTH FUND (GB00B3XPLG55)**

'Going into the (US) election we had the most cyclically positioned portfolio in decades. We started selling bond proxies in the staples space about 18 months ago as we believe these shares are too expensive for the growth they offer. We also expected bond yields to rise. This theme has started to pay off and we expect it to gain momentum in the coming months.

'Our exposure to healthcare has been increasing since the start of the year and especially in recent weeks. Pharmaceutical shares have not reacted like other defensive bond proxies. The main reason was the concern over a Hillary Clinton presidency and a consequent crack down on drug pricing. However, we were less

**'THE
POINT OF
HAVING A
PROCESS
IS TO
STICK
TO IT'**

worried about a potential political intervention as Clinton would have not had the support from the Senate or the House of Representatives.

'Industrials will benefit from increased infrastructure spending, which was a policy for both candidates and should happen not just in the US but also in Europe.

'We have a long-term investment horizon and forecast out five years, which helps us identify things that the market is not looking at today. Our analysis is bottom up and we try to see through the noise.

'It is important to stick with your process and not panic. We believe our investment portfolio is full of fundamentally strong and attractively valued investments that will deliver regardless who is running the largest economy in the world. We only slightly tweaked our portfolio in the aftermath of Brexit and we are not intending to change it now after the US election. The point of having a process is to stick to it. This has proved to be a profitable approach for us.'



Being cautious doesn't mean sacrificing decent returns

Four ideas for the more nervous investor



Investors' patience has been tested this year by shock political results in the UK and US rocking the markets. Further upheaval is likely given rising inflation and uncertainty over the pace of Brexit and the outcome of European elections.

Nervous investors cannot really afford to take their money out of the markets as returns are so poor on cash at present. So where do you turn? We highlight some interesting investment trusts that should appeal to more cautious investors who want market exposure but with lower risks.

HOW NOT TO LOSE MONEY

In times of market uncertainty, protecting the real value of your money is a good outcome.

You may think that sounds

odd, given investing is ultimately about using your savings to make a profit. Read on.

There will be times when the value of your savings can be easily eroded. For example, this might be during a period of rising inflation or a wobble in the stock market.

Successfully protecting the real value of your capital is therefore a positive result.

There are several investment trusts which have that goal at the heart of their strategy.

CAUTIOUS CHOICE DOESN'T MEAN LOW RETURN

Capital Gearing Trust (CGT) proves it is possible for you to invest in a cautious product and still generate excellent returns over the long term. Its goal is to protect capital in the short term and generate strong risk adjusted

returns over the long run.

Peter Spiller has been running the investment trust since 1982. The product has delivered 15% compound annual growth under his tenure. That's on a total return basis which is share price appreciation plus all dividends reinvested into buying more shares in the trust.

Its current underlying assets are split roughly into three equal parts: equities, index-linked bonds, and cash and short-duration bond-like securities. The latter includes zero dividend preference shares and corporate bonds.

Index-linked bonds pay a fixed interest which is tied to inflation. That means they are protected in an environment where inflation is on the rise.

WHY GOLD ISN'T ALWAYS THE BEST CHOICE

Capital Gearing Trust only has a very small exposure to gold.

Capital Gearing
15%
Compound annual growth since 1982

You may find that perplexing given the metal is considered a good asset to own when inflation is rising.

‘Gold is the one thing you want to own if you think you are going to lose everything,’ says Spiller. ‘If you’re just worried about inflation then it can be better to have inflation-linked bonds. Gold is very difficult to value and it doesn’t protect you against inflation if you pay too much for it.’

Capital Gearing Trust likes to invest in investment trusts that trade at a discount to net asset value (NAV) and then sell them once the discount closes.

It engages in discussions with the boards of these investment trusts when it feels corporate governance could be improved. Ultimately it wants to influence a change in the way a trust is run in order to narrow the discount to NAV and therefore make money for Capital Gearing Trust shareholders.

It has a list of investment trusts that it wants to buy should the valuation gap widen to a certain level. It has specific discount targets that represent the point at which it would be interested to buy. ‘We would also overlay our view on the relevant underlying asset classes before deciding whether to buy,’ says Chris Clothier, a portfolio manager for the fund.

SOOTHSAYER CHARACTERISTICS

Ruffer Investment Company (RICA) has ‘an investment process with capital preservation at its heart stamped through

the entire business’, says research group Investment Trust Intelligence (ITI).

The parent group Ruffer predicted the credit crunch and positioned its portfolio to cope with ‘the storm’ that broke in 2008. ‘The managers remain convinced that the underlying cause of that storm – the colossal debt burden carried by the world’s major economies – has

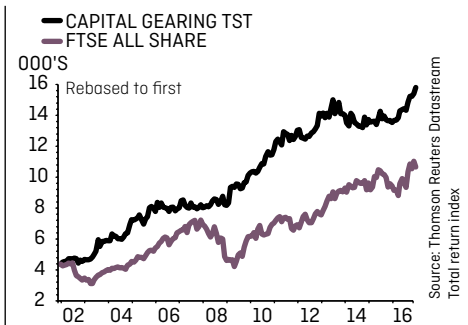
not gone away and their outlook is correspondingly grim,’ wrote ITI in May this year.

Ruffer’s investment trust has nearly half its assets in inflation-linked government bonds. It has 2% in cash, 7% gold and gold equities and 35% in stocks and shares, about half of which are Japanese firms.

TWO MORE TRUST IDEAS

Other investment trusts we believe are suitable for cautious investors include **Personal Assets**

Ruffer’s outlook is ‘grim’



Trust (PNL).

Ryan Hughes, head of fund selection at investment platform AJ Bell, suggests **Law Debenture (LWDB)** as another idea.

‘Law Debenture combines a traditional investment portfolio of equities along with a business that provides services to corporate trust and pension trustees,’ he says. ‘This approach gives an added element of diversification for investors that ensures the performance of the trust is not solely reliant on the direction of the stock market,’ he comments.

The equity element of the portfolio is managed by Henderson and offers a well diversified portfolio, albeit with a bias towards UK equities.

‘The corporate services business provides an element of stability to the overall portfolio and in the last couple of years has resulted in the overall portfolio lagging the FTSE All-Share benchmark on a total return basis, however the underlying assets of the portfolio have performed more strongly,’ adds Hughes.

‘Where the corporate services arm has historically helped is during stock market downturns as it provides a buffer that has the potential to protect capital.’ (DC)



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Burberry's earnings set for major boost

Sales growth and margins provide more opportunities

Luxury retailer **Burberry (BRBY)** has been a favourite of *Shares* since the Brexit vote because it boasts stunning profit sensitivity to the sterling exchange rate.

Results at the half-year stage proved this to be the case, with further benefits expected in 2017 if sterling remains around current levels.

Sterling weakness delivered a 9% boost to Burberry's top line in the six months to 30 September 2016 and a 19% boost to adjusted operating profit.

Since the Brexit vote, shares in Burberry trade 28% higher at £14.18.

KEY STRENGTHS

There is more to Burberry than a favourable exchange rate environment. It boasts a unique luxury brand, set up in 1856. Medium-term sales growth potential of 4% to 5% is appealing in a low growth economic environment and analysts argue the business can also deliver substantial margin improvements.

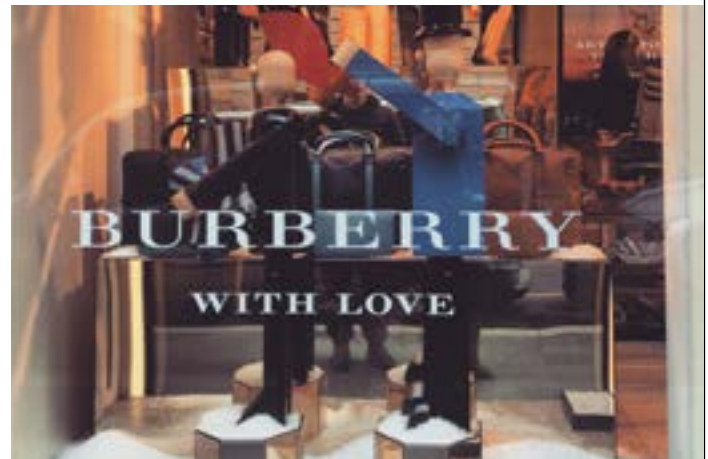
Brand strength is an intangible asset which is difficult to value objectively. Burberry's heritage as a producer of high quality luxury outerwear and accessories is well established in the minds of its target audience and would take rivals many years and potentially hundreds of millions, if not billions of dollars, to replicate.

In an inflationary environment the cost of replicating a brand increases providing another weapon that Burberry has to fight off competitors.

REVENUE AND MARGINS

Analyst Helen Brand at investment bank UBS says same-store-sales growth at Burberry could approach 4% to 5% over time, with margins increasing from 15.4% at the last full-year to the region of 20%.

Investors looking at half-year results published 9 November may be struggling to square optimism on Burberry's potential with its current operating



EARNINGS ESTIMATES: BURBERRY - KEY METRICS (£M)

March year end	2016	2017e	2018e
Revenue	2,514	2,789	2,915
Operating profit	418	447	496
Net earnings	312	320	365
Earnings per share	70.0p	73.1p	83.7p
Net (debt) cash	660	562	684

Source: UBS

performance. Revenue only gained because of foreign exchange tailwinds and margins declined.

Burberry is in the process of improving its cost base, which is high relative to peers, and this should provide a boost to profitability.

Key risks include deterioration in major luxury goods markets including Hong Kong and China, foreign exchange volatility and failure to deliver on cost savings. A rumoured merger with Coach or other rivals would be a negative development, in our view, as we believe a takeover would transfer too much value from Burberry shareholders to any successful bidder. (JC)

SHARES SAYS: ↗

A unique asset on the UK stock market with bags of potential to improve performance.

BROKER SAYS: 5 4 21

Satellite Solutions set for re-rating

Profits breakthrough on the radar

Satellite broadband and airtime reseller **Satellite Solutions Worldwide (SAT:AIM)** is closing on its first full year of profit, and what we believe will be a substantial share price re-rating.

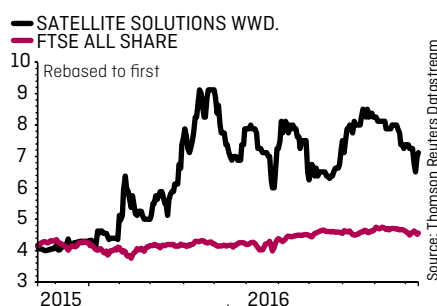
The Bicester-based company's financial year ends on 30

November and forecasts in the market call for £19.8m revenue and earnings before interest, tax, depreciation and amortisation (EBITDA) of £1.1m, signalling a transformational 12 months. Satellite Solutions Worldwide will report its first ever pre-tax profit, of around £0.5m, if earnings forecasts are met.

Michael Armitage, analyst at the company's appointed broker Arden Partners, predicts that the shares will hit 12p during 2017, or nearly 75% upside from the current 6.88p level.

Satellite Solutions Worldwide is a satellite broadband and airtime reseller with around 75,000 customers across 32 countries. It supplies homes, businesses, broadcasters, construction sites, even parts of the military, that are based in rural areas where fibre optic or copper networks fail to reach. The £37m company buys capacity from commercial communications satellite owners with the right geographic footprint, currently French operator **Eutelsat (ETL:PA)**, **SES (SESFd:PA)** of Luxembourg, and the UK's **Avanti Communications (AVN:AIM)**. It then resells that capacity to end-users, plus a margin.

Estimates suggest an addressable market of close on 20 million potential customers across Europe.



Satellite Solutions is targeting 100,000 over the next 12 months.

Customers are acquired through direct channels, such as telesales and its website, as well as through resellers which share part of the profit. Another route is by acquiring distributors whose customers can be migrated onto Satellite

Solutions' Europasat platform.

It is on the acquisitions front that the company has made massive progress through 2016. The company has more than doubled in size through three acquisitions – Avonline, Breiband and SkyMesh, supported by a £12m fund raise in July.

Investors tempted to buy shares in this emerging growth businesses will be in good company. Satellite Solutions Worldwide is backed by property tycoon Nick Candy, whose Candy Ventures vehicle owns a 5.8% stake in the business.

Company directors have also been raising their personal stakes, with four board members combining to purchase close on 1.1m shares on 16 September worth in excess of £85,000. The swoop was led by CEO Andrew Walwyn, the single biggest investor in the company with a 9.2% stake. (SF)

SHARES SAYS: ↗

Having taken a cautious view of the shares when we first looked at the investment case after the May 2014 IPO, Satellite Solutions has executed its growth bang on plan. We see recent weakness in the stock as a buying opportunity.

BROKER SAYS: 1 0 0

Promoting 4imprint as a US play

Small cap media firm could thrive if Trump turbo charges the US economy

Signs that a Donald Trump administration could stoke US economic growth is good for promotional products group **4imprint (FOUR)**. Buy at £16.63.

Despite being a market leader it has a modest share (around 2%) of a \$24 billion addressable market in the US which accounts for 95%+ of its revenue. It has an excellent track record of under promising and over delivering.

The company is inherently cash generative with limited requirements for working capital or capital expenditure.

Now that action has been taken to address the company's pension liabilities (76% of which are now insured), the company should be able to deliver more generous dividends to shareholders. It currently offers a prospective 2.9% yield.

The main risk for investors to weigh is a US downturn. In the 2007/8 financial crisis the shares collapsed despite a relatively robust financial performance. (TS)



SHARES SAYS: ↗

Not cheap on a forward price to earnings ratio of 18.5 but a high-quality way of gaining US exposure.

BROKER SAYS: 5 0 0

ServicePower targeted

OUT AND ABOUT workforce software supplier **ServicePower Technologies (SVR:AIM)** is a takeover target for Canadian enterprise software consolidator, Constellation Software. ServicePower shares had been trading close to all-time lows at 2.7p. They've shot up to 4p since revealing talks. Constellation recently lost out in a bid to buy recruitment software firm **Bond International (BDI:AIM)**. (SF)

GCM hopes lifted by Chinese talks

GCM Resources (GCM:AIM) has been trying for more than a decade to get a Bangladesh coal mine into production. It has faced considerable local opposition, but continued to persevere. The share price has risen 189% over the past week on a deal to work with a Chinese group to explore the potential for a coal-fired power plant. (DC)

James Cropper is on a roll

FAMILY-BACKED PACKAGING outfit **James Cropper (CRPR:AIM)** doubled earnings in the six months to 1 October but chairman Mark Cropper is not upgrading earnings guidance.

Shares are up 63% year-to-date and while analysts at Westhouse have upgraded their target price they have not increased earnings per share estimates of 45.9p, down marginally from a year earlier. (WC)

Haydale eyes graphene contract breakthrough

Small cap has foot in many doors but has yet to seal any major deals

Carmarthenshire-based **Haydale Graphene Industries (HAYD:AIM)** looks to be on the cusp of commercialising its ideas. It has developed a way of adding graphene to various materials to improve their properties, such as strength or conductivity.

Graphene consists of very thin layers of carbon. It is lightweight yet considered to be 200 times stronger than steel; and it conducts heat and electricity.

The small cap business has a patented process whereby it uses low temperature plasma in a drum to change the chemical structure of materials to enable the addition of graphene.

In effect it is creating a 'hook' between the graphene and the host material. This enables Haydale to add graphene to

resins used to manufacture composite materials including water or sewage pipes to make them much stronger.

NEEDS TO SEAL THE DEAL

Haydale is working with \$4bn *Araldite* maker **Huntsman (HUN:NYSE)**, adding graphene to the latter's high-end epoxy resin to show that its system works. There's been positive comment from Huntsman about the collaboration but no big formal contract as yet for large scale orders.

Ray Gibbs, chief executive of Haydale, is confident a deal will soon be signed which could potentially create a recurring revenue stream for the small cap. It could be a big prize as Huntsman is a major resin supplier to the tooling market.

Gibbs believes Haydale will be asked to supply a masterbatch of graphene-enhanced resin. Huntsman would then be responsible for the sales and marketing. 'We believe they want to focus on the automotive industry for the enhanced resin, but they won't tell us until a licence deal is signed,' he says.

WORKING CAPITAL HURDLE

Gibbs suggests the contract – assuming one is awarded – would involve Haydale buying resin from Huntsman, adding its magic and then selling the enhanced resin back to the chemicals group.

That implies Haydale would need to find a chunk of cash to act as working capital to fund the purchase of the raw material.

Chief executive Ray Gibbs



GERMAN GROUP GK WILL BE ONE OF HAYDALE'S MANUFACTURING PARTNERS

openly admits in an interview with *Shares* that Haydale could do with finding a strategic investor. He says it is difficult for Haydale to obtain debt funding while it is a loss-making business.

STRONG INVESTOR INTEREST

News on 11 October 2016 that a £500,000 open offer at 160p was three times oversubscribed would suggest investors are eager for a slice of Haydale – at least when the price is tempting.

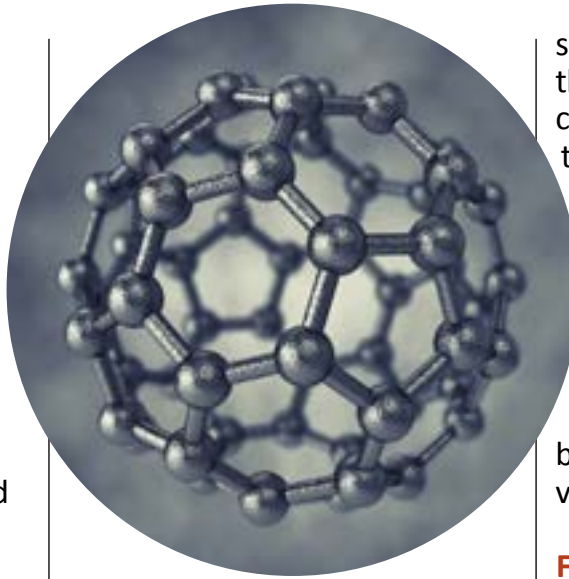
The open offer was priced at a 15% discount to the market price on the day before the announcement. The offer was part of a £2.6m fundraise to support the acquisition of ACM which gives Haydale a foot in the door for the US market.

LOSS-MAKING FOR NEAR TERM

Haydale generated £1.9m income in the financial year ending June 2016. It incurred £5.9m administrative expenses in the period, so it made a £4m operating loss.

Costs are expected to exceed sales for at least the next two years, according to analyst assumptions.

Investors must appreciate loss-making companies such as Haydale need to spend money in order to make money down the line. After all, a key reason why smaller companies allow the public to buy shares in their business is to access capital markets to aid their development.



Haydale is forecast by broker Cantor Fitzgerald to make a maiden profit in the year to June 2018 and to really start making money in the following year.

The recent US acquisition provides a welcome boost to earnings with a \$2m annual sales contract lasting three years for the supply of silicon carbide nanomaterials.

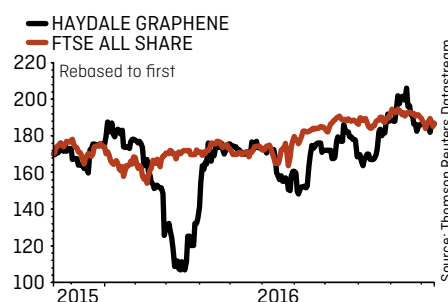
HAYDALE'S BIG TASK IS TO CONVERT PILOTS INTO CONTRACTS

ROBUST PIPELINE

Haydale has a two-year research project with sewage pipe manufacturing giant Amiantit which began in May 2016.

The Middle Eastern company uses a significant amount of resin and could benefit from adding graphene.

'They want to improve the fracture toughness of a pipe,'



says Gibbs. 'Pipes are laid in the ground and sometimes contractors throw rubble on them which can cause cracking. We know our resin mix can strengthen their pipes.'

Similar to the Huntsman scenario, Gibbs says a formal contract with Amiantit would potentially create a need for working capital to buy resin before selling the enhanced version back to the client.

FLYING HIGH

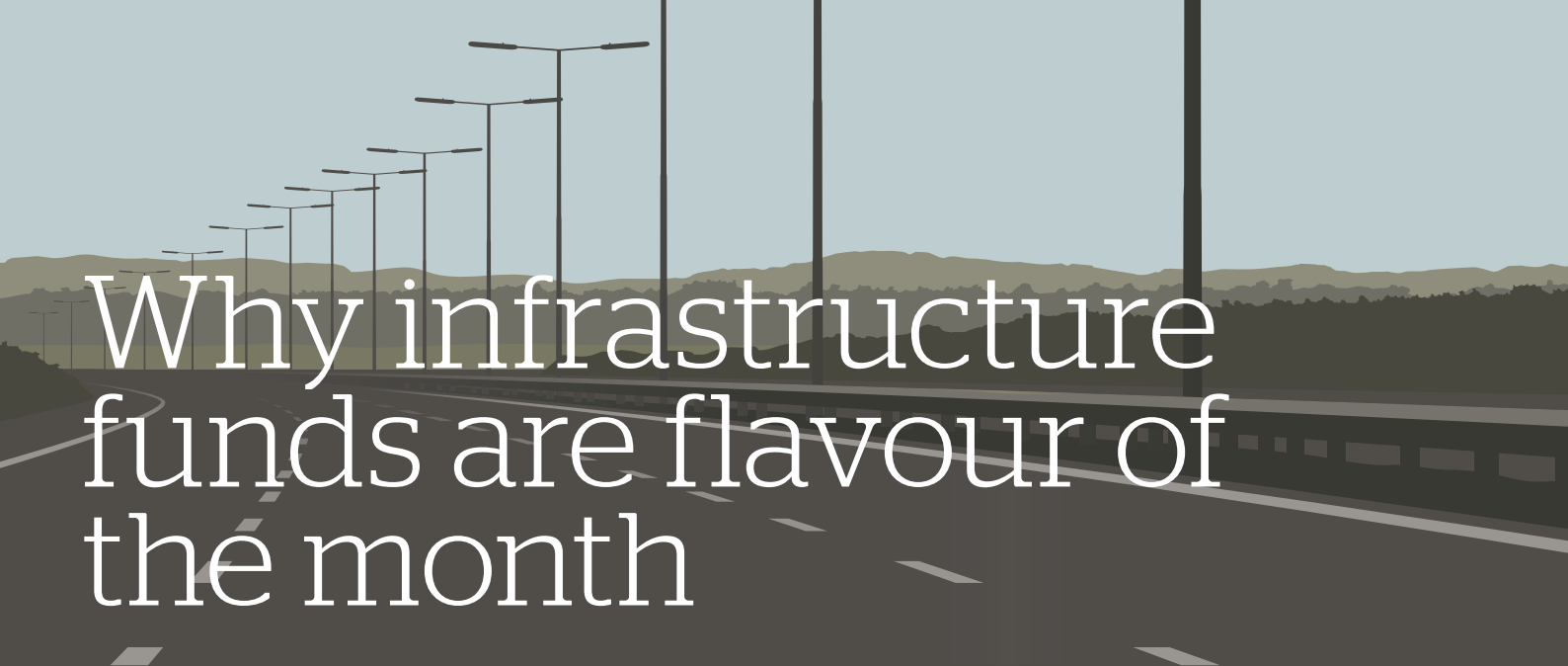
The AIM-quoted company has received a small amount of funding from an aerospace association. It is looking at ways to replace copper mesh in aeroplanes with a different mesh that can withstand lightning strikes and is more lightweight. UK-listed aerospace and defence groups **Cobham (COB)** and **BAE Systems (BA.)** are also involved in the project.

Wind turbines could be another industry in which Haydale gets involved, judging by comments from the CEO. (DC)

SHARES SAYS: ↗

While many people think graphene has been over-hyped, there is no denying that Haydale is involved with some heavyweight corporations. It would be great to see some proper contracts but it is clear that investors will have to remain patient. We think the shares are worth buying at 186.5p, albeit recognising the risks over pace of revenue generation and potential future financial constraints.

BROKER SAYS: 1 0 0



Why infrastructure funds are flavour of the month

Government spending in many parts of the world is expected to accelerate on roads, hospitals and more

The UK Government's Autumn Statement on 23 November is expected to signal a switch from monetary policy to fiscal stimulus. This would provide a much needed boost to the real economy and is likely to include more spending on infrastructure.

Infrastructure assets such as toll roads, airports, schools and hospitals are essential to the UK economy and the provision of these services is often contracted out to publicly listed companies. These heavily regulated businesses tend to generate steady earnings that rise in line with inflation.

Darius McDermott, managing director of Chelsea Financial Services, says the infrastructure sector tends to be less volatile than the wider stock market. 'This is because infrastructure assets generate cash flows that are not dependent on wider economic conditions.

'Earnings are typically resilient and predictable, so there is some protection from inflation – which has just started to pick up – and the yield can be very attractive, which is another important element at the moment.'

HOW TO GET EXPOSURE VIA FUNDS

There are a number of funds that specialise in this area and many have built up globally diversified portfolios. Japan has already announced new major infrastructure initiatives and if the UK, the US and other countries follow suit it could provide a significant fillip to the sector.

INVESTMENT TRUSTS

The closed-ended funds tend to invest in the actual infrastructure assets and are mostly trading at a 10% to 20% premium to their net asset value (NAV). This is probably due to the attractiveness of the steady returns and the high, inflation-linked yields that are typically in the range of 4% to 6%.

Alan Brierley, director of the investment companies team at Canaccord Genuity, says the investment bank's core recommendation for a low risk exposure to the asset class is **HICL Infrastructure (HICL)**.

'Given superior long-term risk-adjusted returns, an ability to preserve capital and low correlation with other asset classes, HICL has proven strategic asset allocation qualities. In a lower-for-longer [interest rate] environment, these attractions are compounded by strong income characteristics.'

HICL invests in infrastructure projects at the lower end of the risk spectrum with holdings including: Home Office accommodation, the Dutch high speed rail link, the Queen Alexandria hospital and Highland schools. It is yielding 4.5% but trading on a 16.2% premium to NAV.

OPEN-ENDED FUNDS

Open-ended funds like unit trusts and OEICs always trade in line with the NAV of the underlying portfolio. Rather than invest in the illiquid infrastructure assets, they hold the shares of listed infrastructure companies that can be bought and sold as and when required.

McDermott says that he likes **First State Global Listed Infrastructure A Inc (GB00B24HJR07)**, which invests in infrastructure-related stocks all around the world and is one of the oldest of its type having

INFRASTRUCTURE INVESTMENT TRUSTS	Return 1yr (%)	Return 3yr (%)	Return 5yr (%)	Dividend Yield (%)	Premium to NAV (%)	AIC Ongoing Charges (%)
BBGI SICAV	18.81	43.36	n/a	4.3	15.8	0.96
GCP Infrastructure Investments	12.78	45.71	77.35	5.9	17.3	1.24
HICL Infrastructure	15.49	50.48	89.51	4.5	16.2	1.22
International Public Partnerships	26.24	45.51	73.36	4.1	13.4	1.31
John Laing Infrastructure	12.48	30.15	55.77	5.4	12.0	1.3
Sequoia Economic Infrastructure Income	14.02	n/a	n/a	4.5	10.2	1.11

Source: AIC using Morningstar. Returns to 31/10/16

been launched in 2007.

'I also like **Legg Mason RARE Global Infrastructure Income A Inc (GB00BZ01WP64)**. It has a target yield of 5% and invests globally. The 13-strong specialist investment team place a heavy emphasis on certainty of future revenues.'

FUND OF FUNDS

VT UK Infrastructure Income C Inc (GB00BYVB3J98) is an open-ended fund that has about two-thirds of its portfolio in infrastructure investment trusts. It launched in January and only has £64m in assets under management, but it offers an attractive prospective yield of 5% with at least three-quarters of the dividend derived from UK Government-backed cash flows.

Stephen West, the fund manager, says that infrastructure assets are generally big and expensive and paying for their construction is usually contracted over long periods of time.

'Banks and insurance companies have become increasingly reluctant to tie up their capital in these projects and so, over the last 10 years, closed-ended investment companies with access to "permanent" capital have invested heavily in the long-term ownership and financing of these projects.'

EXCHANGE-TRADED FUNDS

There are also several exchange-traded funds (ETFs) that provide exposure to this area. They are cheaper than the actively managed funds, but offer a purely passive exposure that is designed to track one of the global infrastructure indices.

A good example is the US-listed **SPDR S&P Global Infrastructure ETF (GII:NYSE:ARCA)**, which tracks an index that includes 75 of the largest publicly listed infrastructure companies in the world such as Sydney Airport and the Transurban Group, which manages toll roads in Australia and America. It is yielding 3.1% with semi-annual dividends and has a gross expense ratio of 0.4%.

Patrick Connolly, a financial planner at Chase de Vere Independent Financial Advisers, says infrastructure investments can provide steady returns, which makes them well placed to outperform in difficult economic environments, but it's wrong to assume they are without risk.

'There can be risks related to the construction and operation of infrastructure assets and the potential of economic, regulatory or political risks, all of which could impact on the returns. Investing via a fund is likely to mean a higher correlation to equity markets, increased volatility and additional layers of cost.' (NS)

A SELECTION OF OPEN-ENDED INFRASTRUCTURE FUNDS	Return 1yr (%)	Return 3yr (%)	Return 5yr (%)	12 Month Historic Yield (%)	Ongoing Charges (%)
CF Canlife Global Infrastructure B Acc	28.99	31.71	n/a	1.95	1.41
CF Macquarie Global Infrs Sec A Acc	26.97	38.29	71.62	1.75	2.03
First State Global Listed Infrastructure B GBP Acc	37.28	60.32	105.11	2.29	0.83
Invesco Asia Infrastructure A Acc	27.41	30.38	34.72	0.00	2.04
Lazard Global Listed Infrastructure Eq Instl £ Acc	3.06	36.18	n/a	0.00	1.03
Legg Mason IF RARE Global Infrastructure Inc A Acc	n/a	n/a	n/a	n/a	1.28
VT UK Infrastructure Income I GBP Acc	n/a	n/a	n/a	n/a	0.65
ETFs:					
db x-trackers S&P Global Infrs 1C	32.48	44.90	78.50	0.00	0.60
iShares Global Infrastructure	34.34	45.98	69.47	2.86	0.65
SPDR® Morningstar Mlt-Asst Glb Infrs ETF	33.41	n/a	n/a	2.34	0.40
SPDR® S&P Global Infrastructure ETF	33.60	48.37	79.69	3.10	n/a

Source: © 2016 Morningstar, Inc. Returns to 31/10/16



SHOULD EUROPEAN MARKETS BE BACK ON THE MENU?

**AN INSIGHT INTO HOW HENDERSON EUROTRUST
VIEWS THE MARKET AND SELECTS ASSETS**

It has been and remains a tough time to be a European equity fund manager. That generally should be considered an immediate warning to look out for lame excuses as to why a fund is underperforming.

Or it might actually be an interesting way of thinking about how political uncertainty, combined with an arguably overvalued bond market, is having repercussions for equities.

But firstly, in a global context, Europe remains off the 'menu du jour' – and has been absent for well over a year now.

That may not change in the short term, as the output from the UK kitchen – the post-Brexit vote – looks decidedly unappetising.

There are also concerns that politics will remain a distraction for at least the next 12 months, starting with the Italian referendum (on a very logical reform to the electoral system) in December, the French elections in May 2017 and the German elections in the autumn of 2017.

If your objective is to find reasons for taking a 'half empty' view of the European glass, it is pretty easy.

A TYPICAL EUROPEAN SQUABBLE

That is exactly what has been happening all year to European equities. Once the noise of the US election has faded, the focus may once more switch back to European politics.

We will know in a year's time whether the Brexit vote in the UK was just an isolated protest vote (albeit a very unfortunate one in my view).

But in the meantime, Spain has finally found a compromise following elections earlier this year, and we expect to see a new government in place any day.

A small region of Belgium almost scuppered a long-negotiated deal between Canada and the EU, but at the last minute that too was settled, albeit following a clumsy eleventh-hour wrangle all too typical of our European leaders.

RENEWED CONFIDENCE

Back in the 'real' world of economies and companies, the data coming out of Europe (not including the UK) is looking better.

The optimism in early 2015 was that European growth would recover to around 1% to 1.5%, and that is now looking realistic.

That confidence is in marked contrast to the situation a year ago. The European Central Bank (ECB) – as well as a range of economists – has been able to fly kites, suggesting that tapering of the region's huge quantitative easing (QE) stimulus programme may soon be on the agenda.

That has led to a long

overdue sharp sell-off of bonds, taking German 10-year yields from -0.1% to a rather more positive 0.1%. That may sound insignificant, but the effect on those longer-dated growth stocks trading at relatively high valuations has been quite harsh.

LOCALISED SEAMS OF EARNINGS RECOVERY

While Europe's economies have recovered somewhat in 2016, we expected a similar revival in profits, potentially 12% on average.

For the third year in a row, however, that 12% has eroded away to zero.

The expectation for 2017 – also currently 12% – will almost certainly be too optimistic, as the numbers are predicated on seeing a positive bounce in mining, materials, banks and energy.

There is a rich seam of '5% to 10%' potential growth across multiple sectors and individual stocks in 2016 and 2017.

And it is here that the problems have arisen, because that 'rich seam' has been extensively exploited over the



last three years. That leaves a range of stocks trading at a large premium* to both the market and their own history.

If one of these misses a single heartbeat, the reaction has been harsh: Novo Nordisk has de-rated and Ericsson has plummeted, for example.

Since most companies invest for the longer term, there will always be slower periods, especially with uncertainties like a rancorous US election campaign and Brexit.

The market may choose to use those periods to reset expectations, with an associated sell off. That, together with a tiny change in interest rate

expectations (does anyone hear the flap of a butterfly wing?), has accentuated this year's rotational trends within markets even more harshly.

VACANCY AT THE TOP?

So where does that leave us? We now have a very diverse market with no clear trend of leadership. That may well change over the next 12 months.

There is every reason why the general loathing of European assets has gone too far, on the basis that many European companies are genuine world leaders, and Europe's economies are generally accepted as being in a stronger position than they

were a few years ago.

Political extremes will receive far more press than in previous election years, but perhaps the uncertainties now obvious in the UK may show it is easier to talk about a radical change to policy than actually achieve it.

Finally, in a low-growth world, paying a premium for a reliable European growth name might actually make sense, particularly given that the recent fall-out in markets has removed most – if not all – of that premium.

Having a judicious mix of quality growth stocks, along with some attractively valued cyclical recovery names, might just start to work again.



*Premium - When the market price of a security is thought to be more than its underlying value, it is said to be 'trading at a premium'. Within investment trusts, this is the amount by which the price per share of an investment trust is higher than the value of its underlying net asset value. The opposite of discount.

ABOUT THE FUND MANAGER AND HENDERSON EUROTRUST



Tim Stevenson

Tim Stevenson is Director of European Equities at Henderson and has over 30 years' investment experience. His career in the investment industry began in 1983 as a European Analyst at Savory Milln. In 1984 he joined Aetna Montagu Asset Management where he was responsible for European Investments for pension fund clients. He joined Henderson in 1986 as a Fund Manager for Europe, with responsibility for overseas clients. He graduated from Sussex University with a BA (Hons) in Economics and European Studies.

Henderson EuroTrust invests predominantly in a mix of large and medium-sized companies based in Europe but excluding those in the UK. Tim Stevenson's style is to orientate himself towards companies he believes are good quality and that have strong long-term growth potential but aren't too expensive.

Investors judge 'quality' on a host of factors: the financial strength of the business, how much cash it generates, how entrenched its market position is relative to its competitors or the long-term viability of the business model. Fund managers will also apply more subjective views such as the ability of management to deliver on their strategy.

'Growth' investing seeks stocks whose earnings are expected to grow at an above average rate relative to the industry or market. This typically translates into faster growth of capital but lower levels of income in comparison to 'income' investing, which seeks out high dividend paying stocks.

Growth investing also tends to be riskier, and higher valuations may be placed on 'growth' stocks in comparison to 'income' stocks, however Stevenson is cognisant of not wanting to overpay for stocks regardless

of the implied future growth of earnings. In addition, Henderson EuroTrust's board is aware of the income it pays its investors, and has been growing its dividend since 2005.

Stevenson believes growth comes from a number of sources, for example when a business restructures, streamlines its operations and outsources more, applies a new technology to its processes, or catches the tailwind of changing demographics.

He is supported by his colleagues on the European desk at Henderson where research is conducted in-house, and will regularly meet with the management of companies in which he invests to evaluate their progress.



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.

The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. Nothing in this article is intended to or should be construed as advice. This article is not a recommendation to sell or purchase any investment. It does not form part of any contract for the sale or purchase of any investment.

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Dial down the risk

Multi-asset income book provides protection for uncertain times

Those investors rattled by Donald Trump's US election victory might well be looking to defensive-oriented income strategies. **Investec Diversified Income (GB0031074924)** helps dial down risk and offers defensive protection as well as an attractive distribution yield of 5%.

Managed by Investec Asset Management stalwart John Stopford, the £230m open-ended investment company (OEIC) aims to provide an income with opportunities for capital growth over the long term through investing around the world across a large range of government and corporate bonds, shares and related derivatives. As at end-September, there were 250 bond holdings and 49 equity holdings in the portfolio.

OVERARCHING BELIEFS

Stopford, head of multi asset income at Investec, explains: 'We think multi-asset strategies are uniquely well positioned to deliver performance outcomes because they have the flexibility and the breadth that comes from a very wide opportunity set. It means you can adapt to changing circumstances and aim to achieve a set of objectives. You are not tied to a particular area or asset class and stuck if it is out of favour.'

The manager has certain overarching beliefs underpinning his approach to multi-asset



JOHN STOPFORD

Investec Diversified Income (GB0031074924)

Manager: John Stopford

Fund size: £230 million

(As at 09 Nov 2016)

TOP TEN HOLDINGS (AS AT END SEPTEMBER 2016)

Nestle SA (NESN:SWX)	1.1%
Johnson & Johnson (JNJ:NYSE)	1.1%
Cisco Systems (CSCO:NDQ)	1.0%
John Laing Infrastructure Fund (JLIF)	1.0%
Public Service Enterprise (PEG:NYSE)	1.0%
AT&T (T:NYSE)	0.9%
Altria (MO:NYSE)	0.9%
Procter & Gamble (PG:NYSE)	0.9%
Canadian Imperial Bank of Commerce (CM:TSE)	0.9%
Imperial Brands (IMB)	0.9%

Source: Trustnet

investing. 'We think it is important to have a common framework to assess securities, to be able to look at different asset types in essentially the same way,' he explains. 'We developed something called Compelling

Forces back in the early 1990s. This was a summary of the key drivers which we thought separated a good investment from a bad investment.'

INVESTING CHECK LIST

For every investment, Stopford and his deeply-resourced team assess valuation, the fundamental drivers of each asset and whether they are supportive of not (economic environment, micro fundamentals, etc). They also examine market price behaviour, recognising the reason that markets don't trade at fair value all of the time is because people and emotions are involved.

'So for every single investment we look at, whether an equity, a bond, a commodity, a currency, a property company, we will assess it on those criteria. A good investment will be positively rated on those things and a bad investment will be negatively rated,' says Stopford.

'If we are building a portfolio with lots of different things, it is useful to be able to say this looks like a better idea than that, even if they are in completely different asset classes. It is about trying to identify where the high conviction positions should be.'

DEFENSIVE TOTAL RETURN

'Our first overriding objective is to deliver a defensive total return,' stresses Stopford. 'We're not trying to deliver income at the expense of capital, we don't want to just focus on chasing

yield, we're trying to deliver a balanced outcome.'

Nonetheless he tells *Shares* most of the fund's total return will come from income – 'we target a level of yield which we believe is both attractive and sustainable' – and the target since launch has been 4-6%.

'The final objective is to do all of that with bond-like volatility.

We will always run a level of risk that is less than half the volatility of the equity market. That whole combination is a defensive income strategy.'

BOND FOCUS

'We are not massive bond bears, but we do think valuations are stretched – but only a little bit because we live in a world of low growth, low inflation and easy monetary policy, so a material move higher in yields needs those things to change and they'll only change slowly,' says Stopford.

He adds: 'We manage risks partly by selecting government bonds in markets on the right side of the interest rate cycle and which are still reasonably valued.

Two examples would be Canadian bonds and New Zealand bonds, where we think we are going to get rate cuts this year as both central banks are unhappy with the inflation dynamics.'

QUALITY BIAS

'The equities we own on the whole tend to be less risky than



Would suit a cautious investor seeking higher quality, lower risk assets

the market,' says Stopford, an investor in dependable names ranging from packaged goods giant **Procter & Gamble (PG:NYSE)** to health care products colossus **Johnson & Johnson (JNJ:NYSE)** and tobacco firm **Imperial Brands (IMB)**.



By building the fund from the bottom up, the Investec man argues 'we can have the best of all worlds – our portfolio has a higher yield than the market, a lower price to earnings ratio than the market, a comfortably higher return on equity, comfortably less leverage and so on. On a whole range of metrics, we think it is a better quality, higher yielding, less risky basket.'

Cautious on utilities and telcos and having avoided banks until now, Stopford says 'banks tend to benefit from some normalisation of rates and the main area we've identified is in Scandinavia where there are some very highly capitalised banks. We own **Swedbank (FRYA:XETRA)**, which has a well defined position in the mortgage market.'

Investors are also buying exposure to **Microsoft (MSFT:NDQ)**, which like a lot of older technology companies is shifting away from the one-off sale to annuity-type services. '**Cisco (CSCO:NDQ)** is another example – the company is transforming from an old-style hardware business to more of a services business,' adds Stopford. '**Qualcomm (QCOM:NDQ)** is company where we think their licensing business is a very attractive area. They all have reasonable yields but more importantly, yields which are very sustainable and all three are reasonably valued.' (JC)

How to enjoy a tax-free retirement

Personal allowances and ISAs can help beat the taxman

The thought of being hit with hefty taxes when you enter your golden years is a bitter pill to swallow. But you could be on the path to a tax-free retirement by making use of the available range of allowances and tax wrappers.

Charles Calkin, head of financial planning at investment management firm James Hambro & Co, says it's possible for a couple to generate a six-figure tax-free income in retirement if they start planning early enough.

'If you are saving heavily it is important to try to save within a tax wrapper like an ISA or pension to protect yourself from capital gains tax when you dispose of the assets. But which you prioritise depends on your particular position.

'In simple terms a mix of pensions and ISAs spread across both partners can make a big difference to your tax position when you retire,' he says.

It only takes a few **SIMPLE STEPS** to ensure your savings are tax efficient



STEP ONE: PERSONAL ALLOWANCE

You can take advantage of a range of allowances before you even need to consider how to make best use of your ISAs and pensions.

In the first instance, everyone earning under £100,000 a year has a personal allowance of £11,000. This means the first £11,000 of income received from a pension is not taxed.

In order to make full use of the personal allowance, make sure you aren't just paying money into one partner's pension. Even if your spouse is not working, they can save £2,880 a year into a personal pension and enjoy 20% tax relief, taking the amount up to £3,600 a year.

STEP TWO: SAVINGS ALLOWANCE

There is also a personal savings allowance which enables basic rate taxpayers to receive £1,000 interest from savings accounts tax-free each year; for higher rate taxpayers the figure is £500.

This allowance can be useful for cash savings.

'As we live longer, many of us need to keep more money in higher risk assets like shares and corporate bonds in later life. If we draw regularly from these invested savings it makes us vulnerable to market swings. The aim is to avoid having to sell assets at the bottom of the market – precisely the wrong time.

'Having a prudent cash buffer in the bank that you can dip into during market lows is one way to tackle this problem. The personal savings allowance is useful as it means that at least the return on these savings is not being eroded by tax, though interest rates are painfully low,' Calkin says.

STEP THREE: DIVIDEND ALLOWANCE

There is also an annual dividend allowance that lets you receive £5,000 in dividends each year without paying any tax. Both partners can use the allowance, which can be helpful if you are a

business owner.

You could give some of your shares to your spouse and, because you're married, you won't crystallise any capital gain.

Mike Morrison, head of platform technical at AJ Bell, says if the three personal allowances are used there is scope for a basic rate taxpayer to have a tax-free income of £17,000 in retirement from a combination of pensions, savings and dividend-paying investments.

STEP FOUR: CAPITAL GAINS ALLOWANCE

Morrison says you should be aware that you can realise £11,100 in capital gains each year without paying tax.

'So someone in retirement can sell investments and use that money to boost their income without paying tax if the amount they make on the investment is less than £11,100 each year,' he says.

TAX BENEFITS THROUGH YOUR WORKING LIFE

It used to be the case that planning for retirement meant just saving into a pension, but this is no longer the case. 'People can save in different tax-advantaged products throughout their working lives to give themselves a lower tax footprint in retirement,' says Simon Ruthers, director of business development at Oxford Capital.

Pensions are still a great way to prepare for retirement because you receive tax relief at your highest marginal rate on everything you save. But when you retire, only 25% of the fund can be taken tax-free.

'When you take benefits from



Say
NO
to tax in
your golden
years!

the balance of the fund you will pay income tax on any amount you take over your personal allowance in retirement,' explains Ruthers.

BECOME AN ISA MILLIONAIRE

ISAs are another effective way to build up retirement income. Although you pay into an ISA using taxed income, there is no income tax or capital gains tax levied when you withdraw money.

From April 2017, it's possible to pay £20,000 a year into an ISA. James Hambro's Charles Calkin says a 40 year-old who pays in £20,000 at the beginning of every year and generates 5% net compound growth annually would be an ISA millionaire by the age of 65. If both partners did this, the overall pot would be worth around £2 million.

'Assuming your savings simply held their value thereafter, you could draw over £65,000 a year tax-free in retirement for 30 years before this money ran out.

Of course, any household that can afford to save £40,000 a year in ISAs, on top of pensions, is going to be paying a fair bit in income tax now,' says Calkin.

DEATH BENEFITS

There are other benefits of using ISAs. When you die, an additional allowance equivalent to your ISA value is available for your spouse. They can benefit from the combined value of both ISAs for the rest of their life.

'You also do not need to disclose income or gains from ISAs on your tax return, which can save you a lot of hassle. As you get older you may prefer your ISAs in bonds and these can pay income gross, which is useful for income generation,' says Calkin.

Pensions can be passed on to beneficiaries when you die without paying inheritance tax (IHT), whereas ISAs are subject to IHT. This is another argument for depleting your ISAs before you touch your pension.

By using your personal allowances, ISAs, capital gains and 25% pension tax-free lump sum you could be well on your way to a comfortable, tax-free retirement – and cut the bill for your loved ones when you die. (EP)

Annuity market slump brings shopping around to the fore

An increasing number of providers are rethinking their product range

There is a worrying trend emerging in the UK annuity market.

Plunging annuity sales have seen insurers review their ongoing commitment to the open market. Many providers have stopped selling annuities including Standard Life and Prudential.

The launch of the pension freedoms in April 2015 sparked a steep decline in guaranteed retirement income sales for insurers.

Drawdown – a more flexible option where your money remains invested – has become the automatic option for most savers.

In the three months immediately after the freedoms launched just 12,418 annuities were sold. In the same period in 2013, that figure was 89,896.

NEXT TO GO?

LV= earlier this month said it may pull out of the 'enhanced' annuities market. That is the domain of guaranteed income products which can pay a higher rate based on health factors.

For example, someone who has diabetes or smokes 30 cigarettes a day might get a higher annual income because the insurer expects them to live less long.



This matters because healthy competition forces providers to compete fiercely for your business, usually through the rate they offer.

The retirement income market also needs healthy competition between products.

For many, the choice between annuity and drawdown – guaranteed income versus flexibility – will be a tough one. A strong, well-functioning annuity market will keep drawdown providers' collective feet to the fire, ensuring competitive pressure is applied across the market.

Furthermore, many investors who prefer the control and tax planning benefits offered by drawdown might still want to secure some of their income by buying an annuity with a portion of their fund.

SHOP AROUND FOR BEST DEAL

Anyone planning on buying

an annuity must shop around to get the best deal. The Government has abandoned plans to allow people to sell their annuities, so once you're locked in, there's no getting out.

In drawdown, providers' propositions vary hugely on things like price, investment choice and service. The good news is that you aren't locking into a permanent contract – if you aren't happy with your provider for any reason, you can switch to another relatively easily.

Nevertheless, it's sensible to review both your investment portfolio and your choice of drawdown provider as often as possible – and at least once a year – to make sure you aren't missing out on a better deal elsewhere.

TOM SELBY

AJ Bell Analyst

Caveat emptor for market traders

Why the macro view is very important at present

We are in a moment in time where the macro view is important when crafting trading strategies.

Britain is a prime example. The UK stock market took a while to regain its poise after the Brexit vote but it eventually started to move back up. The currency market, which sold sterling hard on the referendum outcome, stabilised but the move hasn't materially reversed.

In the gilt market, traders have decided that Brexit means the UK Government has to pay a little bit more for money in the longer end, despite the fact the Bank of England has cut interest rates to just 0.25% and expanded quantitative easing.

A lower sterling has boosted the prospects for FTSE 100 stocks, given that many of the index constituents have significant overseas earnings. Picking winners in the FTSE 250 has needed more thought due to a large proportion being UK domestic companies.

Without Brexit, the Bank of England would not have adopted the policy settings that have arguably underpinned the equity market rally. Having done so, and even though Brexit will happen, those very policy settings might soon be inappropriate.

The weaker pound will mean the UK pulls in imported inflation. The Bank of England has already recognised this in its



own forecasts. The NIESR think-tank expects UK inflation to hit 4% in the second half of 2017.

Would 4% inflation sit with a 0.25% base rate? It hardly seems credible, let alone sustainable. Maybe the currency and gilt markets have understood that situation?

Even though the Bank of England did what it should have done after the Brexit vote, stock market investors might start to wonder if the equity glass is becoming half empty and not half full.

It's worth recalling the words of Citibank's then-CEO, Chuck Prince, back in July 2007 speaking about the US

mortgage market. 'As long as the music is playing, you've got to get up and dance. We're still dancing,' he said.

Prince hadn't realised it but the tune that was playing was actually 'The Last Waltz' and he quit in November 2007 due to the failing mortgage industry.

Caveat emptor could be good maxim for stock market investors. That may be even more applicable when the equity market seems to be dancing to a different tune than that of currency and gilt markets.

NEAL KIMBERLEY, EXTERNAL CURRENCY ANALYST, ACTIVTRADES

FRIDAY 18 NOVEMBER

Interims

Electrocomponents	ECM
Fuller Smith & Turner	FSTA

Trading Statements

Industrial Multi Property	IMPT
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AGMs

Crystal Amber Fund	CRS
European Metals	EMH
Eagle Eye Solutions	EYE
Sylvania Platinum	SLP
Vinaland	VNL

MONDAY 21 NOVEMBER

Final Results

Diploma	DPLM
Future	FUTR

Interims

Bonmarche	BON
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AGMs

Mineral & Financial Investments	MAFL
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TUESDAY 22 NOVEMBER

Final Results

Compass	CPG
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COMPASS (CPG)

Full-year results at catering giant **Compass (CPG)** look well underpinned after strong growth in the first nine months of the year. Investors will be focused on management's outlook for revenue growth and margins at the support services business next year. Analysts forecast earnings per share of 60p.

CYBG	CYBG
Renew	RNWH

Interims

Assura	AGR
Babcock International	BAB
Big Yellow	BYG
CML Microsystems	CML
De La Rue	DLAR
Halma	HLMA
Homeserve	HSV

Telecom	TEP
Victoria	VCP

Worldwide Healthcare Trust	WWH
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Trading Statements

Intertek	ITRK
Kingfisher	KGF
Rotork	ROR
Spirax-Sarco Engineering	SPX
SVG Capital	SVI
Spectris	SXS

WEDNESDAY 23 NOVEMBER

Finals

Future	FUTR
Paragon Group	PAG
Thomas Cook	TCG

Interims

United Utilities	UU.
Vectura	VEC

AGMs

Oilex	OEX
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THURSDAY 24 NOVEMBER

Final Results

UDG Healthcare	UDG
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Interims

Charles Stanley	CAY
Caledonia Investments	CLDN
Helical Bar	HLCL
Mothercare	MTC
PayPoint	PAY
Pets at Home	PETS
Severn Trent	SVT
TR Property	TRY

AGMs

CVS	CVSG
Doriemus	DOR
Gemfields	GEM
Netcall	NET
South32	S32
Seeing Machines	SEE
Sqn Asset Finance	SQN

Ex-Dividend

3i Infrastructure	3IN	3.78p
Antofagasta	70GD	2.5p
Amec Foster	AMFW	7.4p
BlackRock		
North Amer	BRNA	1.2p
Carnival	CCL	\$0.35
CVS	CVSG	3.5p
Hill & Smith	HILS	8.5p
JPMorgan Elect		
Managed Growth SHS	JPE	0.85p
JP Morgan Elect		
Managed Income	JPEI	0.85p
River and		
Mercantile Group	RIV	2.5p
St Ives	SIV	5.45p



THOMAS COOK (TCG)

It's not been the best year for the travel industry given ongoing terrorist incidents in many parts of the world. **Thomas Cook (TCG)** has already set the scene for its full year results on 23 November when it issued a profit warning in July. It suffered a sharp decline in bookings to Turkey, Egypt and Tunisia. Investors will therefore look for reassurance that there are no more negative trading surprises.

Tate & Lyle	TATE	8.2p
UK Mail Group	UKM	5.5p
Utilitywise	UTW	4.3p
Yu Group	YU.	0.75p

FRIDAY 25 NOVEMBER

Interims

Pennon Group	PNN
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AGMs

Pan African Resources	PAF
Range Resources	RRL



FULLER, SMITH & TURNER (FSTA)

The fairly mild autumn weather should be good for pub operators as it may have extended the appeal of using beer gardens. It may also help to partially offset the spell of bad weather during the summer. We'll find out when **Fuller, Smith & Turner (FSTA)** reports half year results on Friday 18 November. The company last reported on trading on 21 July where it said the managed pubs arm was performing well.

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KEY

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- **AIM**
- **Overseas Market**
- **Fund**
- **Investment Trust**
- **Exchange-Traded Product**

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