STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 19 / ISSUE 27 / 13 JULY 2017 / £4.49

# SHARES

WE MAKE INVESTING EASIER

## TIME TO BUY THE BANKS?

### Why the market is taking a fresh look at Lloyds, HSBC and more


**KRAFT TO MAKE ANOTHER BID FOR UNILEVER?**

**WHAT TO EXPECT IN YOUR FIRST YEAR OF INVESTING**

**INVESTORS SWOOP TO SUPPORT UK TECH SPACE**

***TEN YEARS*** *SINCE THE CREDIT CRUNCH MARKET SELL-OFF*

# Ten years since the credit crunch market sell-off

Lessons learned from the stock market crash in 2007/2008

Much has been written of late about investor-related anniversaries. It's been just over a year since the Brexit vote-induced stock market crash (24 June 2016) and 5 July 2017 marked 10 years since UK interest rates last went up.

The one event that doesn't seem to have got as much attention is the 10 year anniversary of the global financial crisis-led stock market crash. Many people think the global financial crisis was a 2008 event, yet the cracks were very obvious the year before.

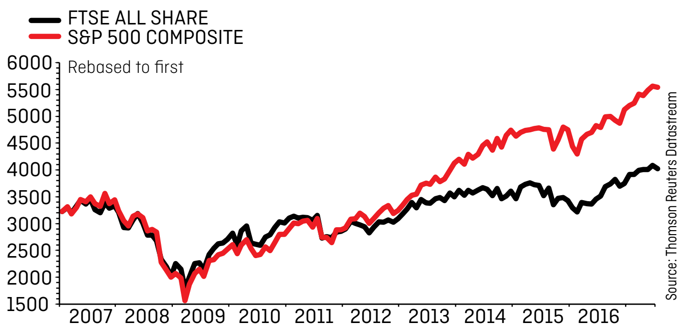
The stock market is inherently forward looking in nature and pointed to major problems when it started to fall in the summer of 2007. In July and August that year banks began to stop lending to each other due to market fears regarding exposure to potential losses on high-risk US mortgages.

Admittedly, I'm about a month too late to mark the anniversary of the FTSE All-Share beginning its rapid descent (the market peak was 15 June 2007). However, the US markets didn't start to tumble until October 2007.

## NORTHERN ROCK WAS A TURNING POINT

In the UK, Northern Rock's collapse was considered one of the key events that signalled major problems with the banking sector. Customers raced to withdraw cash from the bank in September 2007 in fear the bank was about to collapse.

In February 2008 the Government said it would nationalise Northern Rock. By July 2008, financial authorities stepped in to help American lenders, Fannie Mae and Freddie Mac. Soon after Lehman Brothers filed for bankruptcy protection. The rest is history.




Investors lost a considerable amount of money in 2007 and 2008 amid a sharp decline in the value of shares, funds and even property. But what's often not remembered is the rapid pace at which markets rebounded.

Most markets were in an upwards trend by early 2009, which is a fairly swift change in fortunes given the severity of the global financial crisis. Many people at time would have no doubt assumed the markets would stay depressed for numerous years.

## HOW DID THE MARKETS PERFORM?

The FTSE All-Share fell by 45% in value between 15 June 2007 and 21 November 2008, according to our calculations using data from Thomson Reuters. The index subsequently increased by two thirds in value over the two-and-a-half years to April 2011.

The index saw a 17% pullback in the four months to 19 August 2011 and then began a lengthy bull run, peaking at 4,130.15 on 26 May 2017 – representing a 58% gain over that six year period.

The US stock markets started and finished their global financial crisis-related decline later than the UK. For example, the S&P 500 index fell by 56% from its peak on 8 October 2007 to a low on 9 March 2009. It then started a major recovery rally and now trades more than three-and-a-half times higher.

Investors who had the confidence to keep putting money in the stock markets during the tougher times between 2007 and 2009 would have been rewarded for their actions, thanks to the rapid market rebound.

The speed of the market recovery ultimately underlines the importance of drip feeding money into the markets in both good and bad times in order to remain constantly invested. (DC)

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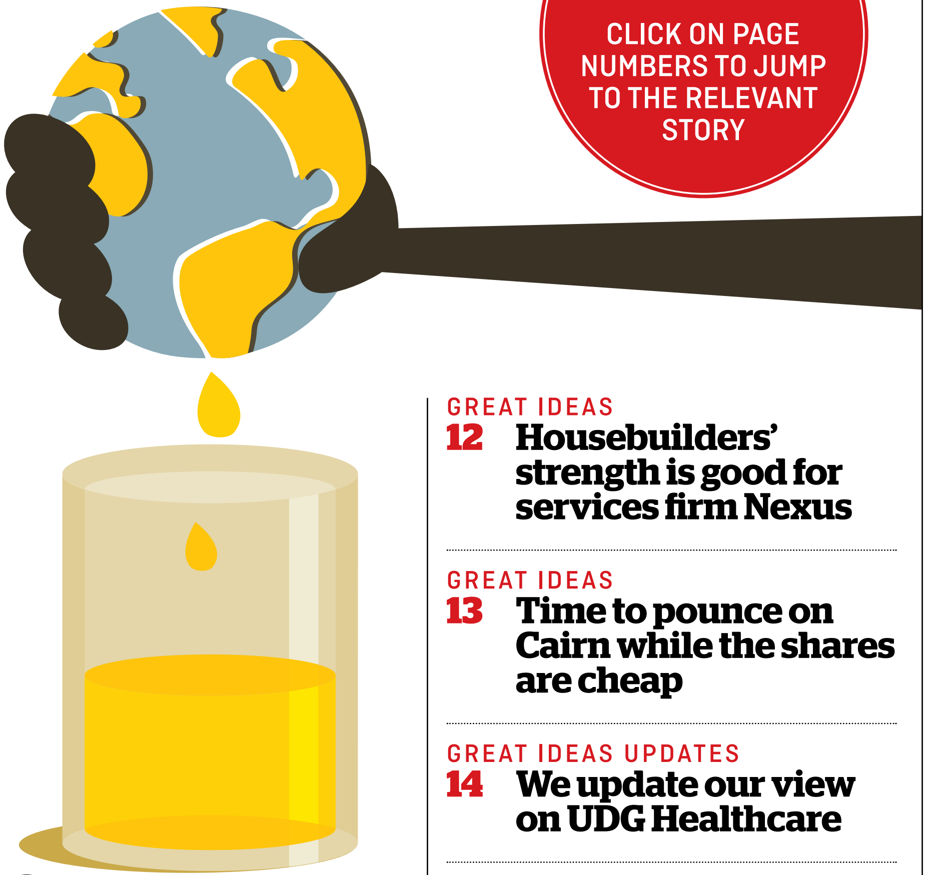
13 July 2017



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




## BROKER RATINGS EXPLAINED:

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.

# Investors swoop to support UK tech space

Firm backing for growth funding and acquisitions

UK-quoted technology businesses are seeing sustained popularity with investors willing to back several fresh funding rounds designed to bolster growth.

**£500m raised by UK tech firms in 2017**

This positive market sentiment towards the sector is being backed up by positive share price returns, with UK technology indices outperforming wider stock market equivalents over the past three and 12 month periods.

So far in 2017 about £54.5m of new cash has been raised from investors through initial public offerings (IPOs), according to London Stock Exchange data.

But nearly £500m of fresh funding has been found to back acquisitions through secondary share placings, including the £70m raised on 7 July by digital buying platform business **Proactis (PHD:AIM)** to pay for its rough £99m merger with US-based spend management solutions provider Perfect Commerce.

'The sizeable and oversubscribed placing to fund Proactis' deal supports improving sentiment within the capital markets,' says Rob Warensjo, an analyst at IT consultant Megabuyte.

These cash call figures do not include the 1 June IPO of **Alfa Financial (ALFA)**, the asset management software supplier that raised no new money. It floated with a £975m market cap, a valuation that has since soared to close on £1.4bn.

## IMPRESSIVE PERFORMANCE

Over the past 12 months the UK tech indices averaged a 34.6% return, according to data supplied by FactSet. That is solidly ahead of the UK Main Market indices average of 22.6% during the period to 5 July.

This relative success for technology markets may come as a surprise given the political shocks during the past 12 months or so. These include the UK's decision to leave the EU, Donald Trump's presidential victory and Theresa May's surprise general election result.

Notably, that is also 'robustly ahead of the 22% average return of the Nasdaq Composite and the S&P 500,' reveals Stockdale Securities technology analyst Brendan D'Souza.

**34.6% average 12 month return for UK tech indices**

'In our opinion, no technology sector performance is complete without comparing it to the happenings in the US market,' states D'Souza.

Acording to the analyst's data, the technology-heavy Nasdaq Composite and the S&P 500 posted an average return of 11.5% since the start of 2017, outperforming the UK tech indices' average of 10%. (SF)

## UK TECH VERSUS THE REST

| INDEX | YEAR TO DATE* | 1 YEAR |
|---|---|---|
| UK tech indices average | 10.0% | 34.6% |
| UK Main Market indices average | 7.4% | 22.6% |
| Nasdaq Composite and S&P 500 average | 11.5% | 22.0% |

Source: Factset, Stockdale Securities
*Data to 5 July 2017

# Kraft to make another bid for Unilever?

Analyst sees 75% chance or higher of a new approach from August onwards

US consumer goods giant Kraft Heinz could make another takeover bid for Anglo-Dutch rival **Unilever (ULVR)** very soon, according to a US analyst.

UK takeover rules prevent Kraft from tabling a new offer until mid-August, being a six month window since its previous $143bn bid.

Unilever could command a $200bn price tag

Pablo Zuanic, an analyst at trading firm Susquehanna, thinks a hostile takeover approach from Kraft Heinz is more than 75% likely to happen. He notes the company has made no moves on M&A since its aborted pursuit of Unilever, implying that the FTSE 100 member remains its prime aquisition target.

Unilever successfully brushed off Kraft's previous offer in February 2017. It has subsequently revealed a shift in strategy involving cost cutting, share buybacks and fresh acquisition activity of its own.

These actions, combined with a tailwind from the weaker pound, have helped lift Unilever's share price above £40.

Zuanic believes Unilever would now cost close to $200bn to buy given the increase in its share price and the likely need for a 20% premium to entice shareholders to sell.

'A 20% premium to the current Unilever share price would imply around 50% gains year-to-date for Unilever shareholders (i.e., we think they would fold),' he adds.

Zuanic thinks the deal could be partially funded by Kraft selling some of its own assets. (TS)

## Best UK picks for cloudy outlook

### UBS reveals investment suggestions for more difficult times

In what do you invest when the economic outlook is weak? Investment bank UBS thinks it has the answer.

More downgrades than upgrades to UK companies' earnings in June

The UK economic picture is becoming more uncertain with business output falling to a four-year low, according to the latest BDO Output Index (10 Jul).

UBS cautions 'macro momentum, earnings momentum and, arguably, the political backdrop are all deteriorating relative to Europe'.

It also notes earnings momentum turned negative in June with UK companies now seeing more earnings downgrades than upgrades.

In this context, its team of analysts reckon internationally exposed sectors such as pharmaceuticals and telecoms are best placed to prosper.

Despite this preference for overseas exposure, UBS sees the weaker economic picture as being priced in to certain domestic stocks.

The bank's favoured FTSE 100 names include **Burberry (BRBY)**, **Lloyds (LLOY)**, **Royal Dutch Shell (RDSB)**, **Vodafone (VOD)** and **WPP (WPP)**.

Its least favoured FTSE 100 stocks are **InterContinental Hotels (IHG)**, **Johnson Matthey (JMAT)**, **Legal & General (LGEN)** and **Sage (SGE)**. (TS)

# Can Gocompare's momentum continue?

Comparison site looking for balance between revenue growth and margin

Comparison site **Gocompare.com (GOCO)** is enjoying a strong start to life as a public company after being spun out of insurance firm **Esure (ESUR)** in November 2016.

An 11 July 2017 trading update signals a robust first half, with stronger-than-expected margin performance driving earnings upgrades and pushing the shares to a new high of 110p.

**Shares up 77% since we said to buy eight months ago**

We highlighted an opportunity to buy the shares in our *Great Ideas* section shortly after its demerger when they slipped from an initial price of 76p to 62p (24 Nov 2016).

We noted at the time the company traded at a very substantial discount to its peer **Moneysupermarket.com (MONY)** but that is no longer the case. Gocompare now trades on 18.1 times 2017 forecast earnings against Moneysupermarket on 20 times.

## LOWER QUALITY EARNINGS

Comparison sites typically operate across several 'verticals' like insurance, utilities and financial products.

Gocompare is heavily concentrated in a highly competitive insurance vertical. Its earnings are therefore lower quality than those of Moneysupermarket's which has a more even spread across different verticals.

Investors therefore need to be very confident in its growth potential in order to continue holding the shares.

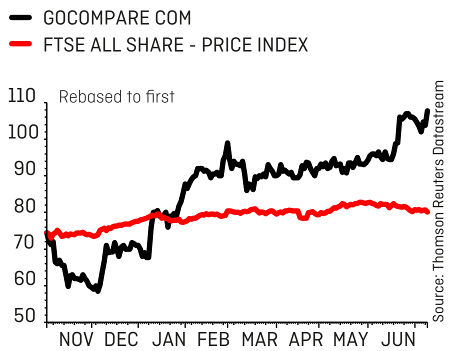
Revenue in the first six months of the year actually came in south of expectations, up just 4% year-on-year at £75.8m and short of the high single digit growth guidance for 2017 as a whole.

This reflected reduced marketing expenditure, although that had positive implications for profitability with operating profit up 22% year-on-year. In response Canaccord Genuity has upped its 2017 earnings per share forecast by 10% to 6.4p.

## GETTING THE BALANCE RIGHT

Canaccord analyst Simon Davies, who has a 'hold' recommendation on the stock, says: 'The challenge is getting the right balance between revenue growth and margin, and while it is encouraging that earnings forecasts are going up, there must be modest concerns at the delivery of just 4% revenue growth at a time when insurance premiums are rising rapidly, which should drive switching activity (and Gocompare generates 92% of its revenue from insurance).'

The company is moving beyond its core focus. In June, it acquired a minority stake in digital mortgage robo adviser Mortgage Gym. The first half numbers will be published in full on 1 August.




**SHARES SAYS:** ↘

**We think it could be prudent to book some profit ahead of the interim results as the shares now look fully valued. Sell at 110p. (TS)**

**BROKER SAYS** 3 1 1

# 14.1%

## SURGE IN BUTTER PRICE POINTS TO LOOMING SUPPLY SHORTAGE

THE PRICE OF butter rocketed by 14.1% in June, according to the Food & Agriculture Organization of the United Nations (FAO). Cheese and skim milk power prices also rose by significant amount.

The spike has been attributed by the FAO to limited export availability of dairy products in all major producing countries.

In an interview with the *BBC*, dairy group Arla believes the UK could face a butter and cream shortage this Christmas.

# 19% ODD SHARE PRICE ACTIVITY AHEAD OF UK TAKEOVERS IN 2016

UNUSUAL SHARE PRICE trades were found to have happened on the eve of 19% of all takeover announcements for UK-listed companies in 2016, according to the Financial Conduct Authority (FCA).

It says the activity does not necessarily show the level of insider trading, which is when someone buys or sells on the back of information that has yet to become public knowledge.

The FCA says other factors could trigger unusual share price trades including comment from analysts or the media correctly assessing companies which are likely takeover targets.

## Australia cuts export earnings forecast by A$13bn

AUSTRALIA HAS SLASHED A$13bn from its expected export earnings in the current fiscal year as a result of lower commodity prices. Approximately half of this downgrade is down to iron ore where the country has reduced its forecast export earnings by A$7.2bn to $65bn.

Overall resource and energy export earnings have been revised down by 6% to A$202bn for the 2017/2018 fiscal year. Expected earnings are even lower for the following year at A$200bn. All the figures have come from Australia's Department of Industry, Science and Innovation.

# 25% BRAND ARCHITEKTS DOES THE BUSINESS

THIS IS THE stellar year-on-year growth generated by Brand Architekts, the beauty and personal care outfit acquired by **Swallowfield (SWL:AIM)** in June 2016.

This has materially boosted the shave products-to-eye pencils play's owned brand portfolio. In a positive note elaborating on Swallowfield's strong full year update (6 Jul), N+1 Singer's Matthew McEachran says this growth 'was double the level we assumed when the deal was announced' and included a strong second half performance in the face of tough comparatives and a difficult retail backdrop.

# 3,142%

## GAIN MADE ON DOMINO'S

QUICK EATS CHAIN **Domino's Pizza (DOM)** has been a stunning success for investors over the years, returning 3,142% on its original IPO. That took place in late 1999, in the middle of the dotcom boom, at 50p per share. That equates to 8.38p today, once you adjust for share splits. A mere £500 stake invested in the IPO would now be worth £16,210, enough to buy you a 12-inch American Hot pizza (£16.99) every night for the next 2.6 years.

# £500M

## SOARING DEMAND FOR CYBER COVERAGE

FIGHTING OFF HACKING attacks like the recent *WannaCry* ransomware raid that shut down parts of the NHS is leading to a boom in cyber insurance. Paul Bantick, who leads a specialist team at Lloyd's of London underwriter **Beazley (BEZ)**, reckons it is one of the industry's fastest-growing segments, worth £500m of premiums income to 65 Lloyd's syndicates. Forecasts predict massive growth going forward, with global gross premiums of $2.5bn in 2015 expected to more than double by 2020 to $5.25bn.

## BEST PERFORMING ENGINEERS ON UK STOCK MARKET IN PAST YEAR

| Company | Share price gain |
|---|---|
| Molins | 143% |
| Chamberlin | 136% |
| Tricorn | 125% |
| Modern Water | 113% |
| Fenner | 107% |
| Vitec | 102% |
| Somero Enterprises | 88% |
| 600 Group | 86% |
| Xeros Technology | 82% |
| MayAir | 76% |

Source: SharePad. Data to 10 July 2017

## WORST PERFORMING ENGINEERS ON UK STOCK MARKET IN PAST YEAR

| Company | Share price loss/gain |
|---|---|
| Associated British Engineering | -63% |
| HC Slingsby | -62% |
| Hayward Tyler | -44% |
| Amiad Water Systems | -22% |
| Goodwin | -18% |
| Pressure Technologies | 1% |
| Castings | 7% |
| Rotork | 11% |
| Braime | 16% |
| Bailey | 18% |

Source: SharePad. Data to 10 July 2017

# Housebuilders' strength is good for service firm Nexus

Roads, drains and utility connections firm has robust growth and 4.5% yield

A resilient housebuilding market bodes well for engineering services group **Nexus Infrastructure (NEXS:AIM)** which counts **Countryside Properties (CSP)**, **Taylor Wimpey (TW.)** and **Redrow (RDW)** as customers.

Nexus owns Tamdown which builds roads, undertakes earthworks, creates drainage systems and constructs reinforced concrete frames for housebuilders, mostly in the south east of England and London.

## FAST GROWING BUSINESS

It also has a fast-growing utilities business called TriConnex which designs, installs and connects gas, electricity, water and fibre networks on residential and commercial developments.

Nexus is profitable and pays dividends with a yield in the region of 4.5%. It gets paid monthly by Tamdown clients and most payments for TriConnex are made before the commencement of work, so it has low working capital requirements.

Tamdown made an 8.4% operating profit margin in the year to 30 September 2016 versus 12.1% margin at TriConnex over the same period.

Nexus is new to the stock market, having only floated on AIM on 10 July. No new money was raised at the IPO (initial public offering); instead, directors and staff sold £35m worth of shares to provide liquidity in the market.

**NEXUS INFRASTRUCTURE**
**BUY**
(NEXS:AIM) 191.5p
Stop loss: 130p

Market value: £72m


The majority of these shares were owned by chief executive Mike Morris and director Keith Breen who still hold a combined 43.1% stake. They have promised not to sell any more shares for at least one year.

Morris says earnings growth will come from Nexus winning more work, expanding geographical coverage and introducing new services such as it has recently done with electric vehicle charging points. He adds that Nexus is well advanced with trying to make an acquisition on the utilities side.

**CF Livingbridge UK Micro Cap (GB00B55S9X98)** is among the investment funds to have taken a stake in Nexus at the IPO. Its fund manager Ken Wotton says the utilities connection arm is the exciting bit of Nexus. 'It has better quality earnings than the infrastructure services division and the customers and routes to market are quite similar,' he says.

## HITTING ITS DEADLINES

'The utilities services industry is very bad at doing stuff on time, so one of Nexus' selling points is that it is good at completing connections to deadlines. That's very attractive if you're a property developer,' adds Wotton.

Investors should be aware of some risks to the investment case. It is reliant on a small number of clients. Its top 10 clients accounted for 75% of revenue in 2016. Nexus' fortunes are heavily tied to the housing market. Furthermore, it operates in a competitive market.

That said; its contract win rate is very impressive. Tamdown won one out of every 2.1 contract bids in 2016; TriConnex won one in every 3.4 bids in the same year. (DC)

# Time to pounce on Cairn while the shares are cheap

The oil producer is chasing barrels in Senegal and the North Sea

A combination of lower oil prices and a rumbling tax dispute in India have conspired to drag **Cairn Energy (CNE)** to 52-week lows. We think this represents an opportunity to buy the shares at a cheap price.

The £995m cap continues to make progress offshore Senegal and production is ramping up at its two key UK projects.

The wider exploration and production (E&P) sector has been hard hit by the fall in oil prices which currently sit below $50 per barrel, having traded comfortably above this threshold in the first quarter of 2017.

Although we are not confident in forecasting the future direction of oil prices in the short term, we think the market has priced in a scenario where prices remain depressed for an indefinite period.

Equally the share price has been discounted for an Indian tax dispute which has effectively seen Cairn's assets in the country frozen since 2014. Cairn is seeking $1bn in damages from an arbitration case and expects a judgement in January 2018.

## SENEGAL SUCCESS STORY

Cairn announced on 11 July that the latest well to be drilled off Senegal, FAN South-1, struck oil after being completed ahead of schedule and under budget.

The company will now do further work to determine if it will be commercial to develop alongside a discovery made 30 kilometres away at the initial FAN well in 2014.

**CAIRN ENERGY BUY**
(CNE) 167.9p
Stop loss: 134.3p
Market value: £995m

The Stena DrillMAX drill ship is next set to drill the SNE North exploration prospect targeting 80m barrels of oil equivalent.

The joint venture in Senegal, in which Cairn has a 40% working interest, has now drilled 10 wells in three years. Analysts at investment bank Macquarie say they are 'hopeful for an uplift to resource volumes' from Senegal when the company reports its first half results on 21 August.

The company was sitting on net cash of $254m at the last count although it would need to use debt to bring its Senegalese discoveries on stream. Macquarie thinks the company may look to sell some of its interest ahead of development.

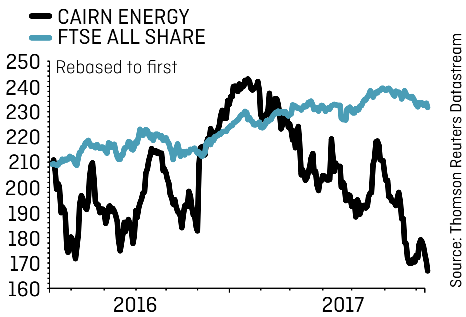
## NORTH SEA DEVELOPMENTS

Much closer to home, the Kraken heavy oil field in the North Sea delivered first oil in June 2017 and should yield 15,000 barrels of oil per day (bopd) net to Cairn when it hits peak output of 50,000 bopd.

The Catcher development, which will eventually deliver net production to the company of 10,000 bopd, is expected to commence production in December 2017.

Price targets of 270p from Macquarie and 275p from Canaccord Genuity imply upside of 60.1% and 63.7% respectively. (TS)

**BROKER SAYS:** 17 6 1



# UDG HEALTHCARE
## (UDG) 835p

**Gain to date: 45%**

**Original entry point:**

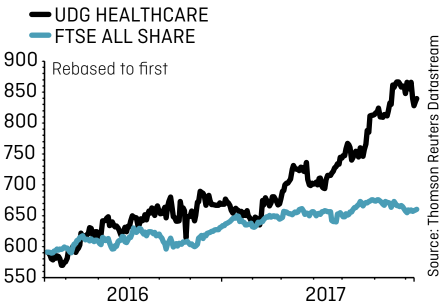
**Buy at 575p,** 28 July 2016

HEALTHCARE SERVICES PROVIDER **UDG Healthcare (UDG)** plans to take advantage of emerging trends and pursue further acquisitions in higher margin services to boost growth.

Chief financial officer Alan Ralph anticipates strong organic growth, particularly in the Sharp packaging division which is benefiting from good demand in the US for serialisation services.

Shares in the firm have rallied by 25% this year and by 45% since we said to buy just under a year ago. We think the stock has further to run.

UDG is capitalising on rising drug sales in the developed world and further outsourcing of service work by larger companies.




Its United Drug division was sold for €407.5m in 2015, providing funds to make acquisitions, particularly in the fragmented healthcare communications sector.

In October 2016, the firm acquired STEM Marketing for £84m (€94.8m) to help pharmaceutical companies communicate the benefits of their drugs for clinical trials.

This week (12 July 2017) UDG announced the acquisition of US management consultant Vynamic in a deal worth up to $32m.

Liberum analyst Graham Doyle said in May this year that UDG should beat its full year earnings per share guidance of 15% to 18% growth in the year to 30 September 2017.

Doyle has a 930p price target for the stock.

**SHARES SAYS:** ↗

**By diversifying and expanding its services both organically and through acquisitions, UDG is positioning itself for further growth. Keep buying at 835p. (LMJ)**

**BROKER SAYS:** 5 5 0

| FRIDAY 14 JULY | |
|---|---|
| **TRADING STATEMENTS** | |
| ASHMORE | ASHM |
| FIRSTGROUP | FGP |
| HAYS | HAS |
| NEWRIVER RETAIL | NRR |
| **AGMs** | |
| ZCCM INVESTMENTS | ZCC |
| **MONDAY 17 JULY** | |
| **TRADING STATEMENTS** | |
| RIO TINTO | RIO |
| **AGMs** | |
| RENEWI | RWI |
| **ECONOMICS** | |
| RIGHTMOVE HPI | |
| **TUESDAY 18 JULY** | |
| **FINALS** | |
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| NCC | NCC |
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| SEVERN TRENT | SVT |
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| WIZZ AIR | WIZZ |
| **AGMs** | |
| BIFFA | BIFF |
| BP MARSH & PARTNERS | BPM |
| RENOLD | RNO |
| THE PEOPLE'S OPERATOR | TPOP |
| WEISS KOREA OPPORTUNITY FUND | WKOF |
| **THURSDAY 20 JULY** | |
| **Finals** | |
| SPORTS DIRECT | SPD |
| **INTERIMS** | |
| HOWDEN JOINERY | HWDN |
| MONEYSUPERMARKET.COM | MONY |
| NICHOLS | NCL |
| UNILEVER | ULVR |
| **TRADING STATEMENTS** | |
| ANGLO AMERICAN | AAL |

FTSE 250 merchant bank **Close Brothers (CBG)** is releasing a trading update on 21 July and investors will be hoping it can match the momentum on show in first half results to January 2017.

These numbers included key takeaways such as a 21% increase in adjusted operating profit and a 5% hike in dividend per share. As the company lends to small businesses its trading offers a barometer for the UK economy.

Full year figures from **NCC (NCC)** on 18 July could be ugly. Expect a slump in pre-tax profit (to about £26.6m) and a sizeable hike in net debt thanks to lost contracts, write-downs and two profit warnings. There should be an update on the internal strategic review, designed to get the cyber security consultancy back on track.


**Will EasyJet (EZJ) be able to bounce back from the weak performance flagged in May? This is the question that investors should focus on when the budget airline reports on trading on 20 July.**

**On 16 May EasyJet released first half results which showed higher fuel costs, weaker sterling and a delayed Easter break weighed on performance and resulted in a £212m pre-tax loss.**

| | | |
|---|---|---|
| EASYJET | EZJ | |
| PREMIER FOODS | PFD | |
| SSE | SSE | |
| **ECONOMICS** | | |
| **UK** | | |
| RETAIL SALES | | |
| **AGMs** | | |
| ASHMORE GLOBAL OPPORTUNITIES | AGOL | |
| BIG YELLOW GROUP | BYG | |
| HARBOURVEST GLOBAL PRIVATE EQUITY | HVPE | |
| ROYAL MAIL | RMG | |
| **EX-DIVIDEND** | | |
| GB GROUP | GBG | 2.35P |
| IMMUNODIAGNOSTICS SYSTEMS | IDH | 4P |
| MARTIN CURRIE PACIFIC TRUST | MCP | 13.68P |
| PRIME PEOPLE | PRP | 3.25P |
| SCAPA | SCPA | 2P |
| SHOE ZONE | SHOE | 3.4P |
| U AND I GROUP | UAI | 3.5P |
| UNICORN AIM VCT | UAV | 3P |
| VEDANTA RESOURCES | VED | $0.35 |
| WALTER GREENBANK | WGB | 3.06P |

Click here for complete diary

BLACKROCK®

# NEW PHASE
# *FOR COMMODITIES?*

Could reduced supply and greater demand make natural resources more interesting to investors? **Tom Holl**, co-manager of BlackRock's Commodities Income Investment Trust, assesses the sector.

Following a number of challenging years, 2016 was an improvement for the natural resources sector, driven by improved performance within the energy and mining sectors.

In terms of energy, oil prices have come under pressure in 2017 – and we expect the sector's performance to remain volatile – but we see the outlook as positive. We expect prices to move upwards following reductions in global inventories and as meaningful declines emerge in non-OPEC (excluding the US) oil production.

This complements OPEC's production restraint, which is helpful in our view as it accelerates the rebalancing of the oil market and we continue to expect producers to adhere to the OPEC guidelines more closely than they have in historic cuts. So far, the countries involved have adhered to the agreed supply cuts[i]. In this environment, we continue to believe that exploration and production companies with low-cost assets and strong balance sheets will prove to be positioned the most advantageously.

With regards to mining, the coking coal price increased 227% for the year to December 2016, while the iron ore price increased 83%[ii]. We are optimistic about the levels of free cash flow that many mining companies are generating – the amount of cash a company has left over once it has paid all expenses such as buildings and equipment – as a result of the improved mined commodity prices in 2016.

China remains the key risk for mining. The past three to four years have seen a slowdown in the rate of China's economic growth, but we're still talking about a country that is growing at more than 6.5% a year[iii], which is substantially higher than many other countries. The wider economic environment also points to a 'stable to improving' demand picture, while the underinvestment of recent years is constraining the supply side of the equation for many commodities[iv]. Mining shares typically experience above average volatility when compared to other investments. All financial investments involve an element of risk. Therefore, the value of your investment and the income from it will vary and your initial investment amount cannot be guaranteed.

It's also encouraging that we started to see reflationary trends emerge in the third quarter of 2016. The term 'reflation' is used to describe the first phase of economic recovery after a period of contraction. Reflationary policies can include increasing government spending, reducing taxes, changing the money supply and lowering interest rates.

If you look back over the past 40 years (1970-2016), commodities as an asset class has typically performed well in environments of higher inflation. So if history repeats itself and we do see a rise in inflation over the next few years, then that is typically a good environment for commodities compared with other asset classes[v].

Please remember that past performance is not a guide to future performance and the value of an investment and the income from it can fall as well as rise. Furthermore, these statements should not be relied upon as a forecast or investment advice – nor as a recommendation to adopt any investment strategy. Also, these opinions are as at July 2017 and subject to change as economic conditions develop.

To find out what the BlackRock Commodities Income Investment Trust has to offer, **click here.**

[i] International Energy Agency Monthly Report, June 2017
[ii] Blackrock, Datastream as at end of December 2016.
[iii] https://tradingeconomics.com/china/gdp
[iv] Credit Suisse energy analysis, Dec 16. Jefferies mining analysis, December 2016
[v] Datastream, 1970 – 2016. Global equities represented by the MSCI World Index, US equities by the S&P 500 Index, global bonds by the BofA ML Global Government Bond Index, US bonds by the US benchmark 10 Year Datastream Government Bond Index, and real estate by the US S&P/Case-Shiller National Home Price Index.

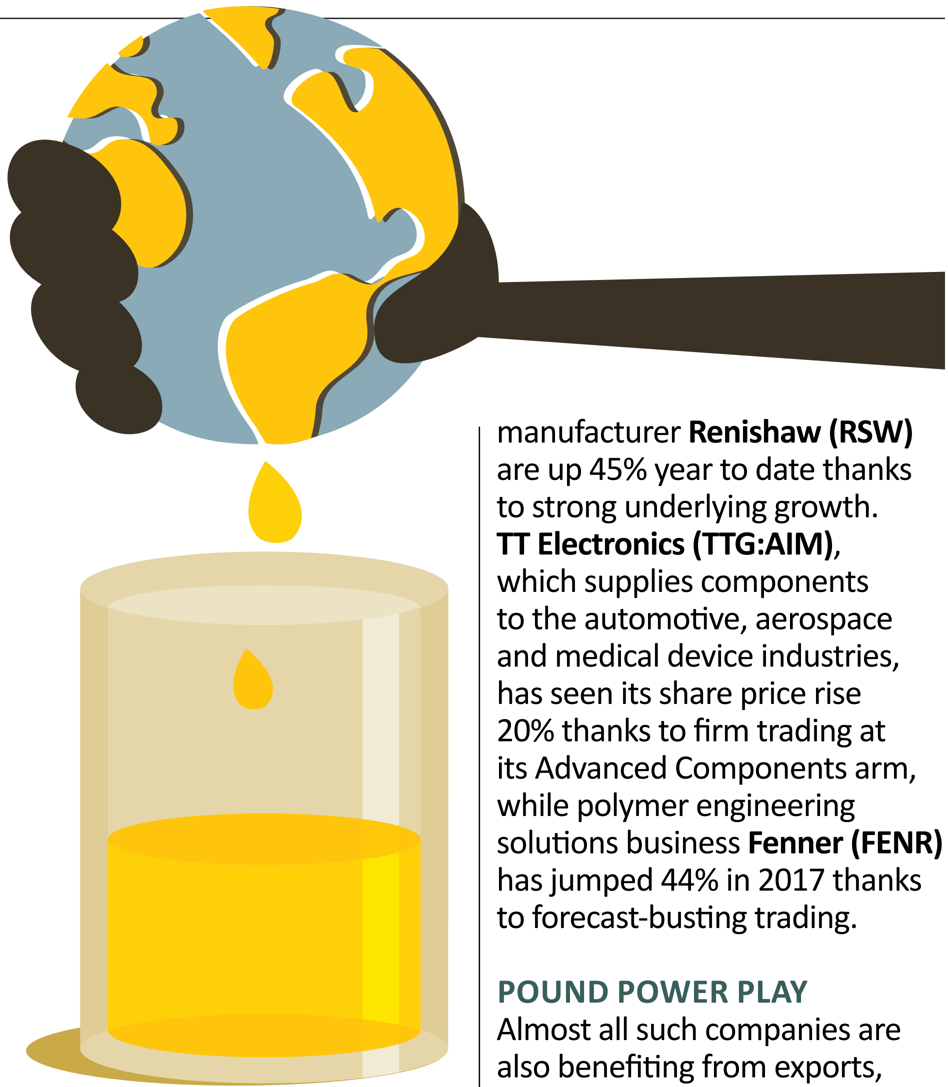
**Trust specific risks:** Overseas investment will be affected by movements in currency exchange rates. Emerging market investments are usually associated with higher investment risk than developed market investments. Therefore the value of these investments may be unpredictable and subject to greater variation. Mining shares typically experience above average volatility when compared to other investments. Trends which occur within the general equity market may not be mirrored within mining securities. Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.

This material is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or financial product or to adopt any investment strategy. The opinions expressed are as at July 2017 and may change as subsequent conditions vary.

BlackRock has not considered the suitability of this investment against your individual needs and risk tolerance. To ensure you understand whether our product is suitable, please read the Key Features document and the Annual and Half Yearly Reports for more information where you can find a full explanation of these types of investment techniques and more information about the risk profile of the investment. We recommend you seek independent professional advice prior to investing.

# End to global squeeze on capital spending?

## UK manufacturers are increasingly upbeat on demand drivers



Investors have been waiting for the turn in global capital expenditure for years. There are now signs of sustained improvement for the first time in a decade. Analysis shows this is starting to filter through to better trading, increased merger and acquisition action and positive share price performance for many UK manufacturers.

FTSE 250 companies such as thermal technology designers **Bodycote (BOY)** and **Spirax-Sarco (SPX)**, plus **Vesuvius (VSVS)**, which provides equipment to metal smelting foundries, have seen double-digit increases to earnings forecasts thanks to positive trading, growth inspired acquisitions and streamlined operational costs, according to Numis Securities.

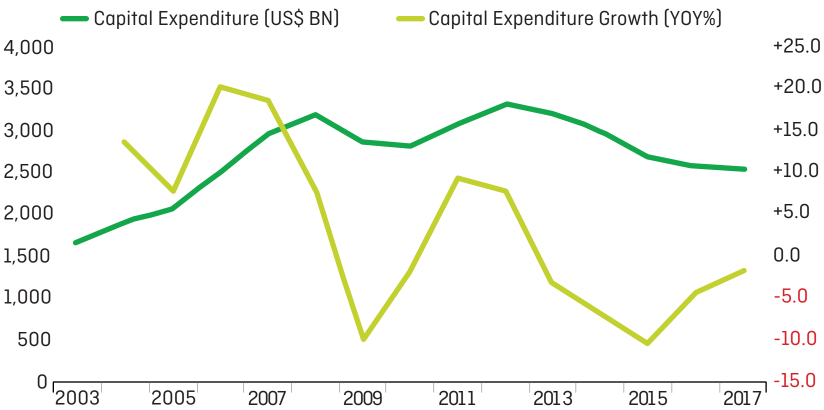
Share prices across the UK engineering and electronics sectors have rallied strongly through 2017. Shares in metrology equipment manufacturer **Renishaw (RSW)** are up 45% year to date thanks to strong underlying growth. **TT Electronics (TTG:AIM)**, which supplies components to the automotive, aerospace and medical device industries, has seen its share price rise 20% thanks to firm trading at its Advanced Components arm, while polymer engineering solutions business **Fenner (FENR)** has jumped 44% in 2017 thanks to forecast-busting trading.

### POUND POWER PLAY

Almost all such companies are also benefiting from exports, where the weakened pound is making the equipment and services they supply less expensive for overseas customers.

Organisations are starting to invest in technology areas capable of widening and improving their routes to market while streamlining their own operating models. This includes things like better communications infrastructure, automation systems and robotic

**GLOBAL NON-FINANCIAL CAPEX (2003 – 2017F)**




SOURCE: S&P AS STATED

Note: Figures are rounded to the nearest whole number

## 6 KEY INFRASTRUCTURE SECTORS

| 1 Extraction | 2 Utilities | 3 Manufacturing | 4 Transport | 5 Telecoms | 6 Social |
|---|---|---|---|---|---|
| Oil and gas<br>-<br>Other inc coal, metals, minerals | Electricity generation<br>-<br>Gas distribution<br>-<br>Water | Petroleum refining<br>-<br>Chemicals<br>-<br>Heavy metals | Rail<br>-<br>Roads<br>-<br>Airports<br>-<br>Ports | Physical infrastructure/ hardware | Education<br>-<br>Health |

technologies. These investment programmes are running alongside things like healthcare, certain scientific research programmes and aerospace spending where budgets have held up better for longer.

'A healthy 88% of companies are confident they can demonstrate the value that their capital investment projects bring to the wider business,' states the *Industrial Capital Expenditure Survey 2017* compiled by researchers at Arcadis.

Improved flexibility and agility, and supplier integration and communications rank as other important measures when it comes to decision making on capital projects, the study funds.

### SUSTAINABLE INVESTMENT

Importantly, infrastructure spending has begun to rebound from the global financial crisis and is expected to grow significantly over the coming decade. That is the main finding of *Capital Project and Infrastructure Spending Outlook to 2025*, an in-depth analysis of 49 countries that account for 90% of global economic output. The report was put together by researchers at

> **COMPANIES ARE STARTING TO THINK ABOUT THE FUTURE AND THE IMPACT NEW TECHNOLOGY AND SOCIOECONOMIC FACTORS WILL HAVE ON THEIR CAPITAL INVESTMENTS TO REMAIN COMPETITIVE**

Oxford Economics for business consultancy giant PwC.

Hints of faster growing capital expenditure have appeared before, only to peter out. The most obvious example of this came in 2010, in response to the clampdown through the financial crisis of 2008 and 2009. Ultimately, the bounce back proved short-lived, with investment spending ebbing away through 2011 and 2012. Industry challenges that have kept a lid on business investment in the past include access to finance, rising output costs and poor return of capital for many projects.

### NEW CATALYSTS

While these challenges have not gone away, stimulus has appeared to counter-balance the economic arguments. 'Companies are starting to think about the future and the impact new technology and socioeconomic factors will have on their capital investments to remain competitive,' explains the Arcadis report.

'Committing effort to engaging their business partners throughout the planning, design and construction process can help manufacturers achieve an integrated value chain, where all parties are focused on getting the most innovative and competitive product to market,' explain study authors Tjerk van der Meer, Paul Fielden and Martijn Karrenbeld.

'This agile, data rich, high engagement style of capital delivery is what consumer demands are now driving, and many industrial manufacturers are well on their way to achieving.' (SF)

# The auto-enrolment pension savings gap

Retirement saving contributions are set to increase for people with a workplace pension... but will they be enough?

You might have heard about automatic enrolment, the Government programme introduced in 2012 to boost retirement saving in the UK.

The premise of the reforms is simple – by 'nudging' people into a workplace pension scheme and mandating employers match contributions up to a certain level, policymakers hope to arrest declining savings rates.

The policy has to date been successful, with around nine in 10 of those auto-enrolled remaining in their scheme.

But how much will you eventually be required to put into your auto-enrolment pension? And what could you end up with if you pay in the minimum throughout your working life?

**Most people would probably assume a pension worth £218,791 would be enough to provide them with a comfortable retirement income. However, the reality is far from this...**

## PERSONAL CONTRIBUTIONS SET TO INCREASE FIVE-FOLD

From April 2019 all employers will be required to offer employees a workplace pension, with rules prescribing a minimum total contribution, including tax relief, of 8%.

For anyone being auto-enrolled at the lowest level, the jump from the current minimum employee contribution of 0.8% to 4% could feel severe.

In fact, someone earning an average salary of £27,000 could see their annual pension outgoings leap from £169 to £879.

The longer-term reality, however, is that for many people even this jump in the minimum contributions will not be enough.

Let's take a 25 year old earning £27,000 today who saves at the minimum for 40 years. Assuming 4% annual growth after charges and annual wage growth of 2%, they could have a total private pension pot worth £218,791 at age 65.

While this might sound like a lot of money, it would only buy a single-life inflation-linked annuity – which provides a guaranteed income for life – worth £4,966 a year after 25% tax-free cash has been taken*.

Using income drawdown with the same pot of money after tax-free cash has been taken; an income of £10,000 could be withdrawn in order for the fund to last until age 90. However, any drop in investment returns or even a period of negative investment performance would dramatically reduce the income potential of the fund.

## REALITY CHECK

Most people would probably assume a pension worth £218,791 would be enough to provide them with a comfortable retirement income. However, the reality is far from this and a generation of savers risk being hit with a brutal pensions shock unless they pay in more than the minimum.

This isn't just about pensions. Many people will choose to invest in ISAs, lifetime ISAs and other assets such as property as part of their retirement income mix.

Tom Selby,
Senior Analyst, AJ Bell

*Source: Money Advice Service calculator quote for a healthy 65 year old. Correct as of 04/07/2017

# Witan's CEO Andrew Bell introduces the Trust's multi manager strategy


For over 12 years, the **Witan Investment Trust** has used a multi-manager approach. By carefully selecting fund managers to run different parts of the portfolio, we can play to their individual strengths and avoid undue reliance on a single manager. This method has served our shareholders well, and the multi-manager strategy has continued to evolve, with others adopting a similar approach too. If you seek capital growth and a growing real income from global equity investments, we aim to help you realise your financial ambitions.

**Watch the video to hear CEO Andrew Bell provide a summary of this approach and his investment outlook for 2017/18.**

**www.witan.com**

**DISCLAIMER**
Witan Investment Trust is an equity investments. Please remember that past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise as a result of currency and market fluctuations and you may not get back the amount originally invested.

# Investing in funds: what's the difference between a unit trust and OEIC?

The essential guide to the structure and pricing of open-ended funds

Are you aware there are different types of investment funds? We're not talking about ones that invest in different sectors or geographies; instead, we mean the structure of the funds.

You may think the underlying assets inside a fund are the only things that matter. In reality, there's a bit more to it. Stick with us and we'll explain why.

Two of the most common types of fund are unit trusts and open-ended investment companies (OEICs). They share many traits but they also have some important differences.

## WHAT IS A UNIT TRUST?

Unit trusts are a form of 'open-ended' investment fund in the UK. They're termed open-ended because the fund manager can create new units (similar to shares) in the fund to meet investor demand. These units can be bought or sold at any time.

This differs from a closed-ended fund, which issues a fixed number of non-redeemable shares. Investment trusts are closed-ended funds.

## WHAT IS AN OEIC?

In 1997, laws were introduced allowing the creation of OEICs, which are also open-ended. Over the last decade OEICs have become a lot more common and many unit trusts have converted to the OEIC structure.

> BOTH FUND VEHICLES CAN INVEST IN A WIDE RANGE OF ASSET CLASSES, GEOGRAPHIES AND SECTORS

This is due to the relative simplicity of OEICs and the fact they can be sold into different countries across Europe.

'Just about all new funds that are launched are structured as OEICs, indicating the direction of travel for the asset management industry,' says Ryan Hughes, head of fund selection at AJ Bell Youinvest.

## WHAT'S THE DIFFERENCE BETWEEN THEM?

In many respects unit trusts and OEICs are the same. They're open-ended and the price of each unit depends on the net asset value of the fund's investment portfolio.

You can generally choose to have dividends paid to you as income or reinvested in the fund.

Both fund vehicles can invest in a wide range of asset classes, geographies and sectors.

A subtle difference is a unit trust is governed by trust law, whereas an OEIC is governed by company law.

'Technically, this means investors in a unit trust are not owners of the underlying assets, unlike investors in an OEIC. In reality, this makes little difference to investors,' says Hughes.

If you invest in a unit trust you buy units whereas if you invest in an OEIC you buy shares.

### THE KEY DIFFERENCE IS PRICING

The major difference between unit trusts and OEICs is the way they're priced. Unit trusts quote a bid price and an offer price; OEICs only quote one price.

With unit trusts, the bid price is the per-unit price you'll receive if you sell your units back to the fund company. It's usually based on the bid price of the underlying securities held by the fund.

The offer price is the per-unit price you will pay to purchase units in the fund.

The difference between the two prices is called the bid-offer spread. The spread aims to ensure new or redeeming investors don't dilute the value of existing investors' units.

Jonathan Miller, UK director of manager research at Morningstar, says fund managers can avoid transaction costs when investors buy and sell units on the same day because they're essentially matched off against each other. Unfortunately, these savings aren't put back into the fund.

'Instead they create what's known as a box profit, with the common procedure being that it trickles down to the fund company's bottom line. We believe this is to the detriment of investors and is an opaque structure,' Miller says.

The Financial Conduct Authority is currently seeking to ban the box profits practice and ensure that any benefits accrue to the fund, not the firm.

> **TECHNICALLY, INVESTORS IN A UNIT TRUST ARE NOT OWNERS OF THE UNDERLYING ASSETS, UNLIKE INVESTORS IN AN OEIC. IN REALITY, THIS MAKES LITTLE DIFFERENCE TO INVESTORS**
> **– RYAN HUGHES, HEAD OF FUND SELECTION AT AJ BELL YOUINVEST**

### HOW ARE OEICS PRICED?

OEICs publish a single price each day, making it easier for investors to understand the cost of investing. OEICs have a mechanism called 'swing pricing' to protect existing investors when there's an imbalance between buyers and sellers.

The fund can artificially reduce its net asset value to account for the extra portfolio trading costs created by significant buying or selling activity.

### CAN A UNIT TRUST FUND BECOME AN OEIC?

Several unit trusts have converted to the more modern OEIC structure over the past decade and this trend is expected to continue.

Janus Henderson, for example, converted its UK property unit trust into an OEIC structure so it could then move towards PAIF (property authorised investment fund) status, which is more tax-efficient.

It is possible for an OEIC to convert to a unit trust but this is very rare. In 2003, New Star converted the Aberdeen Equity Income OEIC sub-fund into a unit trust (named New Star Equity Income Unit Trust) in order to bring the fund in-house and assume ownership. The unit trust was subsequently acquired by New Star Investment Fund OEIC.

Instead of carrying out a fund conversion, Jupiter has announced that in 2018 its unit trusts will move to single pricing for buying and selling fund units.

A Jupiter spokesperson says this aims to ensure transparency and value for clients and align its products with the common pricing approach in the industry. Box profits, which totalled £12.8m in 2016, will be removed from Jupiter's future income stream. (EP)

# Staying focused amid market noise is key to Bankers' success

Fund manager explains why it can pay not to be distracted by politics

Being a successful fund manager typically means taking a different viewpoint from the market in order to outperform a benchmark. It requires skill in knowing when to buy and sell and doing so at an advantageous price.

The fund manager needs to question everything that's going on in the markets and have the ability to take a view on what might happen in the future.

Alex Crooke has demonstrated those skills through his success at running **Bankers Investment Trust (BNKR)** since 2003.

Part of Janus Henderson Investors' portfolio of investment trusts, Bankers has delivered a 141.8% total return over the past decade versus 71.4% from the FTSE All-Share index, according to figures from the asset manager.

## STAYING FOCUSED

Crooke and his team appear to have an edge in their ability not to be distracted by market noise and politics; and instead look at themes, data, valuation and financial strength in order to make informed investment decisions.

Having a clear head and remaining focused has been a challenge for many investors over the past year or so, particularly in the wake of major votes in the UK, US and France.

> THE FUND MANAGER NEEDS TO QUESTION EVERYTHING THAT'S GOING ON IN THE MARKETS AND HAVE THE ABILITY TO TAKE A VIEW ON WHAT MIGHT HAPPEN IN THE FUTURE

Some fund managers repositioned their portfolios in response to the election results and how they feel government policies will play out for industry.

The team at Bankers have chosen to put politics to one side. For example, writing in the trust's recent annual report, they discussed the impact of Donald Trump becoming US president on the markets.

'Many market participants will be drawn into attempts to forecast the short term course of the US economy under the new presidential administration,' writes Ian Warmerdam, who manages the North American part of the Bankers portfolio.

'We do not try to predict political events nor do we attempt to second guess the market's reaction when the unexpected unfolds.

'While we don't wish to be naïve about the implications, we believe there are much more predictable trends to be studied in the quieter domain of the long term investor.'

Crooke's view is that central bank interest rate policy is ultimately more influential on stock markets than politics. 'Some people have been depressed that Trump has yet to achieve his promised tax cuts in the US. Yet in three years' time, we could look back and realise that all along the most important action is what the Federal Reserve did and does,' he says.

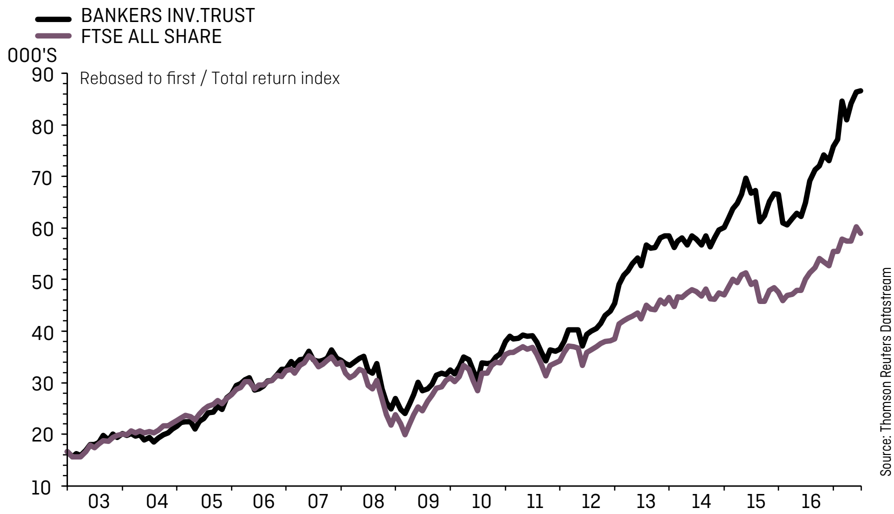
## SHARE PRICE GAINS AND DIVIDENDS

Bankers has a broad strategy whereby it can invest in companies around the world with the goal of delivering capital gains and a steady stream of income for shareholders.

It has investments in various markets including the UK, North America, Europe, Pacific region (including China), Japan and a small bit in emerging markets.

Crooke has recently been selling down positions in the US and reinvesting the cash in Europe where valuations are cheaper. 'European market earnings are 24% below their peak before the global financial crisis, whereas US earnings are about 30% above their peak,' he comments.

'The US and Europe were neck and neck through the period




WHILE INVESTORS SHOULD know many of the big companies in Bankers' portfolio including Apple, Amazon and **British American Tobacco (BATS)**, there are a few less familiar names. For example, it invests in Cooper Cos which is a contact lens specialist. 'The shares aren't cheap but this is a good long-term holding,' says Crooke.

The portfolio also includes a stake in America Tower which owns mobile phone mast towers in the US. 'They manage the masts which are very good income-generating assets. There is lots of growth in the industry, particularly the advent of 5G which will require a lot more masts.'

1997 to 2007, so something changed in the 2007 to 2011 period to dent European growth.

'I would argue it was the state of the European banking sector. The US bailed out and recapitalised its banks, in Europe they are still undertaking capital recaps (i.e. Spain and Italy). I believe accelerating earnings and improving margins will ultimately drive up shares in Europe,' he adds.

## SEEKING SPECIFIC TYPES OF COMPANIES

The fund manager seeks to invest in companies which are able to generate free cash flow over and above the cost of running the business.

'That status should mean a company can pay dividends; and, if they have debt, they can reduce borrowings so the equity becomes a larger proportion of their enterprise value and so their share price should go up. That free cash also gives a company the ability to make acquisitions and reinvest in their business.'

Crooke believes income is an important part of shareholders' total return. Bankers Investment Trust has grown its dividend every year for the past 50 years and yields 2.17%.

He reckons the investment trust is ideal for someone wanting to invest pre-retirement and has time on their side where they can reinvest that growing stream of dividends to enjoy compounding benefits. (DC)

# Does a fund need more than one person to run it?

We talk to the experts for their views on whether funds need co-managers or large support teams

Two heads are better than one, the old adage goes – but when it comes to investing in funds, it could be more of a case of 'too many cooks spoil the broth' in terms of the people looking after your money.

There are more than 2,000 funds available for UK investors to put their money into and each has a different approach to investing.

While some fund managers choose to go it alone, others are supported by a co-manager or use a team of analysts to help them decide what makes it into the fund. But does the number of people involved in running portfolios have any bearing on the success of the fund?

Ryan Hughes, head of fund selection at AJ Bell, says: 'The key thing for me when choosing a fund is the process and the investment philosophy. You can have an individual manager with no team who has a great process and does very well, or a huge team with a bad process and it will do badly.'

## WHO IS MAKING THE DECISIONS?

Evaluating how decisions are made within a fund can be difficult. Some investors are genuine lone wolves – Terry Smith, for example, who set up his own investment house so he could manage his own fund according to his own philosophy. That's **Fundsmith Equity (GB00B41YBW71)**.

Some star managers, such as Anthony Bolton formerly of Fidelity, are often thought of in isolation but will have had a large network of support to do a lot of the groundwork.

Other managers may appear to be part of a duo or team but may be more independent when it comes to having the final say on investments.

Hughes says: 'It's important to understand who is making the decisions to understand key man risk.

'At Fundsmith, for example, Terry Smith's individual thinking is integral to the process; if you take him out of the equation it's not the same. If he left the fund you would most likely sell that same day.'

Some duos also spark the same reaction. Hughes recently removed **Schroder UK Dynamic Smaller Companies (GB0007219818)** from his favourite funds list after managers Paul Marriage and John Warren left to set up their own company.

He says: 'Who has responsibility for pulling the trigger on the fund – whether it's an individual, team, duo or algorithm – is an important question but it is only part of the jigsaw. And there is no real way of evaluating which is the best approach.'

> WHEN THERE IS MORE THAN ONE MANAGER IN CHARGE YOU RISK MANAGEMENT BY COMMITTEE AND GROUPTHINK RATHER THAN INDIVIDUALS BEING EMPOWERED TO TAKE RESPONSIBILITY

## 'I DO NOT INVEST IN ANY FUNDS WITH JOINT MANAGERS'

David Lewis, of the Jupiter Merlin multi-manager team, avoids any fund where there is more than one person making the decisions.

He says: 'We are fundamental believers in funds with one trigger-puller. I do not invest in any funds with joint managers.

It's about getting away from groupthink or situations where investments make it into portfolios because it's easier.'

He is concerned that in large teams with an overseeing manager, the number of holdings in the fund goes up while conviction in those holdings is lower and performance suffers.

The funds in which he invests may use broker research or the help of analysts, but the final decision has to be made by a single manager to get his backing. He does consider funds where there are two managers, such as **Evenlode Income (GB00B40SMR25)**, as long as there is a clear leader.

'We don't mind how they go about it, but we want the judgement to come down to an individual. We want people who trust their own judgement,' he adds.

It may seem logical that some funds naturally require a larger team – specialist sectors or emerging markets, for example, where a fund may want boots on the ground in various countries.

But Hughes disagrees; he points to the Jupiter Emerging Markets team which is based in London. He says: 'That manager is doing great work and producing good performance without having a team spread around the world, which shows it's about the process and the ideas.'

## SOMETIMES YOU NEED A BIG TEAM

One asset where more pairs of hands can be helpful, concedes Hughes, is in fixed interest where thousands of individual bonds all require in-depth analysis.

Succession planning can also be a grey area, where a lead manager is slowly handing over the reins to his replacement. This could spark a sell-off if the process is changing as a result, but where there is a smooth transition the shift may be acceptable.

Lewis comments: 'When Angus Tulloch passed the **Stewart Investors Asia Pacific Leaders (GB00B57S0V20)** fund to David Gait we had to assess his track record and how successful we thought he would be; not how the fund had fared under his predecessor.'

When Stuart Parks left **Invesco Perpetual Asian (GB00BJ04DT45)** and when James Harries left **Newton Global Income (GB00B84QJT19)**, Hughes kept the funds on his favourites list because the successors had been gradually taking control and meeting investors over a period of time.

Hughes says: 'When there is more than one manager in charge you risk management by committee and groupthink rather than individuals being empowered to take responsibility, to understand their own strengths and weaknesses and to be accountable for their own decisions.' (HB)

DISCLAIMER: Daniel Coatsworth, who edited this article, has a personal investment in Fundsmith Equity

# TIME TO BUY THE BANKS?

BY DAVID STEVENSON

Banks were put through the ringer in the aftermath of the global financial crisis of 2008. Not only did the main players' share prices collapse, a seemingly constant flurry of alleged rate fixing and misselling of products began. Bank bashing became a national pastime.

Almost a decade on, there are signs that this once dominant sector of the FTSE 100 is back with a vengeance. Is it time to invest in the UK banking sector again?

We think the answer is 'yes' on a selective basis. Our preferred banks are **Lloyds Banking (LLOY)** and **HSBC (HSBA)** both as a result of their generous dividend payments.

## A FEW POINTS TO THINK ABOUT

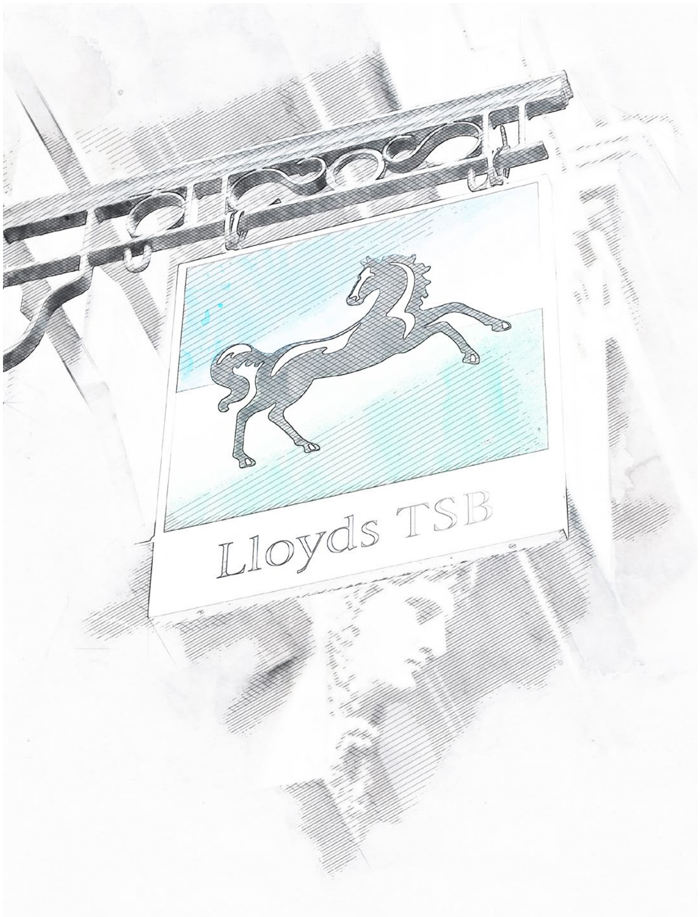
You must first consider a few issues that could impact the sector. After the Brexit result, banks may have grave trouble exporting their financial services throughout Europe, one of the largest single markets in the world.

Conversely, another distraction from investing in UK banks is the tsunami of regulation coming from the EU which can lead to higher costs of doing business.

Against this backdrop, any investment into the banking sector needs to come with decent rewards to mitigate the risks. It's no wonder banks are like marmite for many people; you either love them or hate them.

Another point to remember is that legacy claims for mis-selling products like mortgage-backed securities and payment protection insurance are still in play. Many banks have already shelled out billions of pounds in fines and there could still be a final wave of payments to make.

Furthermore, banks are intrinsically linked to the health of the economy. Paul Jackson, head of multi-asset at exchange traded funds provider Source ETF, says the performance of banks 'is usually not good when the economy and property markets weaken'.




## GROWING CREDIT CONCERNS

Finally, you must consider the impact of rising inflation and growing consumer dependence on credit to fund lifestyles. That is a very important issue, although some experts believe the market might be overly pessimistic.

'UK domestic banks have underperformed since the Brexit referendum, in part because investors worry about the risk of bad debt write-offs on UK consumer credit loans as rising inflation erodes real incomes,' says Morgan Stanley.

'We think these fears may be too bearish and the market is likely to be positively surprised by the asset quality of major UK banks.' It backs up this statement with four key points:

1. Employment is still likely to grow and so the unemployment rate increases should be moderate

2. Interest rates are likely to remain low and affordability metrics are benign

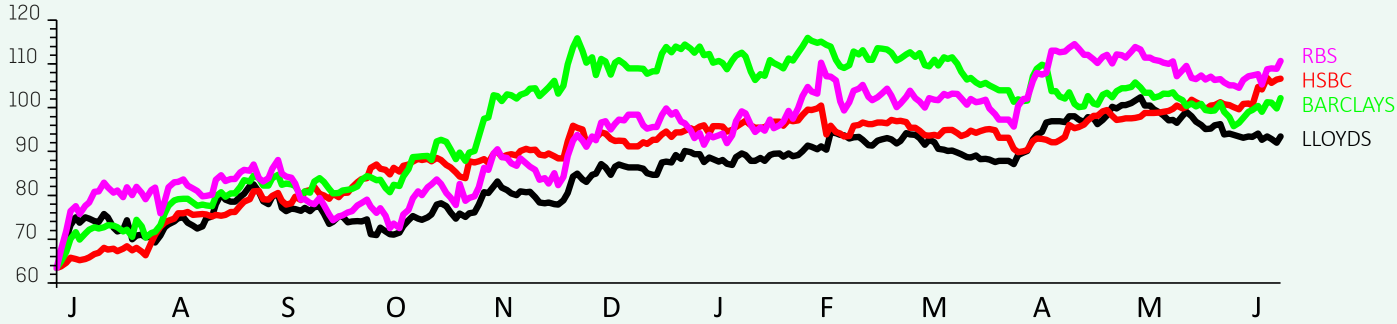
3. Tighter credit standards than pre-crisis give banks some protection from risk

4. A considerable proportion of consumer debt is sitting outside the major banks

Indeed, the Bank of England's regulatory body (the PRA) is putting pressure on banks with regards to lending. That could take the heat of consumer credit growth, leading to higher profit margins and cushion the banks from rising impairment charges, says Morgan Stanley.

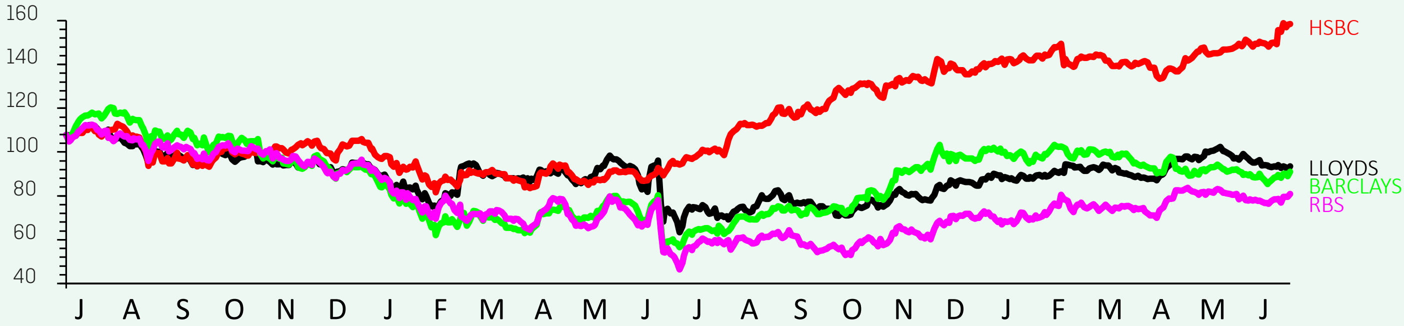
Banks have been asked to review their underwriting standards and provide information by September so the PRA can decide if further steps are needed to rein in risky lending.

## TOTAL RETURN OVER PAST 12 MONTHS



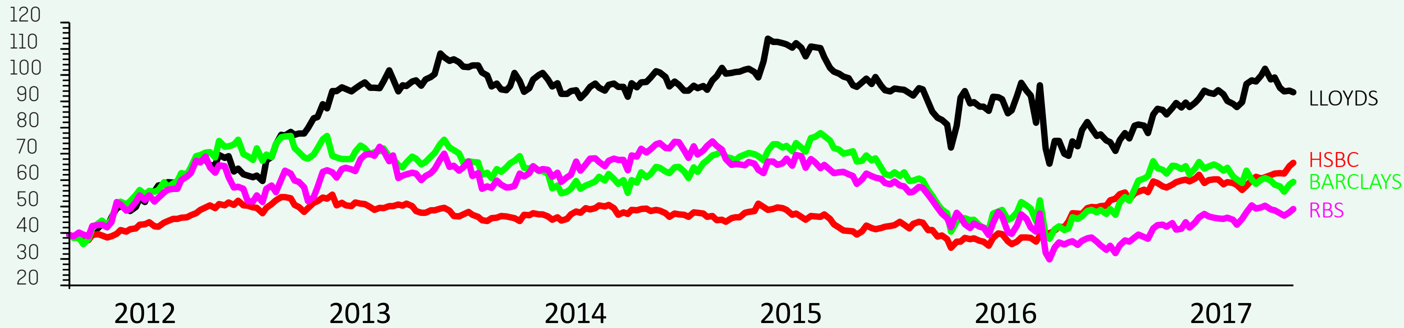

**RBS has been the stock market winner over the past year**

## TOTAL RETURN OVER PAST 2 YEARS



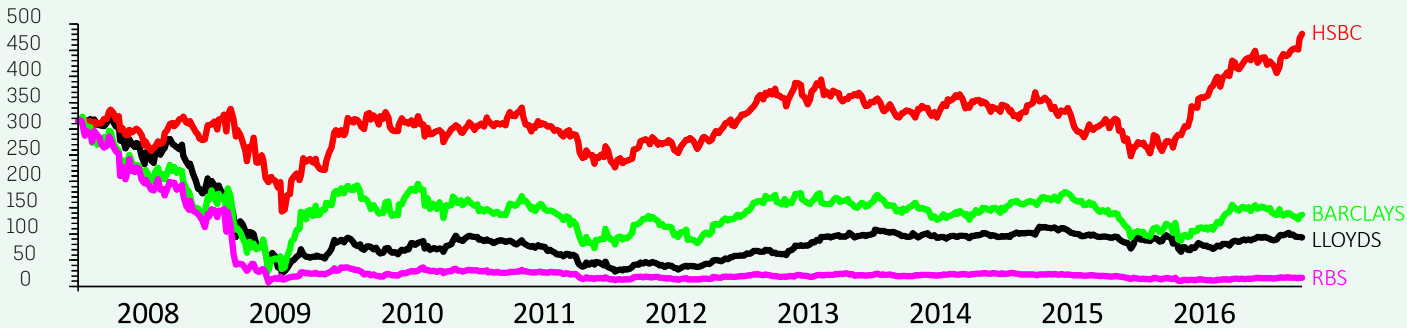

**HSBC is significantly ahead versus the peer group over the past 2 years**

## TOTAL RETURN OVER PAST 5 YEARS




**Lloyds has provided the greatest total return for shareholders since July 2012**

## TOTAL RETURN OVER PAST 10 YEARS




**HSBC is the only one to have generated a positive total return for shareholders on a 10-year view**

ALL CHARTS REBASED TO FIRST.
SOURCE: THOMSON REUTERS DATASTREAM

# LLOYDS BANKING GROUP (LLOY) 66.56P

## BULL CASE

Lloyds reinstated its dividend policy in 2014 and the level of payment has been growing ever since. It even announced an extra dividend payment in February this year after reporting its largest profit in a decade.

It paid 3.05p per share for the 2016 financial year, including the recent 0.5p special dividend. That equates to a 4.6% historic dividend yield based on the current share price.

The bank is forecast to pay 4.5p for the 2017 financial year, taking the yield to a prospective 6.8%. The dividend is then forecast to pay 5p in 2018, implying a 7.5% yield.

Lloyds has a healthy common equity tier one (CET1) ratio of 13%, well above the level set by regulators to prevent a repeat of the financial crisis.

The tier one ratio is a measure of a bank's core equity capital compared with its total risk-weighted assets.

In plain English, it is the size of a bank's cash reserves against its loans, adjusted to account for the riskier assets in the portfolio such as unsecured lending. It is a cushion that should protect against potential losses should there be another serious economic downturn.

Rob James, who co-manages the **Old Mutual Global Investors UK Alpha Fund (GB0032544065)**, says Lloyds is a simple story. 'It started paying dividends then special dividends,' he explains.

Analysts at Morgan Stanley are particularly bullish on Lloyds, with their forecast 2018 impairment charges (in banking terms usually a loan default) around 30% below the consensus view.

They view Lloyds' valuation as 'appealing' as its stock trades on a price-to-earnings ratio of 8.7-times, a 25% discount to the European banking sector.

Lloyds recently bought MBNA's credit card business for £1.9bn. The deal will increase its net interest margin (NIM), the difference between income from lending and the cost of funding. It is a key indicator of a bank's profitability.

Before the deal it stood at a respectable 2.8%, following the acquisition the figure is set to increase to 2.9%.

## BEAR CASE

Jamie Clark, co-manager of the **Liontrust Macro Equity Fund (GB00B8H9GB86)**, thinks Lloyds is 'under pressure in a fiercely competitive UK mortgage market, overly geared to a UK consumer that is feeling the pinch of inflation and static real wages, and its dividends may disappoint'.

A note by Morgan Stanley shows that since Lloyds bought MBNA it has the highest amount of UK consumer credit at £42.8bn.

Investment bank Berenberg also says Lloyds had one of the highest loss rates in each UK lending category in the Bank of England's 2016 stress tests.

**SHARES SAYS:** ↗
**Lloyds is a great stock for those seeking income. Buy.**

# DIVIDEND YIELDS: UK-QUOTED BANKS

| BANK | SHARE PRICE (P) | PROSPECTIVE DIVIDEND YIELD* |
|---|---|---|
| Lloyds | 66.56p | 6.8% |
| HSBC | 725.4p | 5.8% |
| OneSavings Bank | 372.4p | 3.7% |
| Virgin Money | 291.6p | 2.0% |
| Aldermore | 220.8p | 1.8% |
| Barclays | 206.9p | 1.4% |
| Royal Bank of Scotland | 259.1p | None |

Source: Shares, various analyst forecasts
*Refers to expected dividend for current financial year and yield based on latest share price

## HSBC (HSBA) 725.4P

### BULL CASE

Two years ago there were worries whether HSBC could maintain its dividend. These fears have dissipated and the bank continues to pay attract cash sums to its shareholders.

The dividend yield is currently 5.8% based on historic and forecast data. Analysts expect HSBC's dividend payment to stay flat for the foreseeable future. However, some analysts believe the company could generate significant amount of surplus cash over the next three years, raising the potential for special dividends down the line.

Liontrust's Clark says: 'This March we bought into HSBC, marking the first time we had owned shares in one of the big UK incumbent high street banks for five years.'

He says HSBC has engaged in a series of non-core asset disposals, which have boosted its regulatory capital and raises the prospect of higher dividends.

The disposal of its loss-making Brazilian operations alone reduced its risk weighted assets by $37bn and boosted its CET1 ratio by around 0.65%. It now stands at around 13.6%.

HSBC's global reach also aids the bank and not just by reducing its exposure to Brexit related fallout. With US interest rates on the rise, HSBC's operations in that location are set to benefit from a higher NIM.

Old Mutual's James says HSBC puts its surplus cash into two-year US treasuries that currently yield around 0.5%. If the Federal Reserve raises interest rates to 1% that would in turn increase the bank's profitability. James is among the experts who believe the bank will return any surplus cash in the form of dividends.

### BEAR CASE

Investec analyst Ian Gordon says the bank has seen a sharp decline in its NIM over the last 10 years, moving from 3.1% to 1.6%. 'That's a function of a run-off of high margin low quality business such as household in the US coupled with the low interest rate environment,' he explains.

The analyst believes returns have been structurally weak and below a 10% return on equity target which he doesn't expect the bank to reach before 2020.

Given HSBC's Asia exposure, it could be hurt by any economic slowdown in China.

The bank trades on a premium price-to-book ratio of 1.3-times so some investors may consider the stock to be fully valued.

**SHARES SAYS:** ↗
**The dividend is very attractive, so buy the shares for income.**

# BARCLAYS (BARC) 206.9P

## BULL CASE

Despite Barclays cutting its dividend by more than half earlier this year, some analysts believe there are still good reasons to invest in the bank.

For example, Barclays has largely disposed of its Africa business which has boosted its CET1 by 0.73%, now forecast to be 12.6% for 2017.

David Smith, who runs **Henderson High Income Trust (HHI)** investment trust, says: 'Barclays' retail division has good market share and is producing good returns. Barclaycard is one of the best returning credit card businesses globally.'

Barclays is among the cheapest of UK incumbents, with a price-to-book ratio of just 0.7. This means that you're paying less than the value of the assets of the bank (which are plentiful).

The bank is well ahead of its restructuring target to reduce its non-core risk-weighted assets from £110bn identified in 2014. It has already brought these assets down to around £25bn.

The investment banking division, long seen as a drag on the business, is showing signs of improvement. The hire of chief executive Jes Staley, former boss of best-in-class JP Morgan's investment bank, is widely viewed as a good move.

Barclays' dividend is forecast to start growing again in the 2018 financial year, putting the yield in the 4% territory.

## BEAR CASE

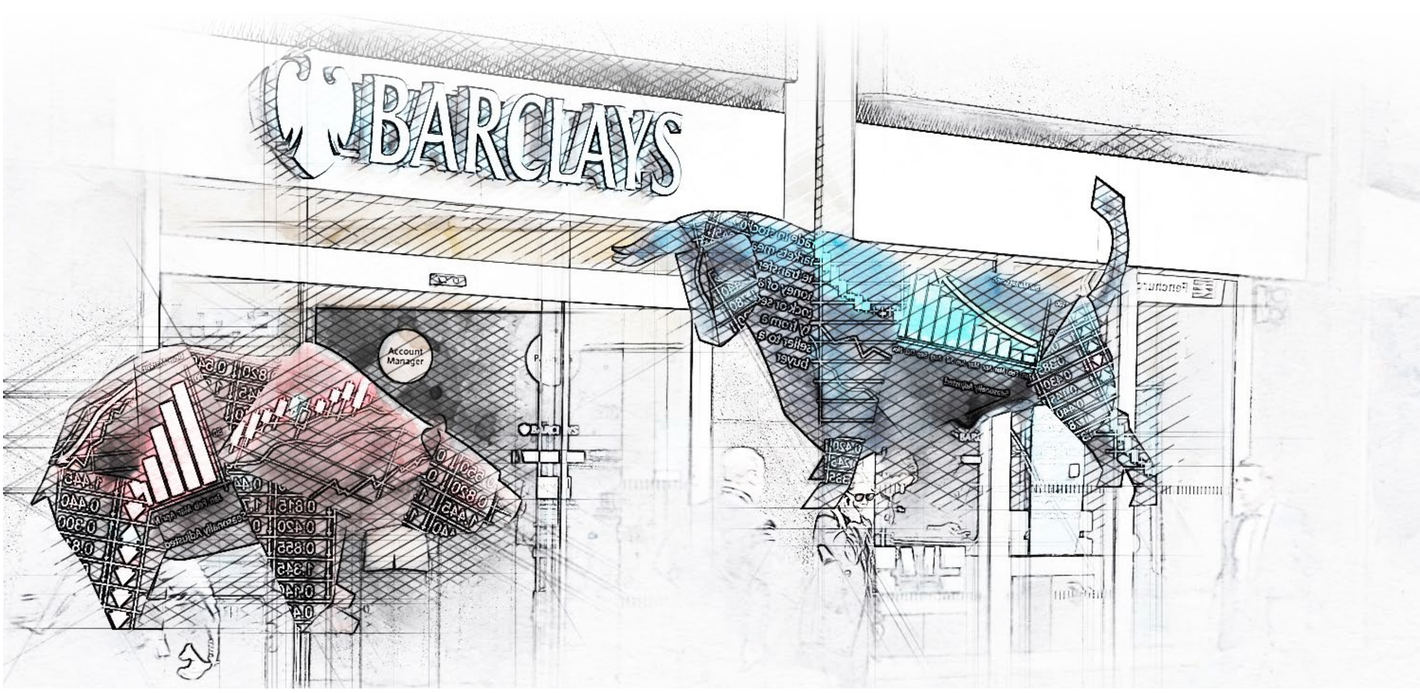
Barclays has taken two reputational hits this year alone. Jes Staley attempted to unearth the identity of a whistle blower in April which led to a regulatory investigation.

The bank is also facing potential charges by the Serious Fraud Office relating to a 2008 emergency fund raising of £7bn. The bank is potentially looking at two charges; conspiring to commit fraud and unlawful financial assistance.

Furthermore, Barclays is in a dispute with the US Department of Justice (DoJ) over mis-selling mortgage-backed securities during the financial crisis. The claim was brought by the DoJ last year and could potentially cost the bank billions of pounds in fines.

### SHARES SAYS:

**Barclays' disposal of its Africa business makes this stock more appealing due to its increase in regulatory capital. Its retail and Barclaycard businesses are performing well and its investment banking issues are being addressed. However, we are uncomfortable with the threat of significant fines, meaning this is not a stock which we would want to own at present. One to watch.**



## ROYAL BANK OF SCOTLAND (RBS) 259.1P

### BULL CASE

Berenberg regards Royal Bank of Scotland's strategy of growing lower risk lending and cutting costs as superior to its rivals. For this reason it regards Royal Bank of Scotland's core earnings as more sustainable.

Dividends are forecast to resume in 2018, circa 3% yield.

Its CET1 capital ratio is also forecast to improve this year, from 13.4% to 13.9%, according to Investec.

### BEAR CASE

Royal Bank of Scotland has been loss making for nine consecutive years and isn't expected to make a profit until at least 2018. It also currently doesn't pay a dividend, unlike its peer group.

Investec's Gordon says that 'unresolved conduct issues continue to dog the bank'. It incurred £7.76bn in exceptional items last year.

RBS is last in the queue to resolve legacy mortgage-backed securities with the DoJ which could potentially hit the bank for billions of pounds in fines.

**SHARES SAYS:**
**Avoid. Despite its decent core business performance, there are still too many risks when it comes to possible fines that mean the bank may not return to profitability for some time.**


## THE CHALLENGER BANKS

Ian Gordon at Investec believes there is more value in the challenger bank section of the sector rather than the FTSE 100 stalwarts.

He says: 'challenger banks are materially mispriced based on a mistaken view that they are vulnerable to a slowdown where the opposite is true as they have far greater lending buffers and minimal unsecured exposure'. He adds: 'As they are small players in niche or large markets they can continue to grow even as markets slow.'

### VIRGIN MONEY (VM.) 291.6P

One of the larger, more mainstream challenger banks with a market cap in excess of £1.3bn. It trades on forecast earnings for 2017 of just 8-times. This is predicted to drop to what Gordon describes as 'fairly absurd' 5.8-times in 2019.

### ALDERMORE (ALD) 220.8P

The bank is involved in mainstream activities such as mortgage lending. It has a respectable NIM of 3.5%, bettering some of its FTSE 100 peers.

Shailesh Raikundlia, an analyst at Panmure Gordon, includes Aldermore in his firm's conviction list for 2017 with a 285p price target.

'At current valuations we continue to believe Aldermore remains significantly undervalued despite current worries regarding the UK economic outlook,' he says. The stock currently trades on 7.5 times forecast earnings for 2017.

### ONESAVINGS BANK (OSB) 372.4P

The bank is a specialist lender and retail savings group with a reputation for being big in buy-to-let.

OneSavings had a return on equity figure of 34.6% in 2016. This is expected to drop to 26.7% for 2017, which is still an attractive figure.

# Equiniti is an essential portfolio pick

Administration specialist counts a large chunk of the FTSE 100 among its client base

**Equiniti (EQN)** is a payments and administration company and offers a variety of essential services to its blue chip clients. It counts 70 of the FTSE 100 among its customer base which offers an idea of its quality.

These FTSE 100 clients use Equiniti to handle their dividend payments among other services.

The business was spun out of **Lloyds (LLOY)** in 2007 and floated in 2015.

The company has its origins in the creation of the British Army's paymaster general in 1836. The army is still a client for its payroll and pension administration, as well the NHS, which is the largest pension scheme in Europe.

The company picked up some more top tier clients this year. These include household names such as **Sainsbury's (SBRY)**, House of Fraser and it has also entered into a partnership with Aon Hewitt for public sector pension administration.

In January this year, Equiniti acquired Gateway2Finance. This Halifax-based loan brokerage is hoped to support Equiniti's plan to promote loan, mortgage and technology solutions.

Equiniti recently added Nostrum to its list of acquisitions at the end of June. The firm is a provider of end-to-end loan management technology and further bolsters Equiniti's position in the lending sector.

## KEEPING UP THE PACE

Equiniti's share price has increased by 37% since its full year results were released in March. The profile of its client base provides confidence on its future earnings profile.

And, as many of Equiniti's services are non-discretionary, it has some protection from what is happening in the wider economy. Net debt is also being trimmed, down 4.4% year-on-year in 2016 to £251m.

The company's house broker Liberum is confident that the sale of one its competitor's divisions will support the investment case. **Capita (CPI)** announced the sale of its Capita Asset Services (CAS) businesses to Australia's Link Group at the end of June.

Rahim Karim, analyst at Liberum, says: 'This transaction provides an important valuation benchmark for Equiniti, given the operational overlap between the two companies. CAS provides a number of services which compete with Equiniti's Investment and Pension Solutions businesses including: Shareholder Solutions (including share registrar services), Pension Solutions, and Corporate and Private Client Services'.

On 12 July, Equiniti revealed plans to buy WFSS, the third largest share registrar in the US by number of clients. It intends to hold a £122m rights issue in September to help fund the £176m acquisition.

Existing investors will have the chance to buy new shares at a price to be determined in the near future, most likely at a discount to the market price.

**SHARES SAYS:** ↗
**Buy this essential company at 257.5p. With an enviable client list, it is diversified and also deleveraging.**

**BROKER SAYS:** 6 0 0

# Strong trading at EKF triggers earnings upgrades

Analysts are optimistic on the medical diagnostic company's prospects

Things are looking up for medical diagnostics specialist **EKF Diagnostics (EKF:AIM)** as its latest trading update (6 Jul) triggered a round of earnings upgrades, putting the spotlight on strong sales and profit growth potential over the next few years.

N+1 Singer analyst Chris Glasper upgraded earnings before interest, tax, depreciation and amortisation (EBITDA) forecasts by 10% to £9.6m for 2018. He also hiked EBITDA expectations by 9% to £10.4m in 2019.

## WHAT DOES EKF DO?

The company develops, makes and distributes chemical reagents and analysers that measure glucose, lactate and haemoglobins among others. Its in-vitro diagnostic (IVD) products are used in GP surgeries, pharmacies, blood banks, clinics, hospitals and laboratories.

In the year to 31 December 2016, adjusted EBITDA was £6.1m, up from a loss of £0.3m in 2015 helped by a 16% uplift from currency movements.

The positive trend has continued. EKF says sales were 'notably strong' in June 2017 and this was driven by incremental organic growth rather than major one-off tenders. As a result, 2017 EBITDA will be 'comfortably ahead' of expectations, it says.

Panmure Gordon analyst Julie Simmonds has upgraded EBITDA forecasts by 8% to £8.6m for 2017. The analyst flags improved margins thanks to an increased focus on core product lines, which should help to drive growth in the future.

In particular, she highlights haemoglobin measurement device HemoPoint H2, diabetes monitor Quo-Test and testing reagent for ketosis, Beta-Hydroxybutyrate (BHB).

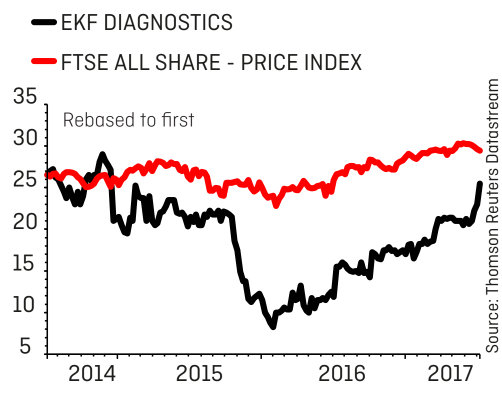
## WHAT'S NEXT FOR EKF?

EKF chief executive Julian Baines says the company's recurring revenue model and global market focus has driven its momentum over the last 18 months.

The medical diagnostics company derives 50% of its sales from the US and also does significant business in Saudi Arabia and Eastern Europe.

With £4m in cash, Baines says the priority for EKF is to continually invest in the business and undertake share buybacks. He has ruled out any acquisitions.

EKF currently trades at 23 times forecast earnings per share for the year to 31 December 2017. While that is a rich rating, the company is poised for high earnings, sales and profit growth in the future. (LMJ)



# Applegreen sips on Brandi acquisition

Food-to-go forecourt operator pumps up US presence

Irish food and petrol forecourt operator **Applegreen (APGN:AIM)** has pumped up its growth potential with a major US acquisition.

The $75.5m purchase (6 Jul) of forecourt retailer Brandi, in partnership with a US institutional real estate investor, provides the Dublin-headquartered concern with a platform for growth along America's East Coast.

We admire Applegreen's cash generative business model and exposure to food-to-go and convenience trends. It is paying $5.4m towards the earnings enhancing acquisition of Brandi, which has 42 sites in or close to Columbia, South Carolina's state capital.

Most of Brandi's sites are petrol filling stations including Burger King restaurants and Subway and Blimpie outlets, though Brandi also operates eight standalone Burger King sites.

Already a major player in the Republic of Ireland and operating 74 petrol filling stations in the UK, Applegreen now has a strong position from which to accelerate US growth. It already has six self-owned sites on Long Island and seven stores in New England operating under a tie-up with Cross America Partners.

For 2017 and 2018, Shore Capital currently forecasts pre-tax profit of €22.1m (£19.6m) and earnings of 22.9 cent (20.3p), rising to €26.2m and 27.1 cent respectively. However, there is significant scope for upgrades thanks to the Brandi deal and Applegreen's impending €15.7m acquisition of a 50% share in the Joint Fuels Terminal (JFT) in Dublin port from Topaz Energy.

**SHARES SAYS: ↗**
**Applegreen's prospective price/earnings (PE) ratio of 22.7 is demanding but justified by its strong cash generation and US growth opportunity. Keep buying at 460p. (JC)**

**BROKER SAYS:** 3 0 0

## Get Busy to join AIM

ENTERPRISE DATA management solutions supplier **Get Busy** is set to join AIM on 4 August. The software-as-a-service business is not looking for fresh funding. Up to £3m is set to be raised for selling shareholders of Reckon, the Australian IT services business from which Get Busy is being spun out. Get Busy has 600,000 small and medium-sized enterprise clients across the UK, US, Australia and New Zealand. (SF)

## Superyacht services group off to a good start

SUPERYACHT REFITTING company **GYG (GYG:AIM)** has risen by nearly 15% to 114.5p since joining AIM on 5 July. It claims to have half of the top superyacht owners as clients. The company paints new and existing vessels and sells maintenance materials and spare parts mainly to trade customers. Chief executive Remy Millot says he wants to move his business to offer additional services such as engineering. (DS)

## Future acquires Centaur's home interest division

*TOTAL FILM* PUBLISHER **Future (FUTR)** has agreed to acquire Centaur Media's home interest division for £32m on 7 July. The company will use the acquisition to diversify its revenue streams and add 'significant scale' in its events business. **Centaur Media (CAU)** will use some of the proceeds to buy marketing services business MarketMakers for £13.4m. (TS)

# How to spot the best opportunities with unlisted companies

Five key areas to consider when looking for opportunities among unquoted firms

Unlisted companies are the driving force behind the UK economy and are currently achieving unprecedented levels of survival and success. The opportunity for investors with a sharp eye to achieve tax-efficient, risk related returns that aren't subject to the short-term sentiment driving the main financial markets is exceptional.

Obviously, not every business will reach its potential and any capital invested into anything is at risk. Nevertheless, the opportunity to achieve superior returns from being an early participant in the ones that succeed is exceptional.

## WAYS TO INVEST

Retail investors can access unlisted companies via equity crowdfunding, venture capital trusts or various investment funds.

If you're going down the route of investing in individual companies, there are five key areas to consider when looking for the best opportunities.

1 Is the business solving a genuine problem? In other words, it there a true need for the product or service and can it really be commercialised?

2 You only want to invest in a company that owns the intellectual property, not a company that has a right to distribute it. Licence agreements can be torn up on a whim.

3 Is it disruptive and scalable? A lot of people talk about disruption, but true disruption is not only something that changes the way we do things; it must be scalable as well. It must be something that appeals to many people or serves a unique niche with few competitors.

4 Does the opportunity offer recurring revenue streams? Software-as-a-service (SaaS) models are ideal as they provide a constant flow of regular revenue, which enables cash flows to be managed efficiently. Companies with lumpy revenue models often struggle with cash flows as fortunes ebb and flow.

5 Is there a quality team involved? You could probably discount one of the above items, so long as the team is strong and has an excellent track record. This includes proof of building up and selling businesses and providing investors with timely returns. If the team is inexperienced, do they have one or two experienced advisors behind them who have done these things?

## SAVING YOU TIME

Picking prospects which are scalable, have a strong management team and operate in sectors where they have competitive advantage and the ability to disrupt, is not easy.

But focusing on these five things will certainly help you identify them, and at the very least save you a lot of time on extra due diligence.

Let's face it; wouldn't you have rather invested in Google, when the founders were operating out of their garage?

By Jason Kluver, chief operating officer at investment platform Shadow Foundr

# WHAT TO EXPECT IN YOUR FIRST YEAR OF INVESTING

## WE CONSIDER THE THOUGHT PROCESS AND HOW TO MONITOR YOUR INVESTMENTS ONCE YOU'VE HANDED OVER THE CASH

Consumers are feeling the pain from both a rising cost of living as a result of higher inflation and low returns from their savings in the bank. We believe that will result in more people shifting any spare cash into the stock market in an effort to earn a higher return on their money.

This article will help anyone new to investing to better understand the thought process in terms of selecting investments and what you might expect to happen in the first year.

### FOUR QUESTIONS TO ANSWER

AJ Bell investment research director Russ Mould says that before you start you need to answer four questions:

- WHY AM I INVESTING?
- WHAT IS MY TARGET RETURN?
- WHAT IS MY TIME HORIZON?
- WHAT IS MY APPETITE FOR RISK?

Patrick Connolly, head of communications at financial advice firm Chase de Vere, says: 'Investing in individual shares is high risk. You can reduce these risks by investing into a wide range of shares through investment funds. This will be a sensible approach for most people.

'You should look to invest tax efficiently and for most people this will mean using ISA and pension wrappers.

'Pensions give initial tax benefits but are inflexible for younger people whereas ISAs can also be tax efficient and, with stocks and shares ISAs, you can access your money whenever you want.'

### INVEST ONCE OR IN STAGES?

Most investment platforms give you the option of investing with a lump sum or drip feeding money into the markets whenever you want.

Let's suppose though you have set your goals and bought some investment funds. What can you expect in the first year of investing, what common pitfalls do first-time investors face and how often should you check on your performance?

The first point to make is you should not expect too many fireworks from your investments in the first 12 months, if you do then something is probably going wrong.

Mould says: 'When financial markets work well and are used properly they are get-rich slow mechanisms, not a slot or fruit machine on a pier.'

## DON'T TINKER TOO OFTEN

It is easy to monitor your performance online but Mould reckons you should be checking your portfolio at most around once a month in the early days and perhaps once a quarter thereafter. Connolly reckons a bi-annual check is sufficient.

If any of your investments are not performing in line with your expectations, then you need to consider why this might be the case.

You might not be managing them efficiently enough or you could be failing to close out loss-making positions before they do real damage to your portfolio.

Perhaps you have been too confident and attempted to call the market, leading to an imbalanced portfolio. Most experts agree there is a strong case for diversifying across industries, geographies and asset classes.

## REMEMBER THE RISKS

Mould adds: 'Too many inexperienced investors think too much about reward but not enough about risk.

'You should spend your time stress-testing your portfolio picks, asking yourself what you could have got wrong and what the implications for your portfolio might be if events do take an unexpected turn.'

There is no shame in making mistakes – after all, there's not a single investor who can claim to have gotten it right 100% of the time – but the important thing is to ensure you know why they happened.

For the most part, you should resist the temptation to tinker with your portfolio too frequently.

There are two good reasons for this. First, true investing is about taking a long-term view and buying and holding quality investments.

Second, if you trade too frequently fees, commission and other levies like stamp duty will erode your returns.

## WATCH OUT FOR FADS

Connolly at Chase De Vere warns against putting too much your cash into fashionable stocks and funds. Don't get swayed by investments just because they are at the top of the performance tables. Strong recent performance should be seen as a warning sign rather than as an opportunity to buy, as investment gains have already been made and so you risk jumping in at the top of the market.

The end of your first year as an investor provides an opportunity to give your portfolio a health check.

Check the current allocation of assets in your portfolio and ensure it is in line with your strategy. If exposure to one asset class has fallen below or risen above your targeted threshold, consider buying and selling accordingly.

Investing isn't easy but a bit of care and attention can help to keep you on the right path. Ultimately you will need to be patient and not expect instant gains. (TS)

## HOW TO CALCULATE THE REAL RETURN FROM YOUR INVESTMENTS

START WITH THE CURRENT VALUE OF YOUR INVESTMENTS

SUBTRACT THE VALUE AT THE BEGINNING OF THE PERIOD YOU'RE ASSESSING (SUCH AS 12 MONTHS AGO)

ADD ANY INCOME OR DIVIDENDS PAID OUT IN THAT TIME, IF THEY HAVE NOT ALREADY BEEN INCLUDED IN THE CURRENT VALUE

SUBTRACT ANY FEES, TRADING COSTS, ADMINISTRATION OR LEGAL CHARGES – THIS GIVES YOU THE ACTUAL RETURN

DIVIDE THE ACTUAL RETURN BY THE VALUE AT THE START OF THE PERIOD AND MULTIPLY BY 100 – THIS GIVES YOU THE RATE OF RETURN AS A PERCENTAGE

DEDUCT THE RATE OF INFLATION OVER THE PERIOD (FOR EXAMPLE, IT IS CURRENTLY 2.9%) – THIS GIVES YOU A QUICK FIGURE CLOSE TO THE TOTAL REAL RETURN FROM THE INVESTMENT OVER THE PERIOD

# INDEX



**KEY**

- Main Market
- AIM
- Fund
- Investment Trust
- IPO Coming Soon