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



PAST PERFORMANCE

	Jun 12 - Jun 13	Jun 13 - Jun 14	Jun 14 - Jun 15	Jun 15 - Jun 16	Jun 16 - Jun 17
Fidelity Asian Values Net Asset Value	13.9%	10.4%	12.2%	24.1%	22.9%
Fidelity Asian Values Share Price	9.7%	10.4%	14.3%	19.3%	35.6%
MSCI AC Asia ex Japan	12.8%	2.4%	12.9%	2.6%	30.4%

Source of performance: Fidelity and Morningstar as at 30 June 2017 on a bid-to-bid basis with income reinvested in GBP terms. Copyright ©2017 Morningstar Inc. All Rights Reserved.

Moment of truth for Japanese stocks

Market rallies have run out of steam in the past but this time could be different

The International Monetary Fund (IMF) is increasingly gloomy on the prospects for the UK and US (see page 7) but there is at least one major economy where it is becoming more positive – namely Japan.

In its latest World Economic Outlook it projects 1.3% growth in 2017 up 0.1% from its previous forecast in April.

And according to BlackRock's global chief investment strategist Richard Turnill, Japanese equities are closing on highs they have struggled to scale in the last 25 years.

VALUATIONS ARE UNDEMANDING

He sees several reasons why they could buck the trend this time. First, valuations are lower than at previous high points in stock market performance (see chart) and are inexpensive relative to other major markets, at a 20% discount to the US based on forward price-to-earnings ratios for example.

Turnill says: 'Low valuations alone are not a reliable buy signal, yet we find an improving earnings outlook adds to the appeal of Japanese equities. We expect Japanese companies' earnings growth to hit a three-year high in 2017.'

'A sustained global economic expansion is boosting overseas earnings, while wages are rising just enough to bolster domestic consumption without eroding profit margins. The recovery in earnings also reflects companies' greater focus on shareholder returns.'

He notes that earnings are growing faster than dividends and share buybacks providing 'considerable scope to improve shareholder returns'.

BlackRock are 'overweight' on Japan and prefer stocks with foreign earnings growth. UK investors



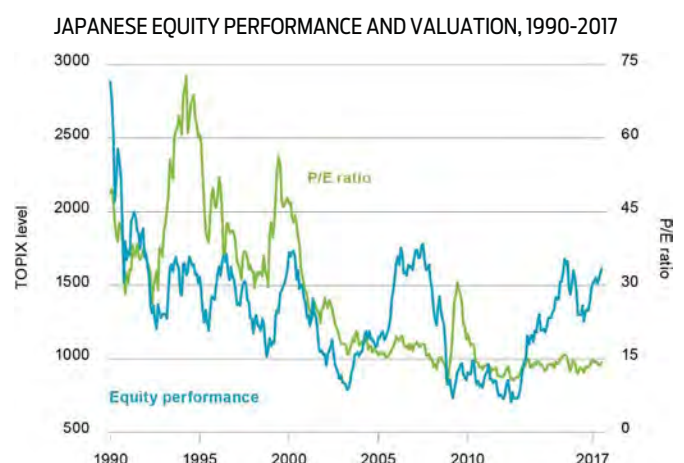
looking for exposure to Japanese stocks have a number of options.

WAYS TO PLAY

The investment trust space includes **JPMorgan Japanese (JFJ)**, **Aberdeen Japan (JPIT)** and **Schroder Japan Growth (SJG)**, all of which trade at a discount to net asset value (NAV). We took a detailed look at investment trusts focused on Japan [here](#).

In terms of open-ended funds AJ Bell's head of fund selection Ryan Hughes has previously highlighted **Legg Mason Japan Equity (GB00B8JYLC77)** as a good option, noting manager Hideo Shiozumi 'has proved time and again that when Japanese equities are in favour he has the ability to significantly outperform'.

There are also low-cost exchange-traded funds (ETFs) available. Deutsche Bank's **db X-trackers MSCI Japan (GBP hedged) (XMJG)** offers currency-hedged exposure for an all-in fee of 0.4%.



Sources: BlackRock Investment Institute, with data from Thomson Reuters, July 2017.
Notes: Japanese equity performance is represented by the Tokyo Stock Price Index, or TOPIX.
The price-to-earnings ratio (P/E ratio) is based on 1-month forward aggregate estimates.²

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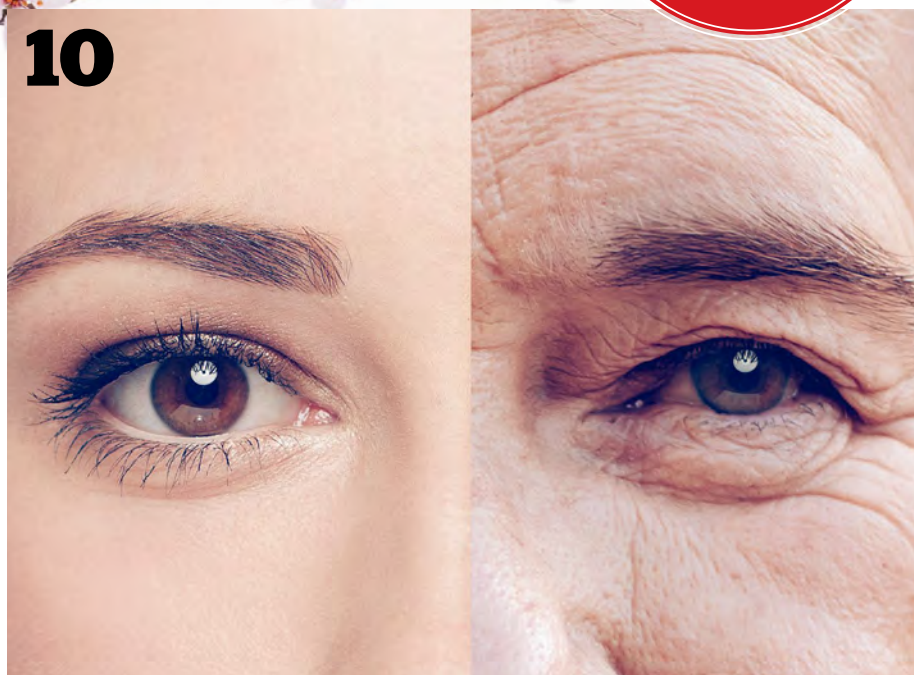
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DISCLAIMER

IMPORTANT

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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.

Results from US rival boost Ashtead

Tool hire business has consistently outperformed North American counterpart

FTSE 100 equipment rental company **Ashtead (AHT)** is on the march after a strong set of results from its main US rival United Rentals.

Justin Jordan, analyst at Jefferies, notes United reported \$747m earnings before interest, tax, depreciation and amortisation (EBITDA) for the second quarter of 2017.

This was 3% ahead of estimates and led to a further 3% rise in EBITDA guidance going forward.

United's promising results are particularly relevant to the Ashtead investment case due to the sheer scale of the UK company's business in the US. It operates around 550 outlets in more than 40 states.

Analysts at Barclays comment: 'Ashtead has consistently outperformed United over the last three years.'

They add: 'United has at times been a big short-term sentiment driver of Ashtead's share price so in that context, the comments on improving trends should be well received.'

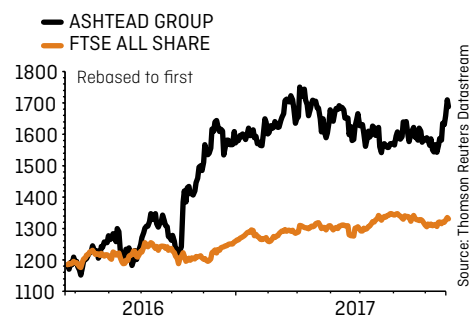
CANADA DEAL TO BRING HOME THE BACON

Ashtead's presence in North America was bolstered by its recent C\$275m acquisition of Canada's Contracts Rental Supply (CRS).

Ashtead's acquisition of CRS increases the company's Canada footprint significantly. CRS is the largest independent general tools rental business in Ontario, the construction heartland of Canada.

The North American equipment hire sector in the US has shown signs of consolidation recently with H&E Equipment Services saying earlier this month it would buy construction rental firm Neff

for \$1.2bn. Jefferies' Jordan views it as unlikely that Ashtead will make a counter-bid for Neff.



STUCK IN A TIGHT RANGE

Ashtead's shares enjoyed a long rally from June to December last year then seemed to get snagged in a narrow range between £15.50 and £16 since the start of the year. United's share price follows a similar pattern, rallying fast from November 2016 to January this year before slipping into a narrower range for the last few months.

At the current £16.76 Ashtead trades on a 2018 earnings multiple of 14.2-times using Numis' earnings per share estimate of 118p. The shares also offer a prospective dividend yield of 1.9%. This is a material discount to its global peer group on an average earnings multiple of around 18.

In September (12 Sept) Ashtead releases its first quarter results. Its full year numbers got a lukewarm response from the market in June largely due to the absence of any guidance for the coming year. If that guidance has instead been provided by United's results, it bodes well for Ashtead. (DS)

SHARES SAYS: ↗

Buy on read-across from its US peer.

BROKER SAYS

11 5 1

IQE shares juiced on Apple

Analysts believe laser tech firm has confirmed iPhone rumours

Analysts believe that advanced semiconductor wafers designer **IQE (IQE:AIM)** will supply technology in the soon to launch iPhone 8. As flagged by *Shares* a month ago, this could have huge ramifications for the company's future earnings.

'We have wondered previously whether IQE may be part of the supply chain for the new iPhone,' explains Canaccord's Paul Morland. The company's announcement of a 'mass-market ramp for VCSEL wafers marks an inflection point in the commercialisation of this technology,' appears to effectively confirm this.

VCSEL means vertical cavity surface-emitting laser technology, and area in which IQE is thought to be a world leader. The technology looks likely to be used in state-of-the-art 3D sensing and gesture recognition functionality.

Optimistic forecasts seen by *Shares* imply the potential for a three to four-fold jump in current 3.7p to 3.8p of earnings per share (EPS) next year to 31 December 2018. IQE is sensibly playing down potential hype.

'Management guidance is for modest EPS upgrades to full year 2018 although we believe that the 10th anniversary iPhone opportunity alone could deliver 40%-plus upgrades,' says N+1 Singer analyst Oliver Knott. That's still a long way short of Peel Hunt's best case scenario calculations.

A September launch looks likely for the new Apple smartphone handset, according to respected gadgets website Techradar and other tech sources. IQE shares have advanced upwards of 27% in little more than a week to 107.5p. (SF)

IMF cuts UK growth

THE INTERNATIONAL MONETARY FUND (IMF) has downgraded its growth projections for the UK and US. The report cites 'difficult-to-predict US regulatory and fiscal policies' and continued uncertainty surrounding Brexit negotiations.

Offsetting that pessimism, investors may be more encouraged to seek opportunities in Eurozone

powerhouses, such as Germany and France, and in emerging markets.

But first half tailwinds, such as the weakening dollar and falling bond yields, look set to run out of steam, according to analysts at investment bank UBS. This makes selecting the right markets and industrial sectors all the more important. UBS favours India, Brazil and Russia, with energy, telecoms and financials industries offering the best chances of solid returns. (SF)

YEAR-ON-YEAR OUTPUT GROWTH ESTIMATES AND PROJECTIONS AS OF JULY 2017 (IN%)

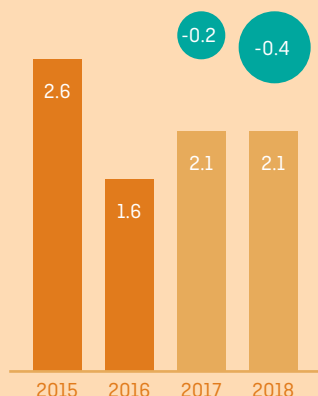
ACTUAL

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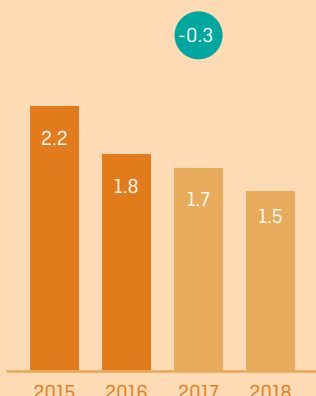
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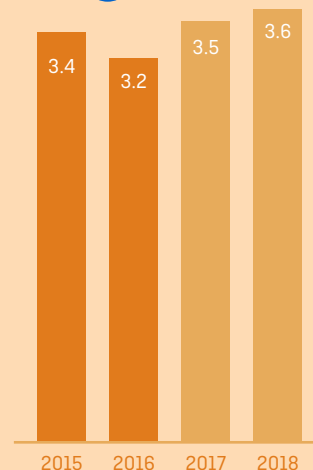
United States



United Kingdom



World



Source: IMF

Can Bovis CEO convince with recovery plan?

Newly appointed chief at housebuilder faces tough task



The new chief executive of **Bovis Homes (BVS)** Greg Fitzgerald has a tricky job with September's (7 Sep) looming strategy update. Since the industry veteran was appointed in April the company has outperformed the wider sector and it is up more than 17% year-to-date, with directors including Fitzgerald loading up on shares with a cumulative value of £3.7m.

He is expected to outline his plans for a five-year organic growth strategy when he addresses shareholders in September.

The housebuilder is attempting to recover from problems which led to two profit warnings around the turn of the year, the departure of chief executive David Ritchie in January, and a £7m compensation payment to customers for defects in their new homes. It rebuffed takeover approaches from rivals **Galliford Try (GFRD)** and **Redrow (RDW)** earlier this year.

Investment bank UBS reckons 'some optimism in Bovis' recovery potential' is 'already being priced in' and rates the stock at 'neutral' with a 950p price target.

MARGINS CAN IMPROVE BUT RETURNS MAY STRUGGLE

Its number crunchers say operating margins can recover to 2013 levels at 17% in the next five years but are more circumspect on the scope to increase return on capital employed to the peer group average of 21%.

Return on capital employed or ROCE essentially shows the return a business is achieving from the money it has invested (in this

case mainly in the land on which Bovis builds new homes). UBS notes 'it is difficult to change return profiles of housebuilding businesses quickly given the main drivers are the terms of the land initially acquired'.

The analysts add: 'Bovis' CEO indicated it is in the process of implementing operational improvements to deliver a successful turnaround, but ultimately we believe Bovis' issues with legacy sites and its labour force will likely take time to be resolved.'

Investors should also be braced for a deterioration in financial performance in 2017. A deliberate reduction in volumes of 10% to 15% to enable quality control issues to be addressed is likely to have a relatively larger impact on profitability as some costs within the business will remain unchanged. (TS)

MANAGEMENT BUY
£3.7m
WORTH OF STOCK

**LOOK OUT
FOR STRATEGY
UPDATE ON
7TH SEPT
2017**

WHO IS GREG FITZGERALD?

Fitzgerald served as chief executive of construction firm Galliford Try for ten years having joined the company as a 17-year-old. A noted workaholic, the 53-year-old has a reputation to match his counterpart at **Berkeley (BKG)**, Tony Pidgley, for calling the housing market.





The Contrarian Case for Oil

At The Scottish, we love consensus. We just don't like to be part of it. That's because market consensus provides contrarian opportunities. Standing apart from the herd can be uncomfortable, but it's where we believe the greatest rewards are to be found.

The current consensus view is that the oil price will be low for the foreseeable future, and so oil companies are unwise investments. To most investors, this is a clear signal to stay away.

Survivors of natural selection

Why do we see an opportunity in oil? Well, we think that investors are forgetting one vital point: the world is still heavily reliant on fossil fuels. Yes, there's a lot of oil around at the moment, and yes, its price is not as high as it was. But just because a commodity is plentiful doesn't mean that it is no longer an essential requirement of daily life. What matters to the companies that produce it is not so much what the oil price is at any given point, but how they are able to stay competitive and – crucially – profitable. Already, the precipitous oil-price decline of recent years has flushed out many of the sector's weaker operators. That means that the surviving companies have come through a ferocious phase of natural selection. Indeed, the oil majors are leaner than they have been for decades.

Valuations look attractive

Many oil companies now trade on attractive valuations. Indeed, we see the sector as profoundly undervalued at the moment, given the growing global demand for energy and the current lack of any viable alternative to oil.

We might need to be patient while those valuations recover, but at least we're being paid an attractive dividend yield while we wait.

Still reliant on fossil fuels

Finally, it should be remembered that everything is cyclical and the oil sector is no exception. Given the world's reliance on fossil fuels, we are confident that the sector will come through its current tough times. And we can be assured that those companies that have weathered the downturn well will be best placed to reap the benefits when the oil price starts to appreciate.

To find out more about our high conviction, global contrarian approach visit www.thescottish.co.uk

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€270m

Greencoat Renewables (GRP:AIM) has raised €270m, more than the originally hoped-for €250m target, the oversubscription demonstrating investors' hunger for the story. Debut AIM dealings (25 Jul) were beginning as Shares went to press. Greencoat Renewables has been set-up to build a portfolio of clean energy generating projects in Ireland. The investment manager is Greencoat Capital, which also manages **Greencoat UK Wind (UKW)**.

Sports Direct's keeping the score

4,800

This is the number of new UK jobs **Sports Direct International (SPD)** has created during its ten years as a public company. The stat is flagged in the sporting goods giant's full year results announcement (20 Jul), showing a near-60% profits slump to £113.7m. Mike Ashley's charge has attracted criticism for its labour practices at its Shirebrook warehouse, though points out it has paid its people around £320m in share bonuses and other rewards on top of their normal wages over the last decade, while also contributing £1.8bn to the treasury's coffers in tax.



Young people need to put away

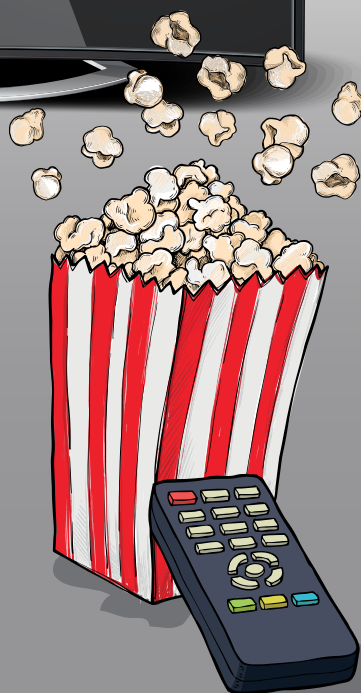
18%

of annual paycheck for 'adequate' retirement

Think-tank the International Longevity Centre-UK says young people need to put away 18% of their earnings for an 'adequate retirement income', equivalent to that enjoyed by today's pensioners. This is a higher proportion of earnings compared to other countries in the Organisation for Economic Co-operation and Development (OECD). Vince Smith-Hughes, retirement income expert, Prudential, says, 'action is needed now to further embed pension saving in to our workplace culture'.

100m Switching on to Netflix

Streaming service Netflix passed through the 100m subscriber milestone in the second quarter, adding a significantly better-than-expected 5.2m viewers drawn by in-house shows like the *The Crown* and *Stranger Things*. The \$78bn cap's success implies new **ITV (ITV)** chief executive Carolyn McCall should focus on adding to the company's suite of content and boosting its on demand platform when she takes over in January 2018.



73p

per share
of cash from
unit sale

Electronic components manufacturer **TT Electronics (TTG)** has netted significantly more for its Transportation Sensing and Control division than anyone expected. The division's sale, for £118.8m in cash, works out at 73p per share. That's far more than Peel Hunt analysts valued the unit; their model implied £65m. But investors should not expect a cash return, TT Electronics wants to pay-off debt and invest in faster growth opportunities than the commoditised sensing and controls business was likely to deliver, so expect more acquisitions soon.



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Photo-Me's bright earnings picture

Income and growth on offer at expansionist instant service equipment group

Weakness at photobooths-to-printing kiosks play **Photo-Me International (PHTM)** is a buying opportunity. The £600.5m cap offers a good hedge against Brexit-related uncertainties as it generates 90% of profits outside of the UK. Consensus estimates could prove conservative given positive progress underway with numerous growth initiatives. Broker finnCap's 215p price target also implies 33.5% upside from current levels.

ENJOYS A GLOBAL FOOTPRINT

Photo-Me operates, sells and services photobooths, printing kiosks, amusement machines and business service equipment across 18 countries, with key markets including Europe, Japan and the UK & Ireland. However, Photo-Me is using the stable cash flow from its established photobooths business to invest in some exciting identification, laundry and digital kiosk innovations that could drive future growth.

Photo-Me is developing integrated digital security solutions for governments that enable the direct and secure transfer of data from its photobooths for driving licences and passports.

In Ireland, the full list firm's encrypted photo ID upload technology has been adopted

PHOTO-ME INTERNATIONAL

BUY

(PHTM) 161p

Stop loss: 128.8p

Market value: £600.5m

by the Irish government for its new Online Passport Application service. This builds on the deployment of secure data transfer technology photobooths in France, enabling photo ID to be uploaded directly to ANTS (Agence Nationale des Titres Sécurisés, a national agency linked to the French Ministry of Transport) servers for driving licence applications.

SHOWING RIVALS CLEAN SET OF HEELS

Meanwhile, the rapid expansion of Photo-Me's laundry division in Europe, spearheaded by France, Belgium and Portugal, continues. A maiden launderette in Japan has also opened, paving the way for a more aggressive rollout in one of the largest global markets for launderettes.

There is also an additional earnings catalyst in place. In 2016, Photo-Me acquired 191 photo centres and 172 self-service kiosks from Asda, together with the supermarket's online photo

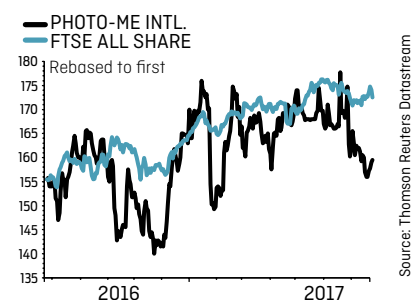
and merchandising processing business, strengthening its hand in digital printing and its existing relationship with Asda. While loss-making in the last financial year, investments in reconfiguring in-store layout and upgrading equipment should generate a near-term recovery in revenue and margins.

VERITABLE CASH MACHINE

Photo-Me's full year results (27 Jun) to 30 April revealed a fourth consecutive year of double-digit earnings growth and record pre-tax profit, up 19.7% to £48m with a currency tailwind. Even after distributing £32.6m in dividends and £41m of investments in future growth, net cash came in at £39.2m and finnCap foresees this cash pile fattening up to £48m by 2020.

For the year to April 2018, Roger Tejwani forecasts adjusted pre-tax profits of £50.5m for earnings of 9.8p (2017: 9.3p) and an 8.4p dividend (2017: 7p). On this basis Photo-Me offers an attractive 5.2% yield.

BROKER SAYS: 1 0 0



5 Year 5.25% p.a. Bonds

LendInvest Secured Income plc (the "Issuer") is a special purpose company established and wholly owned by LendInvest Limited, the ultimate holding company of the Group, for the purposes of issuing bonds to raise finance for the Group. The LendInvest Group is a specialist mortgage provider. The Group (via its funding entities) funds mortgages for experienced property investors, landlords and developers who are seeking short-term finance to buy, build or renovate their residential or commercial property projects in England or Wales.

As at 31 March 2017, the total principal amount of loans provided by the Group since it commenced operations (excluding extensions) was £811.34 million. As at the same date, the total principal amount of loans provided by the Group which were outstanding was £314.08 million.

The Group's loan portfolio is currently funded by three main sources: (i) funding raised by LendInvest Capital, the fund management and advisory arm of the Group, (ii) funding raised on its online investment platform (which allows investors to invest in one of a number of alternative investment funds managed by LendInvest Funds Management Limited) and (iii) funding lines from banks and non-bank financial institutions. LendInvest Limited intends for the net proceeds from securities issued under the Issuer's £500 million Euro Medium Term Note Programme (the "Programme") (including the 5.25% Bonds) to be the fourth main source of funding for the Group's loan portfolio.

All payments due from the Issuer under the Bonds (in accordance with their terms) will be guaranteed by LendInvest Limited (the "Guarantor"). This means that if the Issuer does not pay such amounts under the Bonds when they are due, LendInvest Limited will (provided that it is solvent and able to) pay them on the Issuer's behalf.

- The Issuer, a special purpose vehicle set up for the purposes of issuing the Bonds, is offering 5.25% Bonds due 2022, available to buy until 12 noon on 4 August 2017.
- The Bonds will be secured by a floating charge over the assets from time to time of the Issuer which will comprise a portfolio of loans (which may include bridging finance and buy to let loans) and cash.
- The Bonds pay a fixed rate of interest of 5.25% per annum until 2022. Interest will be paid by way of two instalments in arrear on 10 February and 10 August in each year with the investment paid back in full on 10 August 2022 (unless the Bonds are repaid early).
- The minimum initial investment is £2,000. The Bonds can be bought and sold in multiples of £100 thereafter, though the actual price you pay per Bond on purchase or (if you choose to sell your Bonds before maturity) the price you receive per Bond on sale may be higher or lower than this depending on the market price of the Bonds at the time.
- The Bonds are expected to be admitted to trading on the Order book for Retail Bonds of the London Stock Exchange on or about 10 August 2017, following which investors will be able to check the current trading price on the London Stock Exchange website and buy and sell their Bonds in the open market at any time during market hours (subject to normal market conditions).

Important Information

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Lead Manager: Peel Hunt LLP

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Redmayne-Bentley LLP

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Dechra's animal magic M&A

Valuation does not look stretched compared to historic average

Recent M&A activity has super-charged **Dechra Pharmaceuticals' (DPH)** growth prospects and this should continue to justify a premium valuation.

In the year to 30 June 2017 the veterinary products developer delivered sales growth of 28% underpinned by a 93% advance in the US and the newly acquired Putney – a US speciality drugs developer – should help sustain this momentum.

The deal, which completed last year, will provide immediate access to a high quality product range that complements Dechra's therapeutic focus areas and adds a new product pipeline.

AMERICAS FOCUS

North America and Western Europe account for approximately half of the global animal health market sales, according to consulting firm Vetnosis.

Stockbroker Stifel analyst Max Herrmann says Putney is a key driver of sales in North America and highlights 'rapid growth from new product launches.'

One of these products is the antibiotic for dogs Amoxi-Clav, which treats soft tissue infections. This treatment recently secured approval from the US Food & Drug Administration.

Earlier this year, N+1 Singer analyst Chris Glasper noted that Dechra had made it into the top ten of global veterinary

DECHRA PHARMACEUTICALS

➔ **BUY**

(DPH) £17.29

Stop loss: £13.83

Market value: £1.6bn



pharma groups by sales, flagging acquisitions and organic growth for further momentum.

'A pipeline of new novel and differentiated generic products is now starting to deliver, with management targeting more than £50m revenue from 45 projects,' comments Glasper.

Dechra is also expanding into other markets, acquiring Mexico's Brovel, a manufacturer of pharmaceuticals for dogs, horses and cattle, last year.

It believes it can take advantage of the 'significant' Mexican animal health market and use it as a springboard to access other Latin American markets in the future.

VALUATION SHOULD NOT PUT YOU OFF

The biggest obstacle for a prospective investor in the shares is valuation. Dechra trades on a trailing price-to-earnings ratio (PE) of based on N+1 Singer's forecast earnings per share of 28.9 for the year to 30 June 2017.

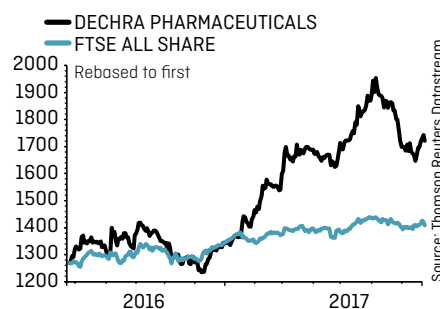
However, according to SharePad, this is lower than the average trailing PE of 36.2 times over the last five years, a period which has seen the shares advance more than 250%.

If you had allowed yourself to put off by the high PE over this timeframe you would have missed out on substantial gains.

Investec analyst Dr Andrew Whitney defends Dechra's premium, highlighting a 'robust earnings story, an improving cash flow yield and a rich pipeline.'

Pre-tax profit is expected to jump from £71m to £82.7m in the year to June 2018, while sales are forecast to surge from £339.6m to £372.4m over the same period.

BROKER SAYS: 4 2 0



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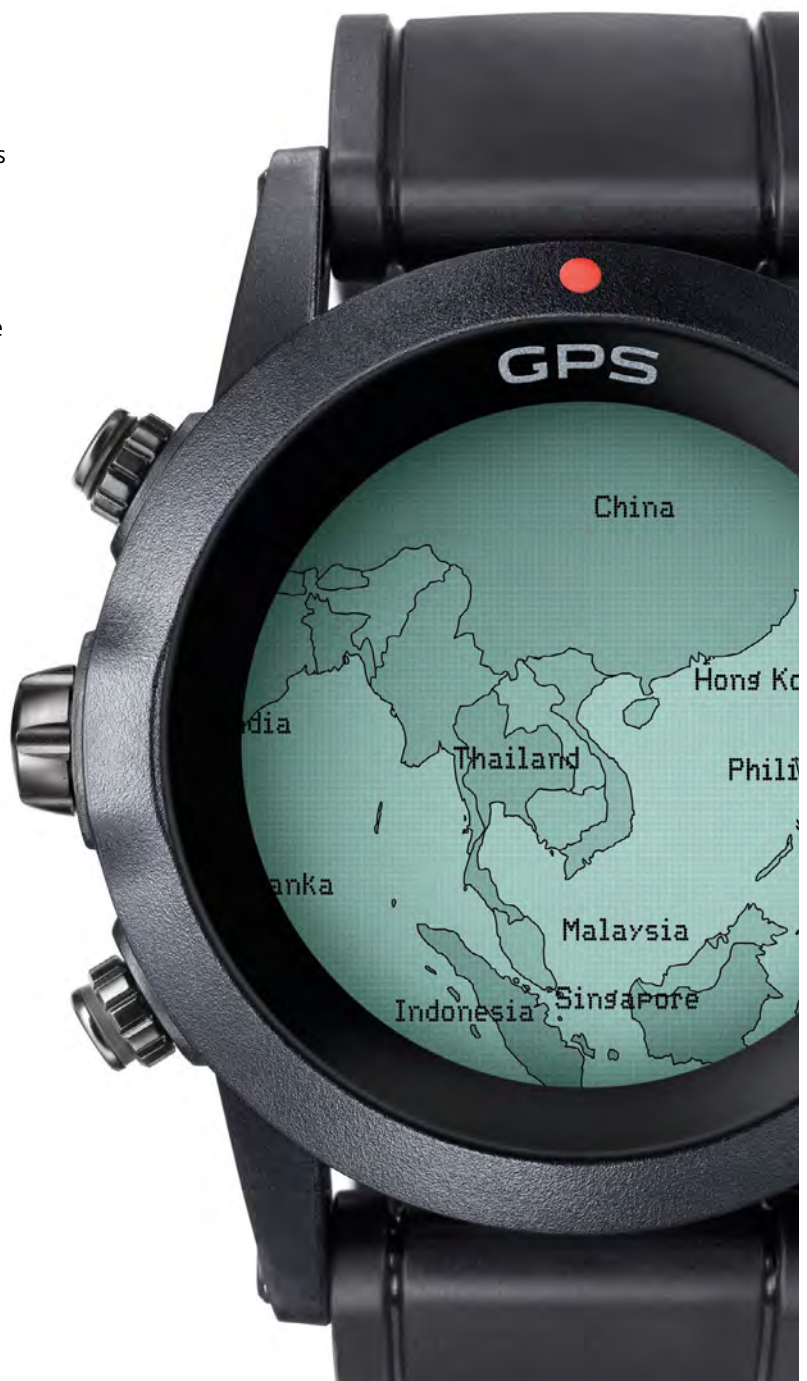
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QUIXANT

(QXT:AIM) 416p

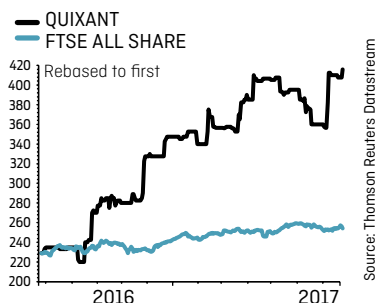
Gain to date: 46.0%

Original entry point:

Buy at 285p, 20 October 2016

ANOTHER KNOCKOUT UPDATE from gaming technology supplier **Quixant (QXT:AIM)** pushes the shares beyond the 400p level we suggested was attainable in our original feature. Yet we continue to see value upside here, and analysts agree. Canaccord believes 500p is on the cards in its initiation note this week. A brief announcement on 24 July spelled out how trading has been 'stronger than previously anticipated,' always music to the ears of investors. There may be a bit of contract timing here from the gaming machines black box designer. Perhaps it will even out a bit through the second half. One-off projects are running with most of the half dozen or so large gaming machine manufacturers.

If you believe Canaccord's initiation estimates, which call for earnings per share of \$0.239, \$0.279 and \$0.319 (Quixant reports in dollars), the shares

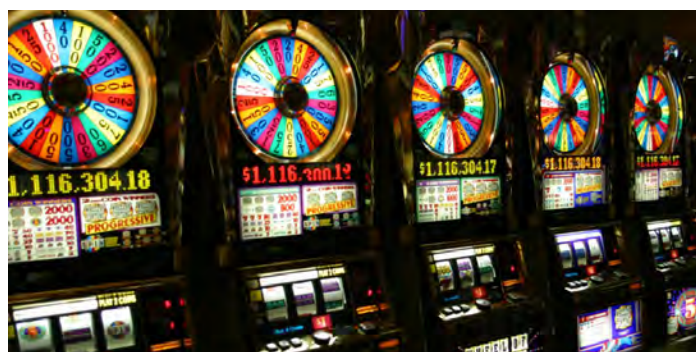


retain plenty of upside. Based on a 2019 price earnings multiple of 23 investors could be looking at a 560p-odd share price over the next year-and-a-half.

SHARES SAYS: ↗

We see no reason to sell this high-quality growth stock. (SF)

BROKER SAYS: 2 0 0



CRANSWICK

(CWK) £29.32

Gain to date: 32.3%

Original entry point:

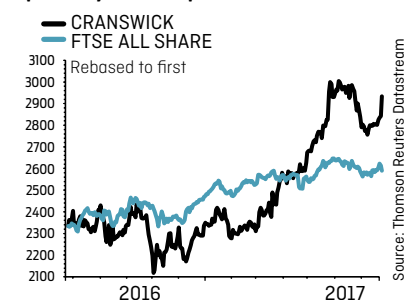
Buy at £22.16, 17 Nov 2016

OUR BULLISH CALL on gourmet sausages-to-gammon supplier **Cranswick (CWK)** is now 32.3% in the money. The £1.48bn cap's first quarter trading update (24 Jul) highlighted outperformance in a difficult UK grocery market over the three months to 30 June. Total sales were up 27% and like-for-like revenue rocketed 21% higher, driven by strong domestic volume growth with all product categories making positive contributions.

Cranswick benefitted from the return of inflation in the pork category as well as from a new pastry contract and a new poultry contract, while the impact of rising pig prices was 'partially mitigated during the period'.

With strong volume momentum continuing and new business wins expected to support growth in the second quarter and beyond, Shore Capital has upgraded its pre-tax profit forecast for the year to March 2018 by 2.2% to £83.3m.

The broker's 2019 pre-tax profit estimate rises from £86.2m to £87.8m. Cranswick, a high-quality food producer whose dividend growth



track record is formidable, is forecast to hike the payout to 48.9p (2017: 44.1p) this year ahead of 51.6p next.

SHARES SAYS: ↗

We remain bullish about the high-quality food producer's growth and income prospects. (JC)

BROKER SAYS: 4 4 0



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Are buybacks making a comeback?

RPC and British Land to purchase hundreds of millions of pounds worth of their own stock



Both plastic packaging specialist **RPC (RPC)** and shopping centre and office investor **British Land (BLND)** are adding their names to the list of companies pursuing share buyback programmes – reigniting the debate over the relative merits of this form of returning cash to shareholders.

On 18 July British Land announced plans to purchase £300m of its shares, the first UK real estate investment trust to do so in nearly 10 years. A day later RPC, which has seen its shares slump in 2017 on growing doubts about its acquisition strategy and cash flow performance, announced its own £100m buyback.

There are two main ways a company can return cash

to shareholders although there are variations. They are dividends (either regular or one-off) and buybacks.

PROS AND CONS

The positives to take from a buyback is they can be more tax efficient for shareholders assuming they would prefer to be taxed on a capital gain than the income from dividends, if you opt to retain your shares you will have an enhanced stake in the company and will be liable for more dividends in the future (if they are paid) and finally it implies the management team of a company, rightly or wrongly, believe the shares are undervalued.

Unfortunately they often get this bit wrong. AJ Bell investment

director Russ Mould says:

‘History shows companies have a habit of buying stock back during bull markets (when their stocks tends to be more expensive) and not doing so during bear ones (when their stock tends to be much cheaper). For example, buybacks in the US peaked in 2007 and collapsed in 2008 and 2009 only to accelerate again in 2011 and 2012.’

Mould notes **BP (BP.)** has spent \$61.4bn on buybacks since the year 2000 but has a lower share price 17 years on as the market worries about its capacity to maintain its dividend.

Also buybacks can be a cynical way of boosting earnings per share by reducing the number of shares in issue to massage performance and potentially trigger management bonuses.

“**HISTORY SHOWS COMPANIES HAVE A HABIT OF BUYING STOCK BACK DURING BULL MARKETS AND NOT DOING SO DURING BEAR ONES**”



NOTHING LEFT TO BUY

So why have the two latest companies to launch buybacks gone down this road? British Land says strong demand means the opportunity to acquire new assets at attractive returns is 'more limited than usual' and adds buying its own shares is a 'clear value opportunity' given a substantial discount to net asset value (NAV) and a 5% dividend yield.

Industry standard NAV at 31 March was 915p per share, implying a 32% discount even after a solid share price rise.

British Land trades at a discount due to fears of a correction in the UK retail and office properties which dominate its portfolio.

Jefferies analyst Mike Prew has an 'underperform' rating on the stock and a 500p price target. He says: 'We would sell all the stock we could into this liquidity window.'

He notes it is a decade since a planned share buyback at British Land before the full onset of the financial crisis.

'It's the 10th anniversary of CEO Stephen 'the equity market's too gloomy' Hester's £500m share buyback at a pre rights price of £14, which was quickly pulled. 2017 looks like a rerun of 2007 and CEO Chris Grigg's gamble of running more leverage risk anticipating an extended real estate cycle is faltering as

global bond yields rise.'

RPC's own buyback announcement was accompanied by a range of other measures aimed at reassuring investors on the company's strategy – including a commitment to dial back on acquisitions and a shift in management incentives to align them with cash flow and return on capital employed rather than earnings.

DRINKING THE KOOL-AID

Mould says chief executive Pim Vervaat's argument that RPC shares undervalue its performance to date and future prospects should be 'treated with a degree of caution'.



'In 26 years of following companies no CEO has ever told me that he or she thought his or her company's shares were overvalued and ultimately it is the executives' job to manage

the assets under their control, not to manage the share price,' he adds.

'If they do a good job, the share price will take care of itself over time, as the company builds and develops and protects its competitive position, husbands its resources well, focuses on long-term risk and reward when it invests and ultimately generates the free cash flow which funds healthy dividend payments for shareholders.' (TS)

\$61.4BN
spent on buybacks
by BP since 2000

BUYBACKS

KEY QUESTIONS TO CONSIDER

Has the company adequately explained why it is buying back shares?

What is its track record like with previous buybacks?

Is the buyback being prioritised over the dividend and if so why?

Is the buyback being funded by debt or cash flow?

FRIDAY 28 JULY

FINALS

CLIPPER LOGISTICS CLG

INTERIMS

ABERFORTH SMALLER

COMPANIES TRUST ASL

BARCLAYS BARC

BT BT.A

INTERNATIONAL

CONSOLIDATED AIRLINES IAG

IMI IMI

MORGAN ADVANCED MATERIALS MGAM

RIGHTMOVE RMV

UBM UBM

UK COMMERCIAL

PROPERTY TRUST UKCM

TRADING STATEMENTS

LONMIN LMI

AGMS

AMUR MINERALS AMC

BOXHILL TECHNOLOGIES BOX

BELLZONE MINING BZM

RED LEOPARD HOLDINGS RLH

SUBEX SBXA

ECONOMICS

UK

GFK CONSUMER CONFIDENCE

MONDAY 31 JULY

INTERIMS

ARIX BIOSCIENCE ARIX

COATS GROUP COA

FIDESSA FDSA

KELLER GROUP KLR

SENIOR SNR

AGMS

CHINA NEW ENERGY CNEL

NATIONAL GRID NG.

PLAZA CENTERS NV PLAZ

SALVARX SALV

TAU CAPITAL TAU

TUESDAY 1 AUGUST

INTERIMS

BBA AVIATION BBA

BP BP.

CENTRICA CNA

DIRECT LINE INSURANCE DLG

ELEMENTIS ELM

MAN GROUP EMG

FORTERRA FORT

4IMPRINT GROUP FOUR

FILTRONIC FTC

GENEL ENERGY GENL

GOCOMPARE.COM GOCO

GREGGS GRG

INTERTEK ITRK

LSL PROPERTY SERVICES LSL

MEGGITT MGGT

NWF NWF

ROLLS-ROYCE RR.



Customer switching will be among the headlines to watch in Centrica's (CNA) half year results on 1 August. Rivals SSE (SSE) and Scottish Power have seen droves of customers move to other energy suppliers, will Centrica's British Gas have a similar story to tell? As the sole big six supplier not to have hiked tariff prices this year perhaps it will escape similar switching patterns, but don't count on it. (SF)

SDL SDL

TAYLOR WIMPEY TW.

ECONOMICS

UK

MANUFACTURING PMI

WEDNESDAY 2 AUGUST

INTERIMS

AGGREKO AGK

BAE SYSTEMS BA.

DIGNITY DTY

JOHNSON PRESS JPR

NOVAE NVA

RIO TINTO RIO

RSA INSURANCE RSA

SMURFIT KAPPA SKG

STANDARD CHARTERED STAN

TRAVIS PERKINS TPK

WILLIAM HILL WMH

TRADING STATEMENTS

BARR (AG) BAG

VEDANTA RESOURCES VED

ECONOMICS

UK

BRC SHOP PRICE INDEX

CONSTRUCTION PMI

THURSDAY 3 AUGUST

INTERIMS

AVACTA AVCT

COBHAM COB

CONVATEC CTEC

DAIRY FARM INTERNATIONAL

HOLDINGS DFI

ESURE ESUR

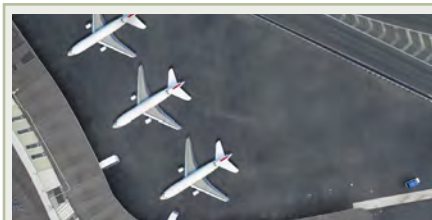
HONG KONG LAND HOLDINGS HKLD

INMARSAT ISAT

LADBROKES CORAL LCL

MANDARIN ORIENTAL

INTERNATIONAL MDO



Following Ryanair's (RYA) guidance for an 8% decline in fares on Monday (24 Jul), investors should be scanning British Airways airline owner International Consolidated Airlines (IAG) trading update on 3 August. While Ryanair posted healthy profits, the market was concerned that its aggressive pricing model would spread to other airlines and reduce profit margins. The market should also look for any potential fallout for subsidiary British Airways after it was forced to cancel 479 flights over the May bank holiday due to a systems failure.

MONDI MNDI

SHIRE SHP

SPIRENT COMMUNICATIONS SPT

SERCO SRP

TRADING STATEMENTS

INTERNATIONAL

CONSOLIDATED AIRLINES IAG

NEXT NXT

UDG HEALTHCARE UDG

AGMS

AMIAD WATER SYSTEMS AFS

ECONOMICS

UK

SERVICES PMI

OFFICIAL BANK RATE

EX-DIVIDEND

ABERDEEN NEW DAWN

INVESTMENT TRUST ABD 3P

CMC MARKETS CMCX 5.95P

DUNEDIN INCOME

GROWTH INVESTMENT

TRUST DIG 2.58P

HALFORDS HFD 11.68P

HENDERSON FAR

EAST INCOME HFEL 5.3P

JAMES LATHAM LTHM 10.85P

MOTORPOINT MOTR 2.9P

OCTOPUS TITAN VCT OTV2 2P

QINETIQ QQ. 4P

SANDERSON SND 1.1P

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HOW TO CHOOSE AND USE A LIFETIME ISA

We compare all the Lifetime ISAs on the market and provide a range of investment ideas

By Emily Perryman, Daniel Coatsworth and Tom Sieber

A growing number of investment platform providers now offer Lifetime ISAs, three months after the savings and investment wrapper was launched. The latest provider to launch its service is AJ Bell Youinvest with a Stocks and Shares version.

The Lifetime ISA is an attractive savings vehicle as you can receive up to £32,000 of free money

from the Government. It is designed to be used either to help buy your first house or as a retirement savings vehicle.

In this article, we will look at who might benefit from using a Lifetime ISA. We run a comparison on the different providers and products available on the market today. And we consider some funds and stocks which you may wish to put into the wrapper.



WHO IS THE LIFETIME ISA AIMED AT?

Adults under the age of 40 can open an account and pay in up to £4,000 in each tax year. The Government pays 25% bonus (i.e. up to £1,000) on these contributions annually. The bonus is paid up to the age of 50. Contributions to a Lifetime ISA fall within your annual ISA limit of £20,000.

You can withdraw money without penalty to help buy your first home worth up to £450,000 or if you are terminally ill. Otherwise the money is locked in the account until you reach age 60. Withdrawals at this stage will be tax-free.

Anyone who wants to 'unlock' the money before point (excluding first property purchase or critical illness) will be subject to a nasty 25% penalty charge on the value of your portfolio which includes any money you've made thanks to investment growth.

The free cash from the Government makes Lifetime ISAs very appealing – but they aren't right for everyone.

They are great if you want to buy your first house or save for retirement. They aren't necessarily the best wrapper for your savings and investments if you want to access the money for other reasons before the age of 60 due to exit penalties.

Neither is the Lifetime ISA automatically a more attractive substitute for pensions; it depends on your personal circumstances.

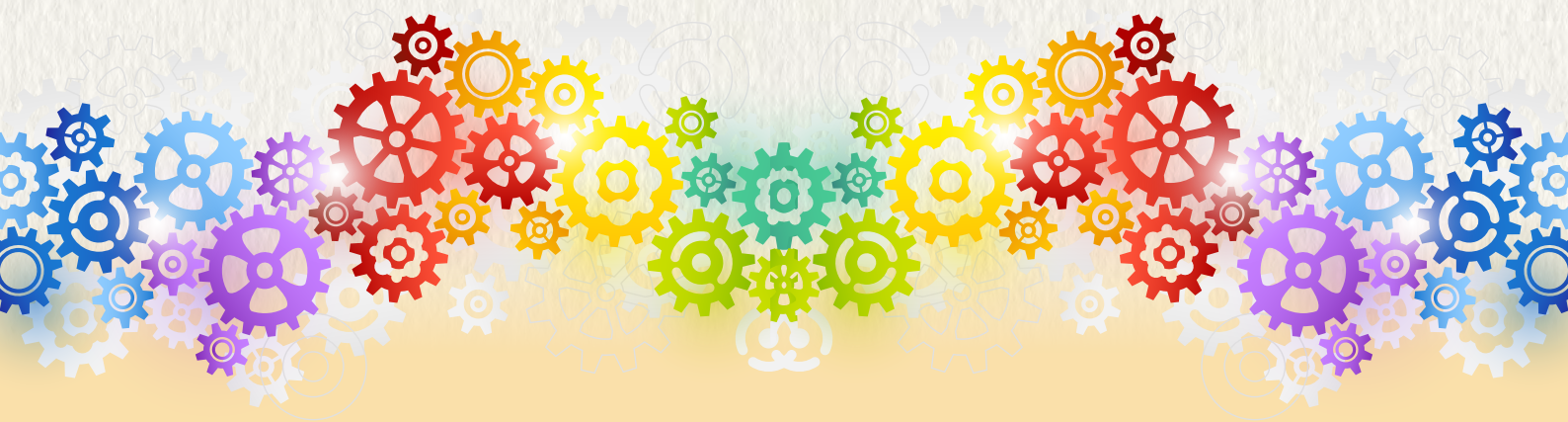
Anyone in full time employment should benefit from additional pension contributions from their employer which you wouldn't get with a Lifetime ISA.

Both wrappers have Government bonus payments, albeit presented in different forms. One is tagged as a 'bonus', the other is 'tax relief' – essentially they are the same.

SAVING TO BUY YOUR FIRST HOME

You can save money into a Lifetime ISA and withdraw funds (including any Government bonus) to buy your first home at any time from 12 months after opening the account.

You won't get any Government bonus until the money has been in the new account for at least 12 months.



LIFETIME ISA IN 20 SECONDS

- Available to anyone under 40 years as of 6 April 2017
- Pay in up to £4,000 a year and receive 25% cash bonus from the Government
- Bonus paid until you reach age 50
- Penalty-free and tax-free withdrawals if using money to buy first home or you have critical illness
- For all other circumstances, money locked away until age 60 unless you pay 25% penalty on total investment pot

The money from your Lifetime ISA to help fund a first home is paid directly to the conveyancer/solicitor, not you.

The average deposit for first time buyers in 2016 was £32,321 according to Halifax. Therefore someone who saves the maximum £4,000 each year into a Lifetime ISA and receives the Government's bonus of £1,000 each year could end up with enough money in roughly six to seven years.

You would make £35,646 in six years if your investment portfolio grew at 5% a year. For those putting the money into cash, your savings would be worth £36,418 after seven years of investing the full amount and achieving 1% interest.

Anyone saving half the maximum amount in a Lifetime ISA (£2,000 from you; £500 from the Government) would take 10 years to reach the average deposit via the stock market at 5% annual return; and 13 years via cash at 1% annual interest.



SAVING FOR RETIREMENT

Many people will look at the bonus associated with the Lifetime ISA and assume it is more generous than a pension. It isn't.

Basic rate taxpayers can put £4,000 into a pension and the Government will top it up with 20% tax relief to £5,000. The same £4,000 into a Lifetime ISA also becomes £5,000 thanks to the 25% Government bonus.

The 20% and 25% figures are a bit confusing; they ultimately lead to the same total figure.

The former calculation is 20% based on the total amount including the Government's contribution. The latter is based on the amount you contribute.

A higher rate tax payer gets 40% tax relief on pensions. They put in £4,000 and the Government

tops it up by £1,000 so your total inflow is £5,000. An extra £1,000 is then taken off your tax bill. That certainly beats a Lifetime Isa.

If you are a higher rate taxpayer, you will be better off with a pension until you breach the annual (£40,000 a year) and lifetime (£1m) allowances, when you become liable for nasty tax charges. At this stage, the Lifetime ISA is a very good alternative option if you want to save further money and benefit from Government incentives.

One area to consider when weighing up the Lifetime ISA versus pensions decision is the fact that saving in the former vehicle can impact your benefit entitlement. Another factor to consider is that you can take money from your pension aged 55; you need to be 60 to start cashing in Lifetime ISA money without penalty.

Furthermore, anyone contributing to a workplace pension is likely to get additional contributions from their employer.

Indeed, under auto-enrolment all employers will eventually be required by law to match your first 3% of contributions and many will offer an even better deal. Therefore, that's even more 'free' money going into your retirement savings pot.

A handful of Lifetime ISAs have been opened to the public since the product's official launch in April, each offering a different way of investing towards your first home or retirement.

AJ Bell Youinvest, Hargreaves Lansdown, Nutmeg and The Share Centre have each launched a Stocks and Shares version of the Lifetime ISA, enabling you to invest your money in a wide range of assets. There is currently just one Cash Lifetime ISA on offer, namely the product from Skipton Building Society.



LIFETIME ISAS COMPARED

PROVIDER	TYPE OF LISA	ANNUAL CUSTODY FEE	UNDERLYING FUND CHARGES
AJ Bell Youinvest	Full range of Stocks and Shares	0.25%	Dependent on the investments you choose
Hargreaves Lansdown	Full range of Stocks and Shares	0.45%	Dependent on the investments you choose
The Share Centre	Ready-made portfolio	None	Cautious 1.92% Positive 1.94% Adventurous 2.01%
Nutmeg	Ready-made portfolio	Fully managed 0.75% Fixed allocation 0.45%	Fully managed 0.19% Fixed allocation 0.17%
Skipton Building Society	Cash	N/A	N/A

“MANY PEOPLE WILL LOOK AT THE BONUS ASSOCIATED WITH THE LIFETIME ISA AND ASSUME IT IS MORE GENEROUS THAN A PENSION. IT ISN'T”



CHOOSE YOUR OWN INVESTMENTS

AJ Bell Youinvest and Hargreaves Lansdown give you the widest choice over which investments you can put in your Lifetime ISA.

The list of permitted investments is the same as for their 'normal' ISAs – it includes a huge range of shares, funds, investment trusts, bonds and exchange-traded funds (ETFs).

The cheaper of the two providers is AJ Bell Youinvest. The annual custody charge is 0.25%, which equates to £12.50 for an annual £5,000 LISA contribution (including the 25% government top-up). For shares, investment trusts, ETFs, gilts and bonds, there's a maximum custody charge of £7.50 per quarter.

You'll also need to pay dealing fees when you buy or sell investments. AJ Bell Youinvest charges £1.50 for funds and £9.95 for shares.

It's not possible to transfer in from other ISAs at the moment, but AJ Bell Youinvest says this functionality will be added in due course.

Hargreaves Lansdown's LISA accepts transfers in from any type of ISA, whether that's a Help to Buy ISA, Cash ISA or Stocks and Shares ISA.

Under Government rules, you can make a one-off transfer in of funds held within a Help to Buy ISA and it won't count towards your £4,000 LISA allowance, as long as you made the Help to Buy contributions on or before 5 April 2017.

Hargreaves Lansdown charges a custody fee of 0.45%, which is capped at £45 a year for

shares (including investment trusts, ETFs, gilts and bonds). The dealing fee is £11.95 for buying and selling shares, but there's no dealing fee for buying and selling funds.

Hargreaves Lansdown says 20,000 people have opened its LISA since it launched in April.

READY-MADE FUNDS

The Lifetime ISA offered by The Share Centre doesn't let you choose your own investments. Instead, you pick one of three 'ready-made' funds: Cautious, Positive or Adventurous.

The Cautious fund is low risk and invests in income-focused investments such as **Rathbone Income (GB0001229045)**, **CF Woodford Equity Income (GB00BLRZQ620)** and **Gam Star Credit Opportunities (IE00B56BC491)**.

The Positive fund is classed as medium risk and aims for a balance of capital growth and income.

The Adventurous fund has a higher risk level and focuses on growth investments; top holdings include **Legg Mason Japan Equity (GB00B8JYLC77)** and **Man GLG Continental European Growth (GB00B0119370)**.

If you want, you can choose a combination of the three funds.

There aren't any custody or dealing charges for The Share Centre's Lifetime ISA; you just pay the ongoing charge relating to the ready-made fund.

It costs 1.92% for the Cautious fund, 1.94% for the Positive fund and 2.01% for the Adventurous fund.

You can transfer in from any other ISA, but if you transfer out of The Share Centre's LISA you'll be charged £25.

FOCUS ON ETFs

Nutmeg's Lifetime ISA is also a type of ready-made proposition but its portfolios consist entirely of ETFs. The portfolio you get will be determined by your answers to questions about your investment goals and risk preference.

At Nutmeg you can opt for either a fully managed portfolio, which the investment team alters to take advantage of opportunities and protect against potential market shocks; or a fixed allocation portfolio, which stays the same apart from some automated rebalancing.

Nutmeg's fully managed portfolio costs 0.75% a year plus average underlying fund costs of 0.19%.

“AT NUTMEG YOU CAN OPT FOR EITHER A FULLY MANAGED PORTFOLIO, WHICH THE INVESTMENT TEAM ALTERS TO TAKE ADVANTAGE OF OPPORTUNITIES AND PROTECT AGAINST POTENTIAL MARKET SHOCKS; OR A FIXED ALLOCATION PORTFOLIO, WHICH STAYS THE SAME APART FROM SOME AUTOMATED REBALANCING”

“
THE LIFETIME ISA IS AN ATTRACTIVE SAVINGS VEHICLE AS YOU CAN RECEIVE UP TO £32,000 OF FREE MONEY FROM THE GOVERNMENT. IT IS DESIGNED TO BE USED EITHER TO HELP BUY YOUR FIRST HOUSE OR AS A RETIREMENT SAVINGS VEHICLE.
”

The fixed allocation portfolio costs 0.45% a year and underlying fund costs are around 0.17%.

A drawback of the Nutmeg Lifetime ISA is that once you've opened the product you can't pay in any additional money, even if your initial payment was lower than the £4,000 annual allowance. Nutmeg says the ability to make additional payments will be available soon.

Nutmeg doesn't currently enable transfers in from other ISAs.

CASH ALTERNATIVE

If you want to open a Cash Lifetime ISA you're restricted to one provider – Skipton Building Society. The interest rate is very low at 0.5% AER variable – it's less than you could get on some Help to Buy ISAs and Cash ISAs.

Skipton says its rate is sensible and takes into account the current savings market. The only perk is that if you happen to take out a mortgage with Skipton at a later date you can get £250 cashback.



ARE SHARES AND FUNDS TOO RISKY IF YOU ARE SAVING TO BUY A HOME IN THE NEAR FUTURE?

If you are using the Lifetime ISA to build up a deposit to buy your first home you are likely to need to access your money in the short-term.

This precludes taking too much risk with your capital as if you invested in the stock market and there was a crash you would not necessarily be in a position to wait for the market to recover.

For this reason, you may want to keep your savings in cash.

Alternatively, you could allocate at least some of your pot to a fund which prioritises capital preservation.

One option is **Ruffer Investment Company (RICA)**. One of just a handful of funds which made money through the financial crisis, which it predicted, the main objective of the fund is to preserve capital. Nearly 40% of the portfolio is in inflation-linked bonds, 8% in cash, 5% in gold and gold equities and 41% in stocks and shares.

LIFETIME ISA - RETIREMENT PORTFOLIO

The cut-off in terms of age for Lifetime ISA eligibility is 40. This means if you are using a Lifetime ISA as a vehicle to invest for your retirement you are likely to have plenty of time before you cash in your savings.

You could therefore consider putting at least some of your pot at work in the markets to achieve a better return than cash on deposit.

We highlight some funds, exchange-traded funds (ETFs) and stocks that you might want to consider for a long-term investment portfolio.



FUNDS

Newton Global Equity (GB00B8376K50)

This fund seeks long-term capital growth by investing in a portfolio of global stocks. It identifies themes which encompass major areas of change in the world and uses these themes as the basis of its investment ideas. The goal is to outperform the MSCI AC World Index by 2% a year.

The fund typically has 60 to 90 holdings, among them Microsoft, Apple, Citigroup, United Technologies and Japan Tobacco.

It has achieved 7.5% annualised return over the past 10 years, according to Morningstar.

Schroder Recovery (GB0007893760)

Running a concentrated portfolio of around 30 stocks, co-managers Kevin Murphy and Nick Kirrage marked 10 years at the helm in 2016.

The fund takes a contrarian approach aiming to buy when most others are keen to sell and sell when they want to buy. They work on the assumption that outright insolvency is rare and even badly hindered companies can bounce back amid improving conditions.

It has achieved 8.5% annualised return over the past 10 years, according to Morningstar.

Scottish Mortgage (SMT)

This investment trust has increased its payout for 33 consecutive years. It invests in a concentrated portfolio of the best growth opportunities around the globe – Amazon has been a big and successful holding.

The trust can also invest up to 25% in unquoted firms and has stakes in companies that have chosen not to list on a public market despite being substantial businesses. Examples include Airbnb and Spotify.

It has achieved 14.6% total annualised share price return over the past 10 years, according to Morningstar.

ETFs

Source MSCI World UCITS ETF (MXWO)

Source MSCI World UCITS ETF is a global product which aims to track the performance of the MSCI World Total Return (Net) Index. Essentially you are getting exposure to big businesses around the world.

The index comprises 1,600 large and mid-cap stocks across 23 developed countries. It is well-diversified on a sector basis, providing exposure to the financials, IT, consumer discretionary, healthcare, industrials, consumer staples, telecoms, materials and energy sectors.

MSCI describes the index as a 'building block' around which investors can build a portfolio. For example, you could consider adding small cap exposure, emerging markets, specific sectors or ETFs which focus on particular stock characteristics.

It hasn't been available long enough to show 10 year annualised data, yet Morningstar says it has achieved 15.7% annualised returns over the past five years.

iShares Ageing Population (AGED)

The average age of the global population is increasing and this issue is particularly acute in the developed world. This has all sorts of implications for the jobs market, pension provision and healthcare, alongside other areas.

This ETF is made up of companies which derive at least 50% of their revenue from areas which can be beneficiaries of this trend.

The product launched in September 2016, so performance data is limited. It is up 8.9% year-to-date.

STOCKS

Halma (HLMA)

This global manufacturer and supplier of health, safety and environmental equipment is an excellent example of a high-quality business that would sit well in an ISA portfolio.

Halma typically looks for strong returns from resilient growth drivers based on advances in safety regulations, ageing and urbanising populations, and other demographic trends.

Operating margins have been reliably maintained in the low-20% range for many years. There is incrementally more surplus cash to pass on to shareholders. Halma has increased the dividend by more than 5% every year since 1979.

Experian (EXPN)

One of the UK's best businesses **Experian (EXPN)** is most widely known for its long-established credit services division, which provides credit checks to help lenders make better loans. It ranks number one or two in most of the markets it operates in.

Experian's data is fundamental to the decisions of its clients on consumer credit and the price it charges is limited relative to the loan amounts at risk. Replicating its services would be extremely difficult creating high barriers to entry and it faces relatively limited competition.



Lighting and power expert primed for overseas push

Shares in Luceco are up 80% in less than a year and we think there is more to come

LED lighting products-to-extension leads manufacturer **Luceco (LUCE)** has risen by 80% since floating on the stock market in October 2016.

Its shares at 235p aren't cheap. They trade on 20 times next year's forecast earnings. It also faces market headwinds in the UK where it generates 86% of sales. However, our interview with chief executive John Hornby reveals compelling reasons why this fast growth story still has considerable upside potential.

Fundamentally Luceco operates in a structural growth market for LEDs and has massive growth potential outside of the UK for its broader product set.

Investment bank Berenberg believes Luceco's lower-cost Chinese manufacturing capability enables the company to be 'highly price competitive'.

It also believes the company's dominant market share position in niche, low-growth but highly cash generative electrical accessories markets will help to fund its potentially lucrative expansion ambitions.

'We believe these are cash cow businesses, producing excess capital that can be reinvested in higher growth and higher return projects,' says Berenberg.

WHAT DOES LUCECO DO?

The £378m business operates four brands: Luceco (LED



LUCECO'S FAST GROWING SALES

Revenue	£m
2013A	66
2014A	82
2015A	103
2016A	133
2017A	155
2018A	180

lighting), BG (wiring accessories), Masterplug (extension cables and portable power) and Ross (TV wall mounts).

The electrical accessories business (which is everything apart from the Luceco brand) accounts for about three quarters of group sales.

Its products are sold through retailers and trade wholesalers

and growth is leveraged to activity in housebuilding and commercial construction, as well as housing RMI (repair, maintenance and improvement).

Major customers include Screwfix and B&Q which are owned by **Kingfisher (KGF)**, as well as Homebase, **Sainsbury's (SBRY)**, **Travis Perkins (TPK)**, **Grafton (GFTU)** and **Wolseley (WOS)**.

Although housebuilding activity remains resilient, Luceco faces the risk of a slowdown in demand from consumers. Many of which are at the mercy of rising inflation and have less money in their pocket after paying the bills each month.

Retail accounts for a quarter of the electrical accessories

business. The bulk of sales (65%) come through the trade channel.

Builders' merchant Grafton recently said its trading continue to be good, albeit flagging concerns about pressure on incomes 'which may temper growth in spending on housing RMI'. Last month plumbing specialist Wolseley said the UK RMI markets were 'weak'.

SEEKING GREATER GEOGRAPHICAL DIVERSIFICATION

Hornby acknowledges the near-term risks and says Luceco's challenge is to expand internationally in order to reduce the UK sales concentration.

'We are a Chinese manufacturer supplying globally rather than a UK company supplying from China,' claims the CEO.

In 2016 Luceco derived 4% of sales from the Middle East, the same from Europe and 6% from other parts of the world excluding the UK.

Hornby hopes to take the BG wiring business into Europe at the end of 2018 once it has got approval to sell electrical goods in that region. It is also working on the 'internationalisation' of the Masterplug range where it already sells into Europe and the US, alongside the UK.

He hopes to achieve economies of scale by marketing existing product to new customers in different countries. A possible head start might be achieved through buying a company such as a German lighting business which already has a market position, thereby giving Luceco instant market access.

Acquisition targets are unlikely

A POSSIBLE HEAD START MIGHT BE ACHIEVED THROUGH BUYING A COMPANY SUCH AS A GERMAN LIGHTING BUSINESS WHICH ALREADY HAS A MARKET POSITION, THEREBY GIVING LUCECO INSTANT MARKET ACCESS

to have Chinese manufacturing capabilities, says Berenberg. Its analysts believe Luceco could get market access via M&A and improve operating margins within the target business at very little incremental cost by using its own Chinese factory.

Hornby says labour is much cheaper in China than the West. He also says Luceco might be one of the few Chinese-based manufacturers to actively want to invest in the manufacturing process in order to lower costs in the future.

He claims there is a shift in the big retail and distribution space who now want to buy FOB (free on board), where ownership of goods transfers to the buyer as soon as the items are on board a ship.

'It means they don't have to go via importers' warehouses, so they skip a part of the supply chain,' he comments, adding that

Luceco is one of the few 'joined-up' firms in its space in terms of manufacturing and supply.

FROM ZERO TO HERO IN THREE YEARS

The LED business was launched in 2013 and accounted for one quarter of group sales in 2016 at £33m. Berenberg forecasts that figure will hit £64m in 2018, implying a continuation of very impressive growth rates. Luceco only has a 4% market share in the UK so there are still plenty of opportunities.

Interestingly, we note a drop in LED component costs has enabled Luceco to offer a lower priced product in a fast growing market. These types of lights are an estimated four to five times more energy efficient than traditional lighting.

Berenberg says the company's rapid expansion has depressed free cash flow. It believes the cash profile will improve over the coming years.

We remain big fans of Luceco, having first highlighted its attractions in *Shares* at 150p as one of our *Great Ideas* on 20 October 2016.

It is worth noting a valuation anomaly with investment fund **EPE Special Opportunities (ESO:AIM)**. We calculate its shares at 305p are trading at 7% below the value of its 24.3% stake in Luceco. That means you can get exposure to the lighting firm at a discount and get EPE's other interests for free through buying its shares. (DC)

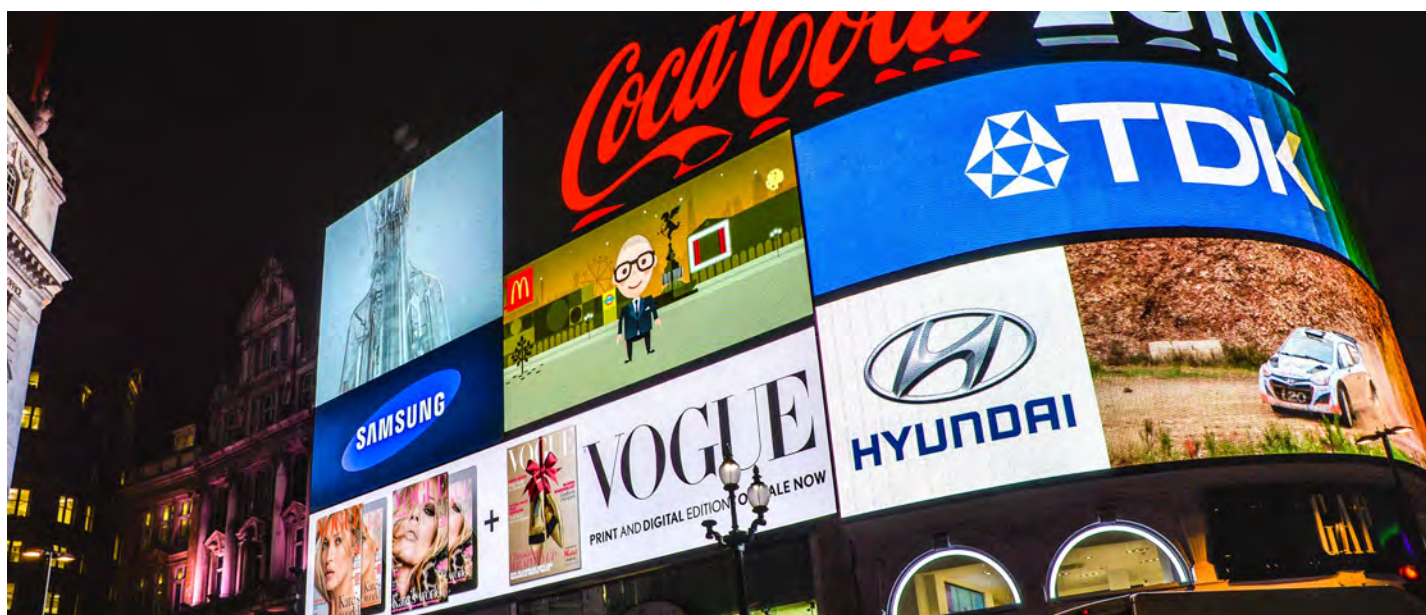
SHARES SAYS: ↗

More upside to come.

BROKER SAYS: 1 1 0

Buying brands through investment trusts

Collectives can harness the earnings power of fantastic brands



According to **WPP's (WPP)** annual BrandZ Global Top 100 Most Valuable Brands report for 2017, the value of the Global Top 100 increased 8% year-on-year to \$3.6trn despite a year of grand geopolitical surprises.

WPP says the value of the BrandZ Strong Brands Portfolio, a subset of the Brandz Top 100 Most Valuable Global Brands, increased 124.9% over the 12 years between April 2006 and April 2017, outperforming both the S&P 500 and the MSCI World Index.

This demonstrates that valuable brands deliver superior shareholders returns, even during periods of market volatility. WPP's list is headed up by US tech giants Google, Apple, Microsoft, Amazon and Facebook, while Samsung,

Home Depot, Wal-Mart and Zara also feature.

Investors can access the earnings power of the strong brands and franchises they encounter in day-to-day life and engage with in their daily lives through investment trusts.

TRUSTED OPTIONS

Zara is owned by through owner Inditex, the world's biggest clothing retailer. You can gain exposure through the James Anderson and Tom Slater-steered **Scottish Mortgage Investment Trust (SMT)**.

Another enthusiastic backer is **Henderson EuroTrust (HNE)**, whose manager Tim Stevenson has held Inditex, whose other brands include upmarket label

Massimo Dutti, in the portfolio since its 2001 IPO. 'Inditex has a significant sourcing advantage over its peers,' explains Stevenson.

'By using a lot more local/near-local sourcing, it is able to achieve a quicker time-to-market for new products. Inditex has

a tiny market share in a very fragmented global clothing market and we believe it can continue to grow store count materially over the long term. The valuation of this business has never been

cheap, but rightly so; it is a high return business that has plenty of capital deployment opportunities.'

Elsewhere, investors can gain exposure to popular retail and restaurant chains through

TOP
BRANDS ARE
OUTPERFORMING
THE MARKET

JPMorgan American (JAM), managed by Garrett T. Fish and Eytan Shapiro and currently trading at a 4.5% discount to NAV.

The trust is invested in Ontario-based Restaurant Brands, which operates Burger King outlets and the Canadian coffee and doughnut chain Tim Hortons, which recently opened its first UK branch on Argyle Street in Glasgow.

JPMorgan American also holds Walgreens Boots Alliance, the pharmacy-led health and wellbeing company behind Boots, not to mention ASDA's parent Wal-Mart, the world's largest retailer investing heavily in building its e-commerce business.

Through **F&C Commercial Property Trust (FCPT)** investors can access a share of the rents paid by luxury retailer MCM to T K Maxx and Uniqlo, the clothing chain owned by Japan's Fast Retailing. Founded by Tadashi Yanai, one of Japan's richest men, Fast Retailing has said it plans to overtake Inditex as the world's biggest apparel retailer.

Nicholas Price, manager of **Fidelity Japanese Values (FJV)**, identifies another Japanese brand that could boost

portfolio returns.

He writes: 'Against the backdrop of a stagnant domestic economy, we have seen Japanese companies with great brands or technologies successfully expand into Asia. As these companies transform themselves from stable domestic cash generators to Asian growth stories, there is a good chance for valuation multiples to be re-rated. The challenge of trying to capture

INVESTMENT TRUSTS offer exposure to some of the best-known consumer names

“**MUJI LITERALLY MEANS “NO BRAND”, WHICH IS THE ANTITHESIS TO MASS CONSUMPTION AND IS GROUNDED ON A STRONG PHILOSOPHY.**”

these changes is a great motivator that can prove highly rewarding.'

Price says 'one such example is Ryohin Keikaku, the operator of the MUJI brand of general merchandise stores and one of Japan's fastest growing speciality retailers. MUJI literally means “no brand”, which is the antithesis to mass consumption and is grounded on a strong philosophy.

For example, product development consistently entails selecting materials, streamlining processes, and simplifying

packaging, which leads to low prices relative to quality and less direct competitors in the market. Ryohin Keikaku's strong brand positioning underpins the stability of its domestic business and enables the company to gradually increase unit prices.

'Overseas growth is centred in East Asia, particularly China, where it operates a network of 200 stores and is opening around 30 new outlets per year. Furthermore, among Japanese retailers Ryohin Keikaku delivers relatively high shareholder returns, targeting a payout ratio of 30% and returns on equity in excess of 15%.'

Through the **Martin Currie Asia Unconstrained Trust (MCP)**, investors can gain exposure to Samsung. Portfolio manager Andrew Graham explains: 'Samsung is the world's largest smartphone manufacturer, the dominant manufacturer of DRAM memory chips needed in those smartphones as well as PC's and servers, one of only a handful of NAND flash suppliers with a clear technology lead over everyone else, and even the world leader in TV's.

Two years ago the market was extremely worried about the profit margins on its handsets, which were falling as Android devices became somewhat commoditised.

However, in doing so they ignored Samsung's previously employed strategy in other devices - to drive competitor's profitability to zero when they know that their manufacturing technology or efficiency can still maintain decent margins.'

BRANDZ TOP 100 MOST VALUABLE BRANDS WORTH **\$3.6TRN**



HOW DO BOND INVESTORS VIEW THE WORLD?

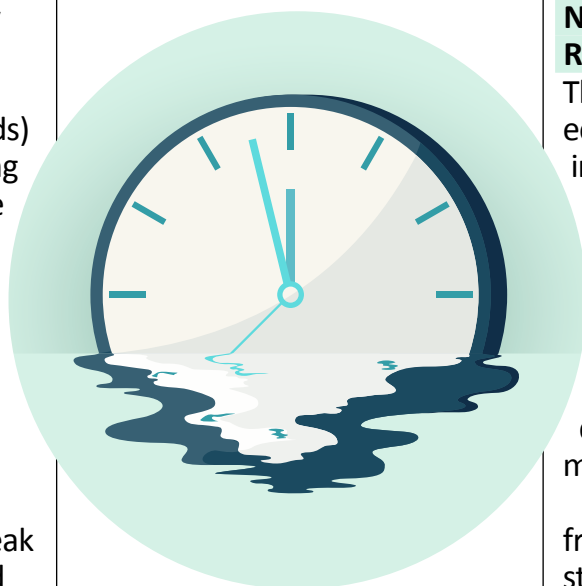
John Pattullo on a global economy in hiatus and how to read central banks

FIVE YEARS AGO, at the many conferences that we attended everyone was of the opinion that the credit (corporate bonds) market was in its seventh inning stretch. This refers to the game of baseball and a tradition that takes place in the middle of the seventh inning of a game (there are nine innings in total). It is called the 'seventh inning stretch' where play is suspended and both fans and the players have an opportunity to take a short break from all the hours of stress and anticipation before getting back to the game.

Roll the clock forward to present and at a recent US conference the same message was once again repeated. While I agree that bond markets have been frozen at the seventh inning, I would expand it by saying that we have been there for some time. It is a phenomenon that is also true for developed market interest rates, economic growth and inflation.

THE DEBT CLOCK HAS SLOWED

The debt clock, showing the four stages of a credit cycle — downturn, repair, recovery and expansion (late cycle) — seems to be stuck at the 'expansion/late cycle' phase. Although the clock in the US is slowly beginning to move, Europe's clock is broken. Overall, we seem to be in the midst of a very slow moving cycle (arguably even going backwards



at times), which may turn out to be the longest in recent history.

And it is not just the credit cycle that seems to have become stuck; the same is true of interest rates, economic growth, inflation and defaults. In a well behaved world, business cycles follow a pattern of growth, boom, recession and recovery. In the boom phase, excess demand leads to rising inflation, which in turn translates into higher interest rates to dampen the demand.

The recent period of recovery has naturally led to reflation theories - where investors believe inflation is returning and the economy turning from stagnant to more meaningful growth. While there is evidence of an uptick in headline inflation, core inflation (excluding volatile items such as food and energy) remains subdued.

NO SIGN OF A STRUCTURAL REGIME CHANGE

The uptick in inflation and economic activity has occurred in response to a number of factors including a loosening of monetary policy in China about a year earlier, sparking a rally in commodities which helped produce better economic data in the developed world since the middle of last summer.

Markets began to move from last June and trading strategies switched to those favouring equities over bonds. Later, the expectation of improving growth and inflation based on a Trump presidency bumped sentiment higher. The 'Trump effect' was just fortunate timing — no doubt the President will take the credit for it.

However, this does not indicate a regime change in our view. It is essential not to confuse the China induced cyclical upturn with the longer term structural issues that still persist in the global economy. We have long talked about a number of structural forces that are keeping growth and (core) inflation low. Among those are adverse demographic trends (not enough producers/consumers and too many old savers), lack of productivity, disruptive technology, digitalisation, a global savings glut and behavioural changes.

BEYOND CENTRAL BANKS' SPHERE OF INFLUENCE

The longer term structural forces continue to challenge monetary policy in the developed world, which has been kept loose in recent years to encourage economic growth. But how much longer can it be maintained?

There is a global phenomenon that is likely to have profound effects on monetary policy and central banks' ability to adjust economic growth (through interest rates) in the future. It has a little economic symbol — r^* . r^* is the rate of interest when real gross domestic product (GDP) is growing at its trend rate and inflation is stable.

Studies have shown¹ that over the last quarter of a century there has been a significant decline in r^* across North America, the UK, and Europe, reaching historically low levels in the recent past. The underlying cause is the structural factors mentioned earlier, which appear poised to stay.

Thus, it looks like r^* will remain at low levels in the future (by extension implying lower growth and lower inflation). This is particularly important; as while central banks can set interest rates to influence the economy, r^* is a function of the economy and beyond their sphere of influence.

INTEREST RATES IN AN ECONOMIC SLOW LANE

What does this mean in practice? As an example, even if the US Federal Reserve (Fed) was to continue to hike rates a few times, it would not heavily influence economic activity/data. While equity markets tend to follow soft economic data such as surveys

DEFINITIONS

CREDIT CYCLE - cycle involving the access to credit by borrowers. Credit cycles first go through periods in which funds are easy to borrow, characterised by lower interest rates and lending requirements, followed by periods where it is harder to borrow, characterised by higher interest rates.

HEADLINE INFLATION - the entire inflation figure as reported by the Consumer Price Index (CPI), which includes more volatile inflation elements such as food and energy.

CORE INFLATION - represents the wider longer-term inflation trend by excluding the volatile elements such as food and energy.

COMMODITIES - A physical good such as oil, gold or wheat. The sale and purchase of commodities in financial markets is usually carried out through futures contracts.

BASIS POINT - one hundredth of one percentage point i.e. ten basis points is 0.1%

and sentiment indicators, the bond markets concentrate on the hard economic facts.

Although the Fed has turned more hawkish in recent weeks and did not sound particularly concerned about inflation at their June meeting as they raised interest rates for a fourth time since the Global Financial Crisis, they did acknowledge that "inflation on a 12-month basis is expected to remain somewhat below 2% in the near term but to stabilize around the committee's 2% objective over the medium term".

WHERE'S NAIRU?

Another important benchmark for central banks in gauging the state of the business cycle, the outlook for future inflation and the appropriate stance of monetary policy is the NAIRU². This is the economic sweet-spot where unemployment drops sufficiently to start influencing inflation. In simple terms, inflation will tend to rise if the unemployment rate falls below NAIRU (due to rising wage pressures) and vice versa.

Interestingly, the Bank of England has recently lowered its view on where NAIRU is, since wage inflation is not as strong as expected for the current level of unemployment. With limited evidence of wage inflation in the US, could they follow suit?

MODEST MOVES AWAY FROM EMERGENCY POLICIES TO BE EXPECTED

Recent news headlines have focused on the actual and perceived shifts in policy stance from central banks, rather than any underlying economic data.

This was started in Canada, where low and falling inflation was disregarded and the central bank signalled that it was ready to take back the 50 basis points in 'emergency' rate cuts from 2015. The Bank of England then surprised investors, with a number of Monetary Policy Committee (MPC) members already voting for a hike and the previously dovish Chief Economist signalling a willingness to consider rate hikes later in the year.

In addition, there was some confusion over the position of both Mark Carney and Mario Draghi, following speeches which were interpreted as a shift towards less accommodative monetary policy.

The combination of this rhetoric and exceptionally low volatility in bond markets created the beginnings of what we think may be another short sharp move higher in government bond yields — the type of which has recently become known as a 'tantrum'.

This may prove to be a modest move away from emergency monetary policies but unless inflation picks up materially we will position our portfolios for shorter term cyclical peaks and troughs.

Bond investors' dilemma: dull carry or over complexity?

Given historically low yields in fixed income markets, many have sought alternative investments such as over leveraged

DEFINITIONS

VOLATILITY – The rate and extent at which the price of a portfolio, security or index, moves up and down. If the price swings up and down with large movements, it has high volatility.

SHORTER TERM CYCLICAL PEAKS AND TROUGHS – cycles will trend up and down over varying timeframes, some longer than others.

OVER-LEVERAGED STRUCTURED PRODUCTS - a structured product is a pre-designed basket of securities similar to an ETF. Over-leverage is the view of the manager and suggests the product has too much extra borrowings intended for the purpose of making extra investments.

PEER-TO-PEER LENDING - online services that match lenders with borrowers.

PRIVATE PLACEMENTS - funding rounds for businesses executed with private investors, as supposed to through public offerings.

structured products, peer-to-peer lending, infrastructure and private placements, in a bid to find extra returns. In addition, with the stock market's current upbeat assessment of growth and inflation, almost universally, everyone is short duration (bonds whose prices are very sensitive to interest rates) and underweight gilts.

In our view, one should remain wary of the illiquid alternatives; they have inherently more risk and are not necessarily suitable for all clients. Carry – the buying and holding of bonds simply for their interest payments - may sound rather dull but it is the most sensible route to seeking long term returns in an uncertain world. We stay true to our mantra of sensible income from large cap, non cyclical businesses that have a reason to exist in the economy.

The bond markets' seventh inning stretch could last a long time in the low growth, low inflation world that we live in.

¹Federal Reserve Board, Washington D.C.: Measuring the Natural Rate of Interest: International Trends and Determinants, 2016-073; Federal Reserve Bank of San Francisco Economic Letter: Monetary Policy in a Low R-star World, August 15, 2016; Bank of England Staff Working Paper No. 571: Secular drivers of the global real interest rate, 2015.

²NAIRU: non accelerating inflation rate of unemployment; this is a level of unemployment within an economy that does not cause inflation to rise up. In effect, representing equilibrium between the state of the economy and the labour market.

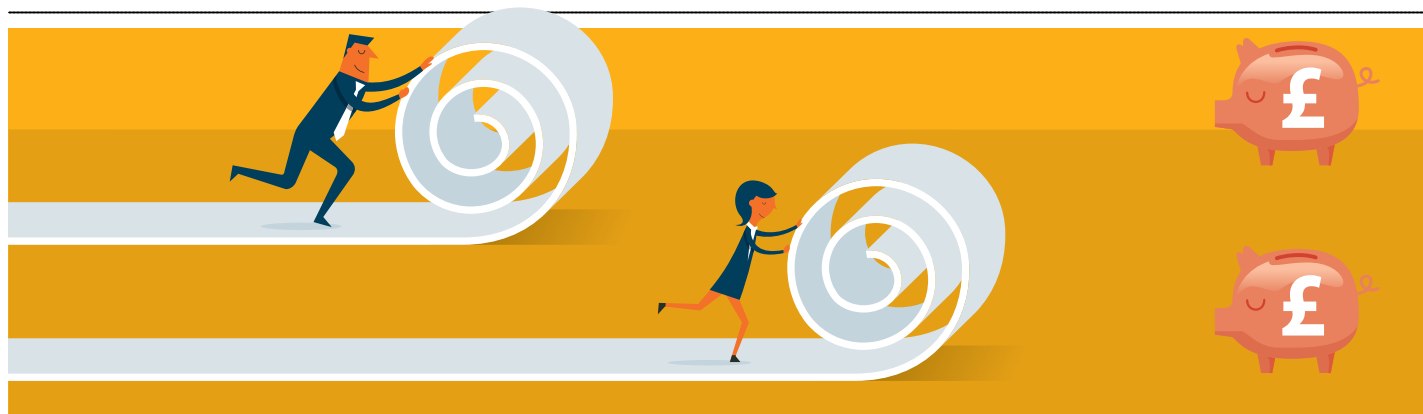
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Past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

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Does life expectancy stalling reduce pension pressure?

Worth looking at the long-term context when planning your retirement



For decades experts have taken for granted the fact life expectancy improvements will continue unabated. And why wouldn't that be the case? Billions of pounds is ploughed into medical research every single year as the scientific community finds new ways to battle life-limiting illnesses and disease, while Government interventions like the smoking ban have been effective in shifting human behaviour.

However, a study by former Government health adviser Sir Michael Marmot suggests that since 2010 life expectancy rises have shuddered to a near standstill.

GROUND TO A HALT

According to Marmot improvements in life expectancy at birth, which had previously been around a one-year increase every five years for women and every three and a half years for men, have slowed to a one-year increase every 10

years for women and every six years for men.

A number of culprits have been blamed by experts, most notably post-financial crash austerity cuts to local authority budgets and the rise in deaths linked to dementia and Alzheimer's. While it's impossible to apportion blame to any one of these factors, it's a fair bet that a combination have contributed to the declining rate of growth in life expectancy.

But when it comes to planning your own retirement it's worth considering longer term trends in life expectancy. The recent reduction in improvements – and it's worth remembering that we are all still on average living longer, just by a bit less – follows decades of life expectancy improvements.

To give some context, women's average life expectancy at age 65 has risen 4.6 years from 18.9 in 1989 to 23.5 in 2014. Men's life expectancy at age 65 has risen 5.8 years from 15.3 in 1989 to 21.2 in 2014.

Furthermore, an independent

report published by John Cridland suggests a baby girl born in 2017 can expect to live to be 94 years and a boy to be 91.

Clearly we don't know what the future holds. If science finds a cure for cancer, for example, average life expectancy could shift upwards dramatically.

CAN'T PREDICT THE FUTURE

Even without such developments it's worth remembering that – based on current assumptions – there's a good chance someone retiring at 65 will need their pension pot to stretch out over 20 years or more.

The best way to ensure this is possible? Save as much as you can, as early as you can to maximise the benefits of compound growth; and build a retirement income strategy knowing your pot may well need to last for decades rather than years.

Tom Selby,
Senior Analyst, AJ Bell

Crunch time for fund performance fees

Funds charging 10% for beating a low benchmark could be forced to change their ways



Fund managers who levy exorbitant charges when they beat certain benchmarks are coming under pressure to ensure their fee structure is fair for investors.

As well as making investors pay an annual ongoing charge to cover things like administrative costs and the fund manager's salary, some funds charge a performance fee. Typically ranging from 10% to 20%, investors have to pay this fee if the fund beats a specified benchmark.

For example, **Polar Capital Global Technology Fund (IE00B42W4J83)** charges 10% of the amount it outperforms the Dow Jones World Technology Index, and **Old Mutual Global Equity Absolute Return Fund (IE00BLP5S809)** charges 20% of the amount it outperforms the Bank of England base rate.

WHY HAVE PERFORMANCE FEES COME UNDER FIRE?

The regulator, the Financial Conduct Authority (FCA), recently expressed concerns about the way performance fees are levied, particularly in the absolute return sector which is home to the Old Mutual fund.

The FCA said some absolute return funds charge a performance fee even when the returns are lower than the fund's most ambitious performance target.

'This leads to the manager being rewarded despite not achieving what the investor considers to be the target performance,' the FCA said.

WHY IS IT A PROBLEM IN ABSOLUTE RETURN FUNDS?

The absolute return sector has been targeted because it uses performance fees to a greater

extent than other sectors.

Patrick Connolly, head of communications at financial advice firm Chase de Vere, argues that very few funds in the sector can justify taking a performance fee.

He says many funds produce returns similar to cash but with much higher charges. Others are too highly correlated with the stock market.

Connolly claims inappropriate benchmarks such as the Libor rate (currently around 0.5%) mean many cash savings accounts could qualify for a performance fee if they were placed in the targeted absolute return sector.

HOW ARE MANAGERS INCENTIVISED?

It isn't just the absolute return sector where performance fees have been condemned. Critics

argue that managers should be incentivised by the ongoing charge alone. They say levying performance fees effectively forces investors to pay managers twice for doing their job well.

Investment companies claim performance fees ensure the interests of the fund manager and investor are closely aligned. But Connolly says this argument is largely without foundation.

‘The interests of managers and investors are aligned by the manager producing good and consistent performance, full stop. If this happens then their funds will grow in value, they will become more popular and more new money will be invested,’ he says.

It could even be argued that performance fees create a conflict of interest between the manager and investors. A manager might take additional risks to try to breach a performance fee threshold, or become more conservative to protect gains rather than trying to maximise future returns for investors.

WHAT IS THE DEFENCE?

Some investment companies point to their impressive track record to justify their performance fees. Polar Capital, for example, says its Global Technology Fund has outperformed its benchmark index by 97.45% net of all costs since its launch in October 2001.

But it’s important to realise that you could end up paying performance fees even if a fund has dropped in value. This is because it merely has to outperform the benchmark – i.e. not fall quite as badly as the

“IT IS POSSIBLE FOR THE FUND MANAGER TO EARN A PERFORMANCE FEE IN A YEAR WHERE THE BENCHMARK DELIVERS A NEGATIVE RETURN, BUT ONLY IF HE OR SHE OUTPERFORMS THIS BENCHMARK OVER THE PERFORMANCE FEE PERIOD”

benchmark.

Iain Evans, global head of distribution at Polar Capital, says: ‘It is possible for the fund manager to earn a performance fee in a year where the benchmark delivers a negative return, but only if he or she outperforms this benchmark over the performance fee period.’

Evans says other asset managers eschew performance fees for building scale on conventional annual management charge (AMC) revenues.

‘It is far too simplistic to argue one approach is better than the other and both can engender poor behaviours,’ he states.

A spokesperson for Old Mutual says its fund has a ‘high watermark’ – you only pay a fee for outperformance achieved above the highest published price for the share class across all previous investment periods. This means you won’t be charged a performance fee for gains made as the fund recuperates losses.

There is evidence to suggest performance fees can work in

certain circumstances.

Darius McDermott, managing director at Chelsea Financial Services, says JO Hambro Capital Management has a lower than average AMC and a performance fee that is related to a fair benchmark. **JOHCM UK Opportunities’ (GB00B95HP811)** AMC is 0.63% (the ongoing charge is 0.7%) and it has a performance fee of 15% of any outperformance of the FTSE All Share.

‘They have been very successful in aligning themselves to investors and achieving good outcomes for investors in our view,’ says McDermott.

IS THERE ANOTHER WAY?

Dan Brocklebank, director at asset manager Orbis, says when performance fees are levied in addition to an ongoing charge it creates a ‘heads we win, tails you lose’ proposition for clients.

‘The manager stands to do pretty well (regardless of performance) on the base fee, and can do extremely well if they take both the base fee and a share of performance,’ he explains.

Orbis doesn’t charge a base fee. Fees are paid into a reserve at a rate of 50% of outperformance, which is then available for refunds at the same rate if the funds underperform.

‘By linking fees to actual performance delivered, and provided you structure the performance fees well, fees are much more likely to represent value for money for the client and risk is transferred back to the manager, or at least shared between the client and the manager,’ says Brocklebank.

Reckitt's on the right path

Strategic changes and rising shareholder reward are reasons to own consumer health and hygiene giant

A pull back at consumer health and hygiene powerhouse **Reckitt Benckiser (RB.)** is a buying opportunity. The Cillit Bang, Veet and Vanish brands owner is a so-called 'expensive defensive' but its globally-derived earnings, dependable cash flow and progressive dividend should remain highly prized if markets turn bearish.

GROWTH GUIDANCE DOWNGRADES

Slough-based Reckitt recently cut (6 Jul) its full year like-for-like sales growth guidance from 3% to 2%, blaming disruption from June's Petya cyber-attack and a drag from India's new Goods and Services Tax (GST). The £55.2bn cap's subsequent and messy first half results (24 Jul) revealed a 2% second quarter like-for-like sales drop, reflecting the above factors as well as a failed Scholl innovation and the tragic humidifier sanitiser issue in South Korea, where one of Reckitt's humidifier disinfectants was linked to a number of deaths.

First half operating profit still rose 16% to £1.19bn, ahead of consensus of £1.181bn and developing markets like-for-like sales improved 2% driven by China and Africa. In addition, Reckitt Benckiser hiked the half year dividend 14% to 66.6p, demonstrating management's confidence in future prospects.

INNOVATION MACHINE

CEO Rakesh Kapoor concedes Reckitt is encountering tough market conditions, yet he expects to see a 'return to growth progressively over the second half of the year'. Growth should pick up as the innovation machine launches a wave of new products, ranging from a Scholl



emerging markets should continue to drive the business, especially once the impact of the Indian sales tax recedes.

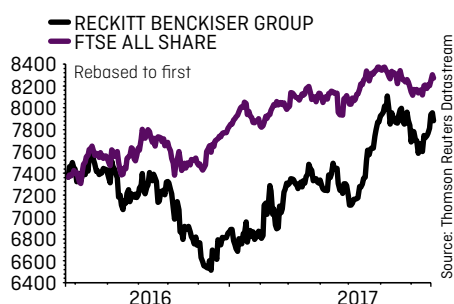
Shares sees considerable merit in the sale (19 Jul) of Reckitt's food business, including the *French's*, *Frank's RedHot* and *Cattlemen's* brands, to US spices giant McCormick for a princely \$4.2bn. The sale will be used to pay down some of the debt arising from the transformational £13bn acquisition (15 Jun) of US baby formula maker Mead Johnson Nutrition.

Liberum Capital reiterates its 'buy' rating and £81.50 price target, writing: 'Reckitt's strategic focus on faster growing, higher margin Health and Hygiene categories, coupled with strong execution, powers top quartile 4-5% organic sales growth in the medium-term (ex-Mead Johnson). The Mead deal increases RB's focus on Health & Hygiene (80% of group net revenue post deal) and emerging markets (40% of group net revenues).'

SHARES SAYS: ↗

The valuation is punchy, Reckitt Benckiser swapping hands for 27.1 times Liberum's 285p 2017 earnings forecast. Yet we think investors prepared to pay up for quality and look past short-term issues should buy Reckitt at £77.14. (JC)

BROKER SAYS: 13 9 2



value priced electronic foot file to Probiotic dark chocolates and Reckitt's 'best yet' Lysol disinfecting wipes, while

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Learning Technologies smart acquisition

Learning Technologies acquisition-led model paying off for now

Many dislike the term 'buy-and-build model' but speaking to CEO Jonathan Satchell back in April he said his company, **Learning Technologies (LTG:AIM)**, is 'unashamedly so'. It seems the company may have found the right targets.

Paul Richards, an analyst at Numis, says that the company's first half to 30 June exceeded his revenue and cashflow estimates. He upgrades the firm to 'buy' and management is confident that the integration of recent purchase NetDimensions will bear fruit by the beginning of 2018.

Paul Morland, analyst at Canaccord Genuity, is also bullish on Learning Technologies. The company expects 'record revenues' of at least £20.8m for the first half, a good deal more than the £12.8m it achieved for the same period last year.

Morland is also impressed with the progression of the NetDimensions deal. 'We believe that this acquisition has significantly enhanced the group's overall capabilities in the high growth and dynamic

e-learning sector,' he says.

Learning Technologies is no longer riding the high of its great results back in April which boosted its shares to 54.5p. The company has drifted down to 47.5p but it still commands a price-to-earnings ratio of 31.7-times based on Canaccord's forecast 2017 earnings per share figure of 1.5p.

Morland is confident that the performance of the company's core businesses coupled with the integration of NetDimensions has 'de-risked' full year forecasts. He believes there is upside potential when more information is available on the firm's first half performance. (DS)



SolGold to graduate to Main Market

SOLGOLD (SOLG:AIM) PLANS to move from AIM to the Main Market on 21 August. The Australian gold miner believes the new listing will provide a 'more appropriate platform for its growth and market cap', which is over £550m. SolGold hopes being on the Main Market will raise its global profile and provide an opportunity for more investors to get on board. (LMJ)

CEO goes at People's Operator

THE CO-FOUNDER AND CEO of mobile services supplier **The People's Operator (TPOP:AIM)** has stood down as the company continues to flounder. Mark Epstein has left the board although he's staying around on a part-time basis. He's being replaced by chief operating officer Sam Tillotson. The charity donations-based business model has led to a spectacular collapse in the share price to 2p, having IPO'd at 130p in December 2014. (SF)

UKOG's momentum continues

SHARES IN SMALL cap oil and gas play **UK Oil & Gas Investments (UKOG:AIM)** are on a tear higher. The latest spurt comes as the company announces (20 Jul) it has found another oil bearing zone after analysis of its Broadford Bridge-1 exploration well. Executive chairman Stephen Sanderson says it believes the asset is 'a new and potentially highly significant oil resource'. The shares are up more than five-fold since the middle of June. (TS)

INVESTMENT FACTS.

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Funds for all market conditions

The long and short of funds which profit on the way up and way down



Long/short funds consist of two separate components. There is the 'long' book that contains the holdings that the manager expects to deliver the most upside, and the 'short' book that consists of the shares that they think are most likely to fall in value.

Using derivatives such as CFDs allows the fund to effectively sell shares that it doesn't own in the expectation that they will drop in price. If all goes to plan it can then 'buy them back' at the lower level to close the position at a profit.

The attraction of long/short funds is that they can make money from both rising and falling prices, while netting out some of the market exposure. This gives them the flexibility to generate steady returns in all market conditions.

Martin Bamford, MD of Informed Choice, Chartered Financial Planners, says that they could be suitable for investors

who are looking to participate in rising markets whilst also protecting their profits.

'They can look quite attractive in an environment where equity values are inflated and interest rates are starting to rise, especially as traditional diversification using mainstream asset classes is harder to find at current market valuations.'

OPEN-ENDED FUNDS

There are around 100 open-ended long/short funds available to UK based investors and they operate in a number of different areas of the market including fixed interest, as well as UK and overseas equities. Most aim to generate a positive return over each rolling 12-month period and are benchmarked against a 3-month LIBOR rate plus a certain premium.

Around 50 have a track record of five years or more of which eight have delivered annualised returns over the period of

between 8% and 20%. These include: **City Financial Absolute Equity (GB00B2PX1C62)**, which has been quite volatile, and the more consistent **Ennismore European Smaller Companies (IE00B3TNSW80)**.

'In theory, long/short funds should be able to deliver superior risk-adjusted returns than their long-only peers, but in practice, the typical experience of investors has been fairly poor,' notes Bamford.

During the last three years, the average long/short equity fund has delivered a cumulative return of 4.8%. This is well behind the 25.38% average returns within the UK All Companies sector.

Bamford suggests that investors could consider **F&C Real Estate Equity Long/Short (IE00B8GGKQ36)**. This aims to generate long-term capital growth by investing in property securities and has delivered a total return of 11.3% over the last 3 years with a modest standard deviation and low maximum drawdown.

He also likes **Absolute Insight Equity Market Neutral (IE00B46DG028)** that has a more positive approach towards downside protection and that might suit investors who are nervous about any upcoming market correction.

CONSISTENT PERFORMER

Chelsea Financial Services recommends **Smith &**

Williamson Enterprise

(IE00B5NY4X40) that has delivered decent positive rolling 12-month returns with a low standard deviation. It targets an annual return of 8% to 10% and at the end of May had 47 long positions and 33 shorts with a net market exposure of just 14.7%.

Mark Swain, one of the fund's co-managers, says that they generally have a low but positive net exposure to equities of between 10% and 30%.

'The whole point of the fund is that we don't want to be reliant on market direction to drive returns, and we often say that we are indifferent as to whether markets go up, down or sideways.'

The easiest way to think of their strategy is that they intend to be long of stocks with attractively priced earnings growth with the biggest potential for positive earnings surprises and vice versa for the shorts.

'We made a lot of money from being short **Capita (CPI)** last year – it blamed a lot of its travails on Brexit, but it was struggling long before then. More recently, we've

“THE WHOLE POINT OF THE FUND IS THAT WE DON'T WANT TO BE RELIANT ON MARKET DIRECTION TO DRIVE RETURNS, AND WE OFTEN SAY THAT WE ARE INDIFFERENT AS TO WHETHER MARKETS GO UP, DOWN OR SIDEWAYS.”

benefited from being short a pizza delivery company, which is facing the toxic combination of growing competition (**Just Eat (JE.)** etc.), a high rating and a consumer slowdown as real income growth slows.”

INVESTMENT TRUSTS

There is also a handful of investment trusts that have the ability to go both long and short, although it tends to be a less significant feature of their mandate than with their open-ended counterparts. The examples include: **BlackRock Throgmorton (THRG)**, **BlackRock Emerging Europe**

(BEEP), **Fidelity Special Values (FSV)**, **Fidelity Asian Values (FAS)** and **Fidelity China Special Situations (FCSS)**.

The BlackRock Throgmorton trust invests mainly in UK mid and small cap stocks, but also has a mixed long and short book of CFDs that is equal to approximately 30% of the fund's net assets.

Its co-manager, Dan Whitestone, says that as part of their research process, they are able to identify companies under structural or cyclical pressures, often with too much debt and weak cashflows, so if there is a “problem” then the shares could fall a lot.

'UK small and mid-caps is a universe where companies can see their market value multiply several times over, but also where companies have seen their market value collapse, even to zero. We can enhance returns for investors by identifying these types of opportunities, offering a differentiated source of alpha from many funds in the sector.'

As has been the case for some time, their short book contains many companies vulnerable to weakening business confidence and consumer spending, particularly in the UK. These have recently started to show signs of deterioration with some high profile profit warnings.

'We are short within UK consumer services that are either facing cyclical pressures such as weakening demand driven by the deteriorating outlook for consumer confidence, or structural pressures like competition from low cost or specialised formats,' explains Whitestone.

A SELECTION OF OPEN-ENDED LONG/SHORT FUNDS

	Fund Size £m	Total Return 1yr	Total Return 3yr Annualised	Total Return 5yr Annualised
Absolute Insight Equity Market Neutral	434	0.97	0.64	1.58
City Financial Absolute Equity	242	31.08	11.41	18.52
Ennismore European Smaller Companies	381	12.39	10.91	13.54
F&C Real Estate Equity Long/Short	253	-0.09	3.49	n/a
Smith & Williamson Enterprise	122	7.65	3.86	6.94

Source: Morningstar. Returns to 30/06/17




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