STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

China's Internet Stars

BAIDU, ALIBABA AND TENCENT – WHO THEY ARE, WHAT THEY DO AND HOW TO INVEST

OUR TAKE ON **BP AND SHELL** RESULTS

BIG DEALS
PAYMENTS FIRMS IN DEMAND

FOUR WAYS
TO USE INVESTMENT TRUSTS

PENSIONS
IMPACT OF FREEDOMS OVERDONE?

DIVIDEND DANGER: *ASTRAZENECA TO CUT AFTER TRIAL FAILURE?*

What dollar dive means for markets

Exploring the implications of a reversal in fortunes for the US currency

In early 2017 sterling traded at levels against the dollar which had not been seen since the mid-1980s and some observers were predicting the two currencies could reach parity.

Amid reports Theresa May was committed to a so-called 'hard' Brexit the UK currency tanked against its US counterpart and fell below $1.21. In the intervening seven months the direction of travel has been very different and the exchange rate recently flirted with $1.32, despite ongoing political uncertainty in the UK following an inconclusive election result.

POLITICS AND INTEREST RATES

There are two key reasons for the slide in the dollar. President Donald Trump's administration has been beset by chaos with numerous high profile departures and there is growing lack of faith in its capacity to deliver meaningful economic and fiscal reforms.

Less high profile but almost certainly as important is the posture adopted by US Federal Reserve chairman Janet Yellen which has limited expectations for many further interest rate increases in the US this year.

As a quick reminder higher rates tends to translate into currency strength. The increased return on offer attracts foreign investment, inflating demand for and the value of the home country's currency.

ETX Capital senior market analyst Neil Wilson says: 'there's a lot of dollar softness out there with political uncertainty and doubts around the Federal Reserve's capacity to raise rates again this year weigh'.

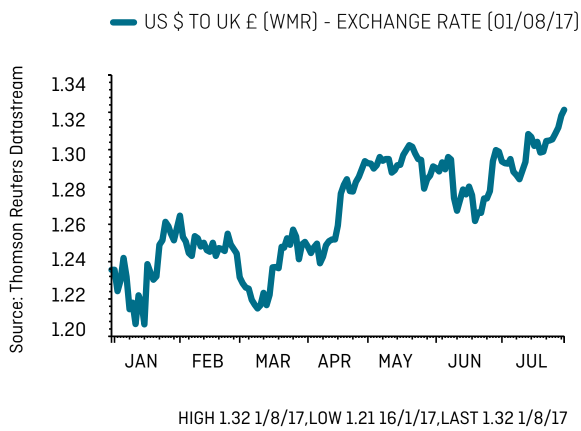
'The dollar index plunged to new 13-month lows below 93, a level that takes it close to pre-tightening levels,' he adds. 'The dollar has lost 10% this year and is showing no signs of arresting that decline.'

THE BIG SWITCH?

There are a number of implications for investors. If this trend were to continue it could be negative for the FTSE 100 given it derives upwards of 70% of its earnings from overseas and many are big dollar earners. These dollar earnings are now worth less when translated back into pounds.

Our main feature in the 27 April issue operated on the premise that the Conservatives would increase their majority in the General Election and although this did not transpire it may be worth revisiting that article now given it was focused on just such a reversal of sterling's poor run against the dollar. If the traditional inverse relationship between the dollar and commodities holds true there could be a boost for resources stocks (we look at the first half results from big oil on page 8).

The reversal in the dollar could be useful for US companies with big export markets. Heavy manufacturers such as Caterpillar fall into this category. Investors looking for exposure to the US industrials space could consider an exchange-traded fund like **SPDR S&P US Industrials Select Sector (SXLI)** which has an all-in charge of 0.15%. The basket of tracked stocks includes Caterpillar alongside the likes of General Electric and Lockheed Martin.



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IMPORTANT

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EDITOR: Daniel Coatsworth @SharesMagDan

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

REPORTER: David Stevenson @SharesMagDavid

JUNIOR REPORTER: Lisa-Marie Janes @SharesMagLisaMJ

CONTRIBUTORS Emily Perryman, Tom Selby, Jennifer Hill

MANAGING DIRECTOR Mike Boydell

CONTACT US: support@sharesmagazine.co.uk

PRODUCTION
Head of Design: Rebecca Bodi
Designer: Darren Rapley

ADVERTISING
Senior Sales Executive: Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

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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.

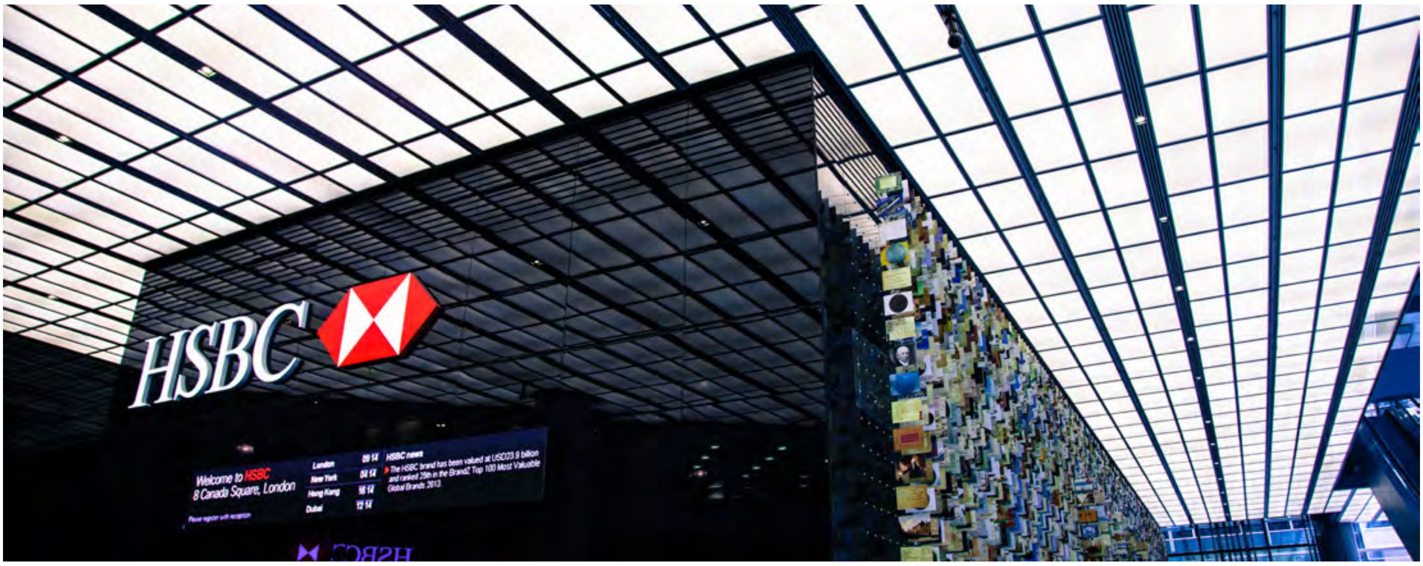
The numbers refer to how many different brokers have that rating.

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.

HSBC back to expansion

Bank is returning excess capital to shareholders



Despite already being Europe's largest bank **HSBC (HSBA)** is definitively back in growth mode.

Its results for its second quarter to 30 June beat consensus forecasts across the board. Its pre-tax profit figure of $5.3bn is, for example, 13% ahead of the estimate from Alastair Ryan, analyst at Bank of America Merrill Lynch. He says that half of the outperformance was delivered by a gain on the sale of Visa.

'For a bank that was shrinking for almost a decade, we believe that HSBC is back to growth,' says Ryan.

ROBUST FINANCIAL POSITION

It is also very well capitalised. Its common tier one equity (CET1) is up 0.4% to 14.7% beating the consensus figure of 14.3%. CET1 is basically the size of the bank's cash reserves against its loans, accounting for riskier assets such as unsecured lending.

The good news for investors is that any capital held above the CET1 figure is liable for return to shareholders and that is what HSBC is doing. It announced on Monday that it would be extending its share buyback scheme by $2bn, bringing the total amount of buybacks since the second half of 2016 to $5.5bn.

This strong capital position has led Jason Napier, analyst at UBS, to predict further returns of capital to shareholders. He says that as HSBC has $13bn above the bank's management target of 13% CET1, 'our estimates already assume another $2bn buyback will announced at the third quarter results'.

> FOR A BANK THAT WAS SHRINKING FOR ALMOST A DECADE, WE BELIEVE THAT HSBC IS BACK TO GROWTH

CONSISTENT DIVIDEND PAYER

With all investments there are risks and Ronit Ghose, analyst at Citi, says that political risks due to some of the markets in which HSBC operates as well as regulatory pressures could impact the bank. He gives the bank a target price of 810p, implying 7.6% upside on the current share price of 760.80p.

HSBC has been a consistent dividend payer, maintaining the $0.51 per share for some time, with Alastair Ryan predicting that figure to stay the same for years to come. HSBC is not the cheapest stock, UBS' Napier forecasts its price to book value at 1.4-times for 2017. This is at the top end of bank valuations but you get what you pay for. (DS)

Why tobacco earnings won't go up in smoke

Correction may have created an opportunity at London's cigarette giants

Shares in London's two listed cigarette titans **British American Tobacco (BATS)** and **Imperial Brands (IMB)** sold off heavily following the US Food and Drug Administration's (FDA) announcement (28 Jul) that it intends to lower nicotine levels in cigarettes to non-addictive levels.

At first glance, the news appears negative for these major contributors to the yield generated by the FTSE 100, although the correction could present a buying opportunity.

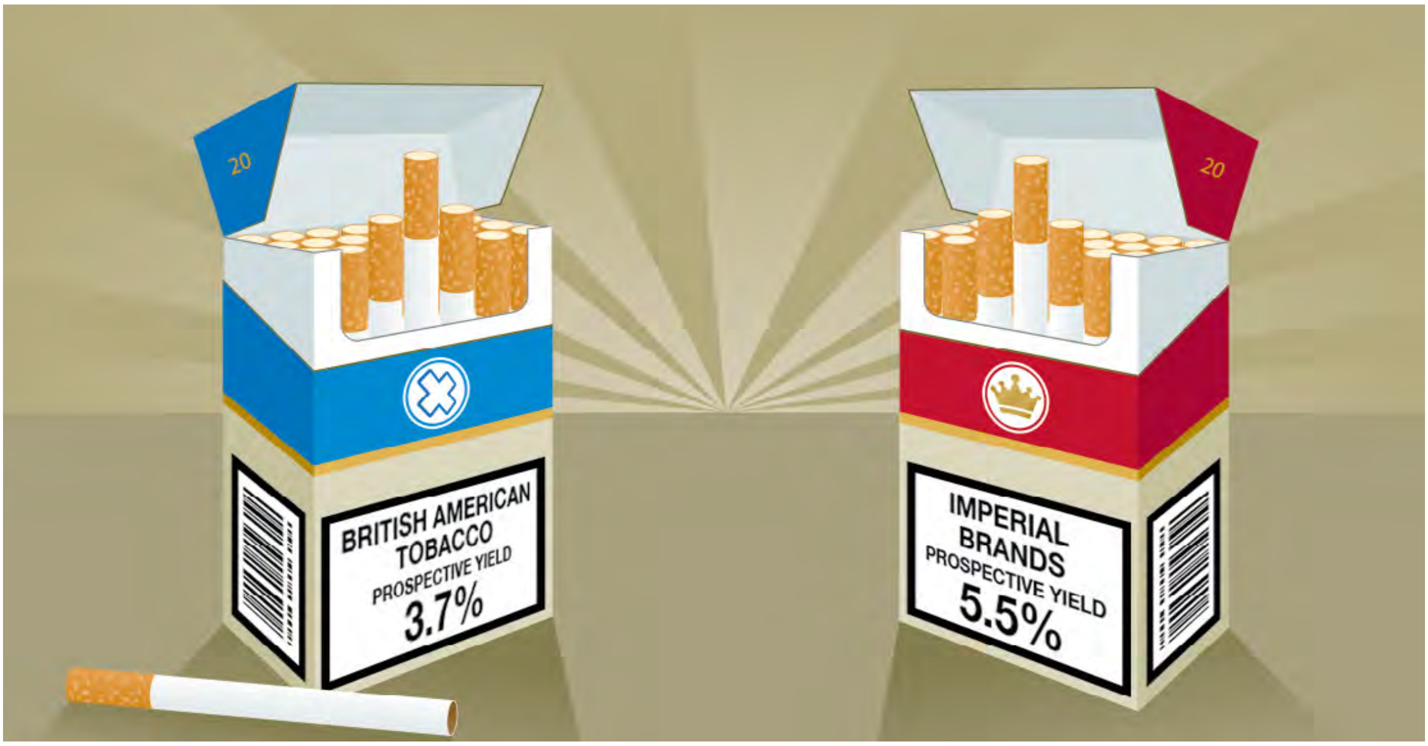
The FDA wants to start a public dialogue on how to reduce nicotine levels in cigarettes to non-addictive levels in the US market. Yet no timeline was given and there's no definition of "non-addictive", so what this means for the US cigarette market and when is unclear.

Berenberg notes that 'the FDA by statute is not legally permitted to force the industry to reduce nicotine to zero, and this would be technically very difficult anyway as nicotine is a natural constituent of tobacco'. Furthermore, 'the imposition of maximum tar and nicotine levels has not had a dramatic impact on other cigarette markets.'

Bulls also argue the FDA's changes are likely to speed up smokers' migration to substitute products, an area where large tobacco firms dominate. British American Tobacco's £41.7bn acquisition of the remaining 57.8% of Reynolds has deepened its presence in the US, though BATS is the largest vapour company in the world with brands including Vype, Ten Motives and Vuse.

Berenberg writes: 'The announcement is not all "anti-tobacco". Indeed the harm reduction policy will be very controversial for many in the anti-tobacco lobby, which prefers a "quit or die" approach. The FDA appears ready to distinguish between different "harm" levels and to favour some products over others.

'This would be a markedly different approach to the "ban/tax them all" approach prevalent in some countries. The policy change will take years to implement, but if the FDA can back this with scientific proof of success it may serve as a model for other countries.'



Source: SharePad

Can BP and Shell deliver on dividends?

First half results encouraging for investors in the sector

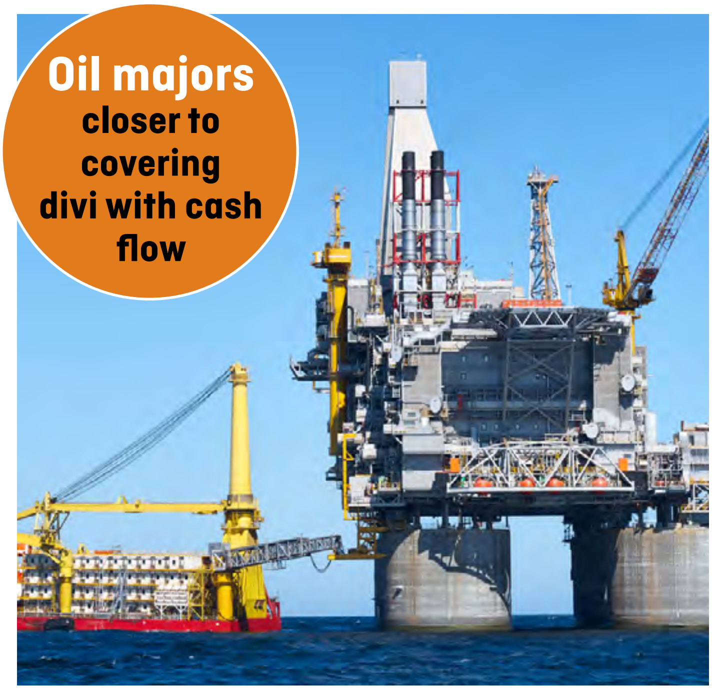
The future direction of UK oil majors **BP (BP.)** and **Royal Dutch Shell (RDSB)** is heavily tied to the fate of their dividends. On balance we think these payments will be sustained and their hefty prospective yields will compress or in other words their share prices will rise. At the current £21.52 Shell yields 7% and at 462p BP yields 6.5%.

First half results from BP and Shell were encouraging. BP unveiled (1 Aug) production up 6% and unit operating costs down 18%. Profit actually fell year-on-year in the second quarter from $720m to $684m thanks to a write-off on a cancelled project in Angola but this was materially better than the $500m pencilled in by analysts.

CASH IS KING

Before payments related to the 2010 Gulf of Mexico oil spill were factored in cash flow of $6.9bn actually covered capital expenditure and dividends – the holy grail for BP. But with payments factored in the figure was trimmed to $4.9bn. The dividend remained at 10 cents.

Oil majors closer to covering divi with cash flow



A yield of 5% would imply a BP share price of more than 600p

A yield of 5% would imply a Shell share price of £30

Shell's results on 27 July were slightly less eye-catching but still solid with chief executive Ben van Beurden noting that significantly 'over the past 12 months cash flow from operations of $38bn has covered our cash dividend and reduced gearing to 25%'.

Both UK companies fared notably better than their US peers. ExxonMobil and Chevron endured share price weakness as their earnings fell short of expectations. Chevron's earnings per share of 77 cents per share compared with a consensus forecast of 87 cents and Exxon's 78 cents with a forecast of 84 cents.

Nonetheless they still posted improved profit figures, demonstrating that big oil's effort to scale back costs is bringing some reward.

OIL IS RECOVERING

Oil prices are showing signs of being more helpful with both the US yardstick WTI and its international benchmark Brent trading above $50 per barrel as they posted the first monthly gains of 2017 in July.

This has been supported by a drop off in US stockpiles and a fall in the dollar which makes commodities like oil, which are priced in dollars, less expensive for holders of other currencies.

SHARES SAYS: ↗
We would be buyers into strength at BP and Shell.

BROKER SAYS 15 6 3

FDM beats again

Surging IT skills demand prompts forecast upgrades

Corporate panic over incoming new data protection rules and IT skills shortages are powering demand for IT project skills supplied by **FDM (FDM)**. This means that the company will beat market expectations for the fourth year in a row.

GDPR are the general data protection regulations that are due to come into effect on 25 May 2018 in the UK and across the EU. This is causing widespread panic for many businesses given the far-reaching implications and hefty financial penalties non-compliance could mean.

FDM drops its highly-trained IT consultants, called 'mounties', into clients firms to solve specialised technology problems. Things like cloud infrastructure transition, ecommerce and cyber security are particularly in demand given their important to either shaving organisation costs or generating higher-margin income.

US operations have been very busy so far this year, where 'mountie' revenues jumped 56% to £36.9m in the six months to 30 June. Asia-Pacific is also growing fast, albeit from a low base, but UK 'mountie' revenues, up 14% to £51m, is surprisingly strong given the post-Brexit vote panic that dragged on the share price.

SHARES SAYS: ↗

FDM remains a high-quality business capable of consistently beating ambitious expectations. (SF)

BROKER SAYS 4 0 0

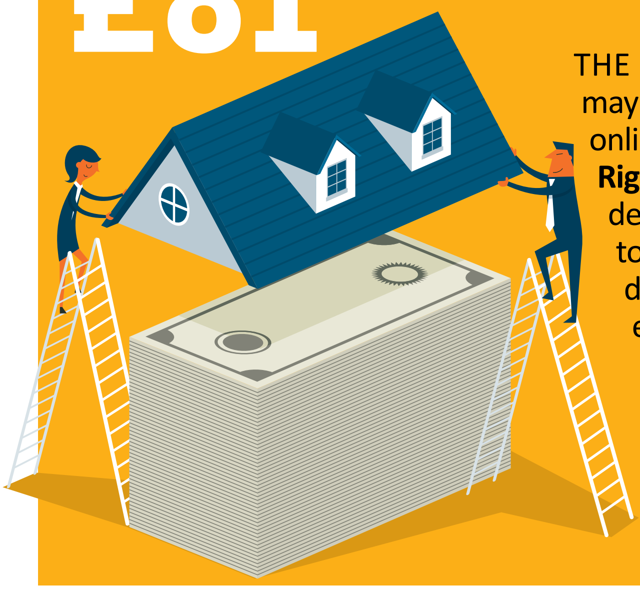
99% FEVERTREE IS FULL OF FIZZ

IS THE SHARE of the value growth **Fevertree Drinks (FEVR:AIM)** has driven in the entire UK mixer category within retail in the past 12 months, the premium carbonated mixers marvel now holding a 30% value share. This statistic demonstrates the extent to which Fevertree is transforming the UK mixer category. Triggering yet another round of earnings upgrades for the posh tonic water-to-ginger ale supplier, first half results (25 Jul) served up by CEO Tim Warrillow revealed revenue up an astonishing 77% to £71.9m with strong growth delivered across all regions, channels and flavours. Fevertree also begins the second half with a bumper £40.5m net cash in the coffers.

Ceres facing cash bonfire

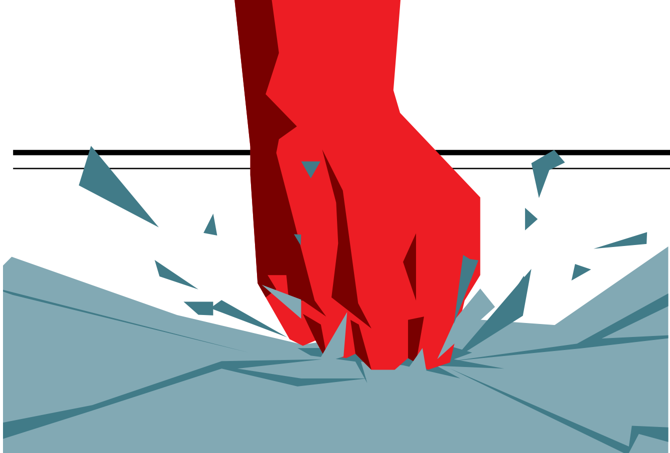
AN INITIATION NOTE from investment bank Berenberg gives an optimistic take on the future of fuels cells technology developer **Ceres Power (CWR:AIM)**. It has slapped a 15p target on the stock, versus the current 11.75p. Yet the technology is still years away from commercial success, if it gets there at all. Berenberg predicts that massive fundingis still needed. The investment bank forecasts £25.4m will be burned through by the business by 2019, at which point estimated revenues of £7m will still be dwarfed by £9.7m of pre-tax losses. Ceres had £16m of net cash as of 30 June.

£81



RIGHTMOVE HAS SOLID FOUNDATIONS

THE UK HOUSING market may be slowing down but online property portal **Rightmove (RMV)** is still demonstrating its ability to post solid growth by deriving more from its estate agent clients. Average revenue per agent was up £81 per month to £911 in the first half despite an 8% year-on-year decline in housing transactions. Rightmove's market leading position creates a virtuous circle whereby it lists the most properties, meaning it is the place most prospective buyers go to look for a house, reinforcing its position as a must-have product for estate agents even during times of market uncertainty. (TS)

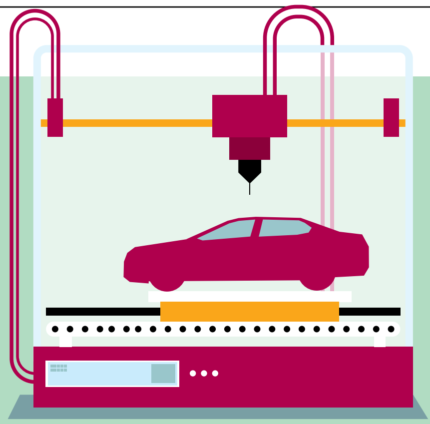


£1.8BN

BANK BASHING NOT OVER YET

JUST WHEN UK banks thought they'd heard enough about claims over misconduct, two high street stalwarts set aside £1.8bn for legacy misdemeanors.

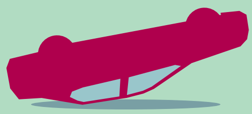
Lloyds (LLOY) has put the bulk aside to deal with payment protection insurance (PPI) claims at £1.1bn but at least it still made a profit. **Barclays (BARC)**, which set aside a not inconsiderable £700m for PPI, is back in the red though, sliding into a £1.4bn loss for the first half of 2017.



-13.7%

UK CAR MANUFACTURING FALLS ON BREXIT UNCERTAINTY

UK CAR MANUFACTURING volumes declined 13.7% in June, according to the Society of Motor Manufacturers and Traders (SMMT). SMMT chief executive Mike Hawes warned that uncertainty from the UK's decision to leave the European Union is 'not helping investment and stalling growth.' The analysis also suggests if the UK fails to secure a deal or interim agreement to maintain current trading conditions, output could fall more heavily in 2019.



Alfa by name and performance

This may be the UK market's best quality software company

We're on a decent run of high-quality software businesses of reasonable scale joining the London market. Firms like **FDM (FDM)**, **Kainos (KNOS)**, **Sophos (SOPH)** and **Softcat (SCT)** spring to mind. **Alfa Financial (ALFA)** might just be the pick of the lot.

Floating on 1 June at 325p, investors have fallen over themselves to buy stakes, sending the share price soaring to 482.75p. Even so, we believe there is reliable, long-run mid-teens growth or better on offer, something we think the market will continue to pay a hefty premium for.

ALFA FINANCIAL
BUY
(ALFA) 482.75p
Stop loss: 386p

Market value: £1.45bn

OPERATES IN A UNIQUE NICHE

Founded by executive chairman Andrew Page in 1990, Alfa provides an enterprise system for the asset and consumer finance industry. The platform provides new business and agreement management functionality as well as workflow and analytics capabilities.

Alfa has a global client base for its browser-based, Java-developed solution that includes heavyweight financial institutions such as **Barclays (BARC)**, Bank of America and Commonwealth Bank of Australia, plus the finance arms of manufacturing giants like Mercedes-Benz, Siemens and Toyota. Alfa has 10 offices worldwide with over 250 staff.

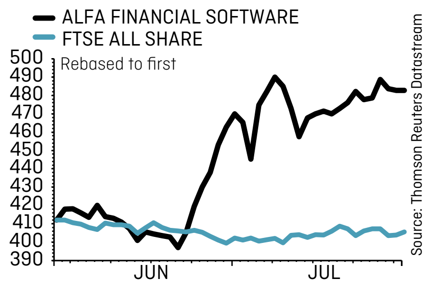
The world of asset finance may sound dull but the opportunity for Alfa to develop and grow into this niche space certainly is not. That's largely because of the continued dominance of legacy IT systems often developed by large organisations inhouse. With the demand for increased digitisation and new functionality, many of these systems are fast becoming outdated.

This implies a large number of big businesses increasingly open to the idea of outsourcing to Alfa's best in class suite of tools. Rob Warensjo, of the Megabuyte software industry analysis boutique, believes that the company has only scratched the surface of the market opportunity to date. That Alfa raised no new money at the IPO shows that future growth is very likely to be self-funded.

STRONG FINANCIALS

Figures revealed in the intention to float document highlighted strong growth in the year to 31 December 2016, with revenues up 35% to £73.3m. From that the company earned £32.8m of operating profit, itself up 46%.

According to Reuters, forecasts revenues will hit £86.1m in 2017 and about £100m next year, implying £40.7m and £47.3m of pre-tax profit respectively. The shares are expensive, on a rough 2018 price to earnings multiple of 39.5, but we think this will continue to be justified by growth. (SF)



Bag Mulberry for global growth

Turnaround progress and sector M&A are reasons to bag British luxury brand

Shares believes this is an opportune moment to buy British luxury brand **Mulberry (MUL:AIM)** following a pullback to £10.23 per share. The fashion bags-to-footwear retailer's turnaround is gaining traction, currency movements give some overseas tourists more purchasing power in the UK, while recent M&A activity highlights the attractions of strong luxury brands.

MULBERRY BUY
(MUL:AIM) £10.23
Stop loss: £81.8

Market value: £638.6m

MULLING OVER MULBERRY

Investing on takeover hopes alone is foolish and we're mindful of Challice Limited's dominant 56.2% stake in Mulberry, yet its turnaround under CEO Thierry Andretta is gaining traction. Full year results (14 Jun) to 31 March revealed a 21% pre-tax profit surge to £7.5m on sales up 8% to £168.1m, with retail sales including digital up 5% on a like-for-like basis.

The English design company did report softer trading entering the new financial year. It flagged modest 1% retail like-for-like sales growth for the 10 weeks to 3 June, though this was against a tough comparative and delivered in a seasonally quiet period.

Mulberry has successfully re-focused on its core 'relatively' affordable £500-to-£995 pricing point. New products launched under the creative direction of Johnny Coca, including the bestselling Zipped Bayswater bag, are gaining momentum.

The £638.6m cap closed the year with £21.1m cash in the coffers and no debt, giving it the firepower to grow its core leather goods business and stretch the brand into footwear, accessories and jewellery.

GOING FOR GROWTH

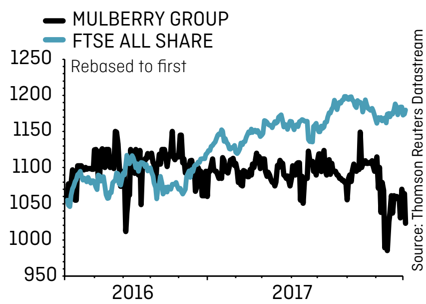
Barclays analysts argue Mulberry is unique among listed peers in being immature in global luxury markets outside the UK. This quality that could make it attractive as a takeover target, so long as earnings continue to recover.

Footwear brand **Jimmy Choo's (CHOO)** £896m takeover by US handbags brand Michael Kors at a significant premium demonstrates the strategic attraction of luxury brands, while Coach has snapped up handbags rival Kate Spade & Co for $2.4bn, luxury groups coming together in defensive mergers that bring scale.

For the year to March 2018, Barclays sees Mulberry generating adjusted pre-tax profits of £9m, improving to £10m in 2019, with a flat 5p dividend shaded in for both years. These forecasts could prove conservative if Mulberry's global growth moves pay off.

Not only has Mulberry established a majority-owned entity, Mulberry Asia, with Challice to operate the business in China, Hong Kong and Taiwan, it has also formed a new 50:50 joint venture with Onward Global Fashion (OGF) to operate its business in Japan. (JC)

BROKER SAYS: 0 1 0



SOPHOS
(SOPH) 460p

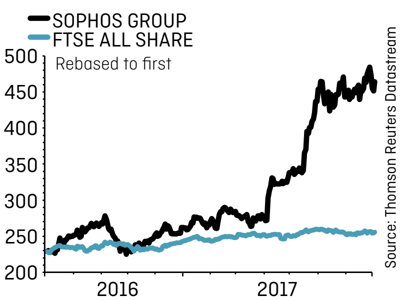
Gain to 27 July 2017*: 114.6%
Original entry point:
Buy at 220.7p, 28 Jul 2016

MORE ROBUST TRADING through the first quarter for cyber security FTSE 250 **Sophos (SOPH)** makes it easier to understand why the share price has more than doubled in a year. End point security is the star, justifying previous investment and helping the company secure what Numis calls 'an exceptionally large deal.' This is presumably a response to soaring demand for tools to fight off ransomware hacking attacks, such as *WannaCry* and *Petya*.

Stripping some of the sheen off is a steep decline in adjusted operating profit to just $3.4m, and we would guess that this is partly down to front loading costs ahead of what should be a busy second half. That's backed up by a hefty second half bias of contracts renewals, says Numis, even if billings growth of 16% shows a slowdown on the 25% this time last year.

We continue to like Sophos' position in this high demand cyber security space, and believe there remains a long-term value creation opportunity in holding the shares.

That said, modest caution over the required growth to meet upgraded forecasts for the full year to 31 March 2018 makes it sensible to take some well-earned profit off the table.



SHARES SAYS: ↘
This is a good time to cash in. (SF)

BROKER SAYS: 8 2 0

*Date exited Great Ideas portfolio

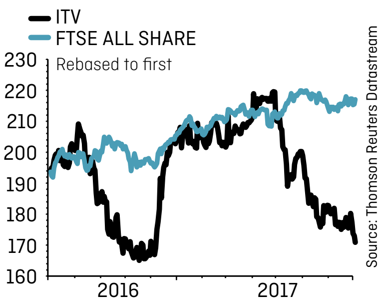
ITV
(ITV) 172.2p

Loss to date: 11.5%
Original entry point:
Buy at 194.6p, 22 December 2016

OUR VIEW THAT an advertising slowdown was already priced-in at free-to-air broadcaster **ITV (ITV)** proved too hopeful. But with a new chief executive appointed and a difficult first half out of the way there could be scope for the shares to do rather better in the remainder of the year. For these reasons we hold to our positive view.

Results for the six months to 30 June were announced on 23 July. Although earnings were down 9% this was actually a little better than feared and the year-on-year decline in advertising revenues due to political and economic uncertainty in the UK came in at 8% against guidance of between 8% and 9%.

Liberum reckons non TV-advertising revenue now accounts for 45% of the group total. ITV has invested in its production and online arms. The decline in TV ad revenue is expected to moderate in the third quarter at 5%. **EasyJet (EZJ)** boss Carolyn McCall will take the helm at ITV on 8 January 2018.



SHARES SAYS: ↗
If we liked ITV at nearly 200p it follows we should be even more positive at the current levels. With the outlook brightening we see scope for the shares to recover in what remains of 2017. (TS)

BROKER SAYS: 12 8 3

DIAGEO
(DGE) £24.55

Gain to date: 13%

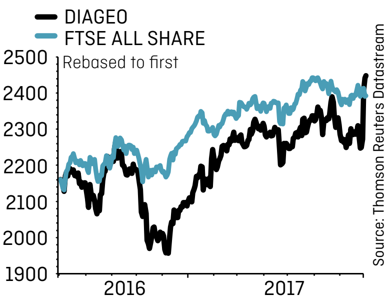
Original entry point:
Buy at £21.73, 12 Jan 2017

OUR POSITIVE STANCE on alcoholic drinks giant **Diageo (DGE)** has been rewarded with a 13% share price advance so far. Investors' thirst for the shares has been further stimulated by news (27 Jul) of record full year profits, an upgrade to its three-year margin improvement target and the launch of a palate-pleasing £1.5bn share buy-back.

In January, we flagged the top line growth and margin enhancement potential on offer at the world's biggest spirits company, whose winning brands include *Johnnie Walker* whisky, *Captain Morgan* rum, *Smirnoff* vodka and *Tanqueray* gin.

Diageo's sales and operating profits were up 15% to £12.1bn and 25% to £3.6bn respectively in the year to June, helped by currency movements but more importantly, reflecting robust organic growth. CEO Ivan Menezes said his charge 'delivered consistent strong performance improvement across all regions' and flagged 'progress in our focus areas of US Spirits, scotch and India'.

Diageo is an 'expensive defensive' but we're staying positive given wider macro-economic uncertainties. Diageo's strong brands represent an economic moat, engendering loyalty among consumers, conferring pricing power upon the business and creating barriers to entry for rivals.



SHARES SAYS: ↗
We're in agreement with the bullish consensus, fans of Diageo's brand strength, geographically diversified earnings and strong free cash flow generation. (JC)

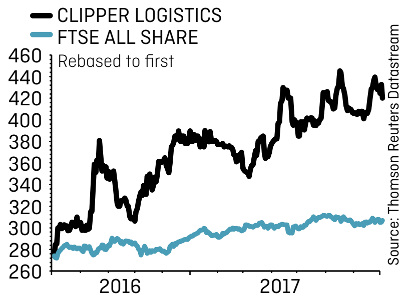
BROKER SAYS: 18 9 3

CLIPPER LOGISTICS
(CLG) 420p

Gain to date: 36.8%

Original entry point:
Buy at 307p, 1 September 2016

FULL YEAR NUMBERS from **Clipper Logistics (CLG)** (28 Jul) initially supported another healthy advance in the shares although profit takers have swooped in the interim. Still, we remain in a healthy profit on our positive call on the stock. Exposed to growth in online shopping, the company handles warehouses and delivery services for retailers. This includes sending out clothes ordered online and, probably more crucially, handling any returns. Clients include **ASOS (ASC:AIM)**, **Tesco (TSCO)**, Asda and John Lewis. In the year to 30 April profit after tax was up 20.6% at £12.5m on revenue up 17.2% at £340.1m. On broker Cantor Fitzgerald's reckoning the company trades at a 100% premium to the broad logistics and parcels sector. Although some premium is warranted it believes this is 'difficult to justify'.



SHARES SAYS: ↘
The shares are up more than four-fold on the 100p issue price from its 2014 IPO but appear to have stalled for now. A great company but this is reflected in the share price and with a lack of immediate catalysts it makes sense to book some profit. (TS)

BROKER SAYS: 2 0 0

Why payment companies are so attractive

What caused the recent flurry of deals in the fast consolidating payment processing sector?

Payment processing companies are in demand. FTSE 250 **Paysafe (PAYS)** receiving a £3bn bid (21 Jul) weeks after US credit card company Vantiv struck a £9bn deal to buy **Worldpay (WPG)** (4 Jul).

News of the Worldpay transaction came just 24 hours after Danish payments processor Nets confirmed that it had been in talks with US private equity firms including Hellman & Friedman over a potential buy-out. The Copenhagen-based firm had previously been purchased by private equity giants Advent International and Bain Capital in 2014.

And in the same week, French payment specialist Ingenico acquired Bambora for €1.5bn while another French company Worldline announced it was to buy Sweden's Digital River World Payments.

The pattern is clear, payment processing companies are attractive to investment heavyweights and they don't just want a stake but the whole thing.

PREMIUM BID FOR PAYSAFE

Paysafe, having previously rebuked an offer from a consortium including CVC Capital Partners and Blackstone in May, seems to be more receptive to the current all cash offer of £2.9bn.

According to the company this offer suggests a share price value of 590p. The UK-based company says this represents around a 34% premium over the average share price for the first six months to 30 June.

Someone from within the industry who preferred not to be named explains the draw of these type of firms. 'Companies are realising the strategic importance of knowing what consumers are spending their money on and offering analytics insights to retailers to optimise business.'

Payment information is useful to retailers as it can allow them to tailor their advertising to certain customers based on spending history.

DRAMATIC BID FOR WORLDPAY

Worldpay's journey into the hands of Vantiv is far more dramatic and includes one of the biggest moves in a FTSE 100 company's share price for some time. When the company revealed it had been approached by two potential buyers, Vantiv and JP Morgan Chase, the share price shot up by 24% to 395p.

Once it became clear that Vantif was the preferred buyer the shares traded down and are currently at 375.10p. Our unnamed industry source says, 'Event driven hedge funds thought the approach Vantiv made to Worldpay was the start of a process not the end of one' hence the sharp price increase.

Jean Beaubois, analyst at investment bank Berenberg, says the attraction of a company like Worldpay is that it will give the likes of Vantiv international e-commerce capabilities that would allow the company to cross sell to their US client base.

Berenberg has been predicting that Worldpay 'would be the perfect target for a US acquirer' since 14 March this year.

Vantiv and Worldpay say it will now be able to serve a wider range of customers, with a strong position in the four core regions of the US, Europe, Asia-Pacific and South America. These locations contain many of the world's largest e-commerce merchants. (DS)

FRIDAY 4 AUGUST

FBD HOLDINGS	FBH
JARDINE STRATEGIC HOLDINGS	JDS
KENNEDY WILSON EUROPE REAL ESTATE	KWE
MERLIN ENTERTAINMENTS	MERL
MILLENNIUM & COPTHORNE HOTELS	MLC
PEARSON	PSON
ROYAL BANK OF SCOTLAND	RBS
RPS	RPS
ECONOMICS	
US	
NON-FARM EMPLOYMENT CHANGE	
UNEMPLOYMENT RATE	

MONDAY 7 AUGUST

INTERIMS	
TELIT COMMUNICATIONS	TCM
ULTRA ELECTRONICS	ULE
AGMS	
AKERS BIOSCIENCES	AKR
ECONOMICS	
UK	
HALIFAX HPI	

TUESDAY 8 AUGUST

INTERIMS	
T CLARKE	CTO
INTERCONTINENTAL HOTELS	IHG
IP GROUP	IPO
IWG	IWG
MORGAN SINDALL	MGNS
MEREO BIOPHARMA	MPH
MPORIUM	MPM
PETS AT HOME	PETS
PADDY POWER BETFAIR	PPB
ROTORK	ROR
SIG	SHI
STANDARD LIFE	SL.
TP ICAP	TCAP
WORLDPAY	WPG
TRADING STATEMENTS	
BELLWAY	BWY
AGMS	
FRUTAROM INDUSTRIES	FRUT
MILESTONE GROUP	MSG
ECONOMICS	
UK	
BRC RETAIL SALES MONITOR	

WEDNESDAY 9 AUGUST

INTERIMS	
G4S	GFS
HASTINGS GROUP	HSTG
LEGAL & GENERAL	LGEN
RIVERSTONE ENERGY	RSE
SPIRAX-SARCO ENGINEERING	SPX
STOCK SPIRITS	STCK

Global life insurance company **Prudential (PRU)** is releasing its interim results on 10 August and investors will be keen to see what is driving this behemoth.

Will Asia still be providing the bulk of new business profits as it did last year or have global demographics changed? For a company of this size, growth can come in many forms and from various parts of the globe.

Unloved specialist retailer **Pets at Home (PETS)** is about to scurry in with a first quarter trading update (8 Aug). Investors will be hoping a recent return to growth in merchandise sales has continued, although the outlook for Pets is highly uncertain. The UK consumer is being squeezed and competition is intensifying in UK pet care; one notable rival for Pets to worry about is Germany-based online only pet food and accessories seller Zooplus, whose sales are growing quickly.

THURSDAY 10 AUGUST

INTERIMS	
AMEC FOSTER WHEELER	AMFW
TRITAX BIG BOX REIT	BBOX
COCA-COLA HBC	CCH
CINEWORLD	CINE
DERWENT LONDON	DLN
EVRAZ	EVR
HILL & SMITH	HILS
PAGEGROUP	PAGE
PRUDENTIAL	PRU
THE VITEC GROUP	VTC

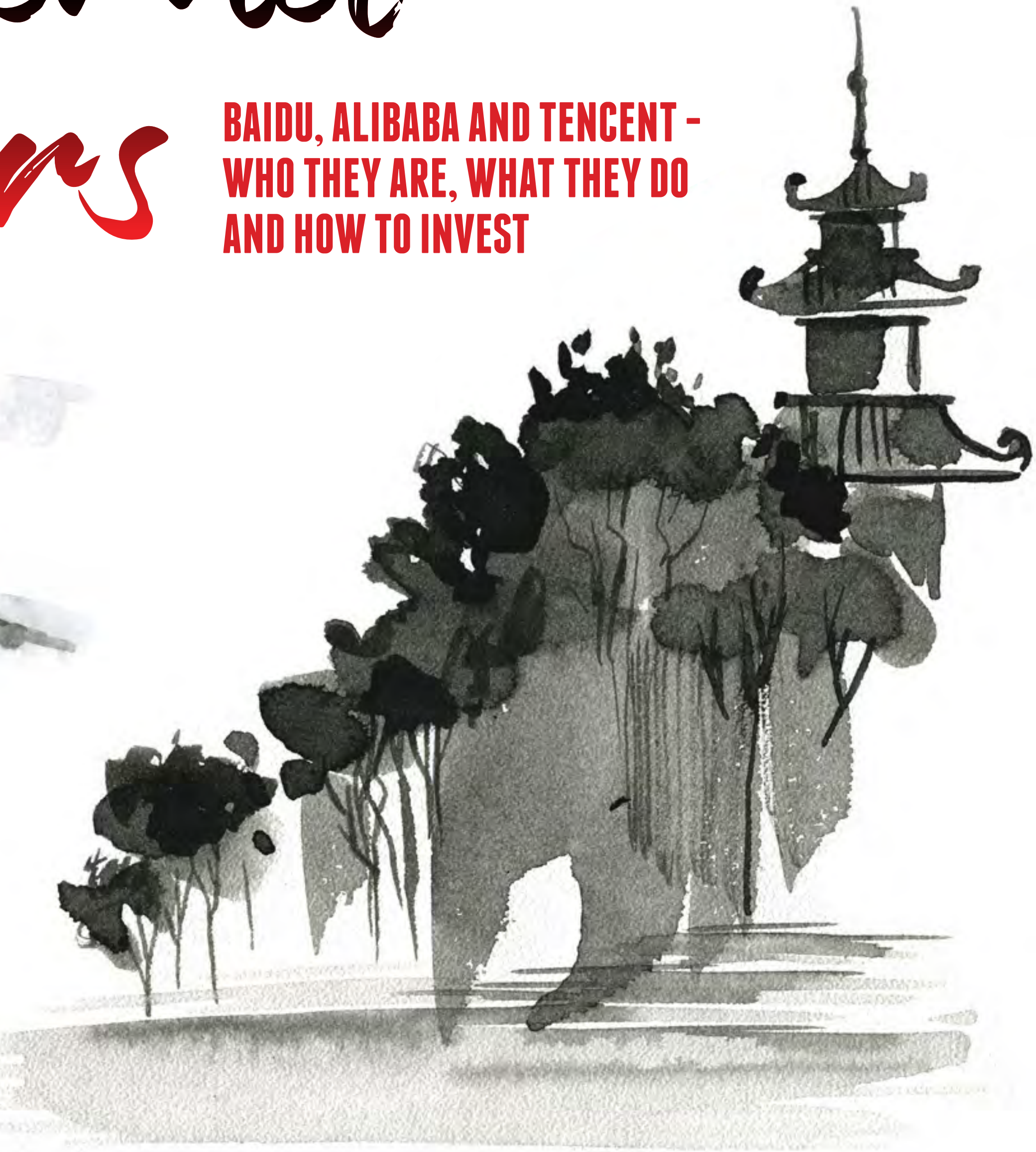
Two West Country engineering companies are set to report their first half results next week. On 8 August Bath's **Rotork (ROR)** publishes its numbers and Cheltenham's **Spirax-Sarco Engineering (SPX)** follows suit on 9 August. Spirax, which is diversified across lots of different industries has enjoyed an extremely strong run, reflected in a 94% three-year run in the share price. In contrast Rotork is down 16% thanks to a slowdown in the oil market and recently announced the departure of chief executive Peter France.

AGMS		
BLUE PLANET INVESTMENT TRUST	BLP	
INVESTEC	INVP	
ECONOMICS		
UK		
MANUFACTURING PRODUCTION		
CONSTRUCTION OUTPUT		
INDUSTRIAL PRODUCTION		
EX-DIVIDEND		
AVON RUBBER	AVON	4.11P
BT	BT.A	10.55P
FORESIGHT SOLAR FUND	FSFL	1.58P
GREENE KING	GNK	24.4P
IOMART	IOM	6P
MAVEN INCOME & GROWTH VCT	MIG6	0.25P
NEW CENTURY AIM VCT	NCA	11.6P
NORTHGATE	NTG	11.6P
RM	RM.	1.65P
RPC	RPC	17.9P
ST MODWEN PROPERTIES	SMP	2.02P
TRIAD GROUP	TRD	0.5P
YU GROUP	YU.	1.5P

Click here for complete diary
www.sharesmagazine.co.uk/market-diary

China's Internet Stars

BAIDU, ALIBABA AND TENCENT – WHO THEY ARE, WHAT THEY DO AND HOW TO INVEST



We're all familiar with **Facebook (FB:NDQ)**, **Amazon (AMZN:NDQ)**, **Netflix (NFLX:NDQ)** and Google – courtesy of its parent **Alphabet (GOOG:NDQ)**, aka the FANG stocks. They've been blazing a trail this year on spectacular trading, with soaring key performance indicators (KPIs) like new subscribers and advertising revenues growing fast.

Unsurprisingly, FANG shares have gone bananas this year, smashing the performance of the S&P 500, and that's even after the modest sell-off in big tech names recently. Investors love their huge cash flows and high growth rates, and are rightly willing to pay a hefty premium for that.

BAT VS FANG, AT A GLANCE

	MARKET VALUE ($M)	LAST FY REVENUE ($M)	OPERATING PROFIT ($M)	FORECAST REVENUE GROWTH (%)	FOWARD PE
CHINA (BAT)					
Baidu	70,783	10,468 (CNY 70,549)	1,491 (CNY 10,049)	21.2	28.0
Alibaba	404,220	23,484 (CNY 158,273)	10,264 (CNY 69,172)	46.3	30.3
Tencent	370,077	22,546 (CNY 151,938)	8,327 (CNY 56,117)	47.8	37.0
US (FANG)					
Facebook	506,109	27,638	16,494	41	28.2
Amazon	512,680	135,987	4,186	22.3	135.1
Netflix	81,150	8,831	380	30.3	107.2
Google alphabet	662,530	90,272	30,419	20.5	26.4

Source: Reuters Eikon, 28 July 2017

But how well do you know their Chinese equivalents, to so-called BAT stocks, **Baidu (BIDU:NDQ)**, **Alibaba (BABA:NYSE)** and **Tencent (0700:HK)**. You may be surprised to discover that they are almost as big as their US peers, throw off similarly large amounts of cash, have arguably more diversified businesses and, crucially, are growing even faster.

Shares in Baidu, Alibaba and Tencent have shot-up an average 55% in 2017 so far, led by Alibaba's astonishing 81% rally.

Hyper Growth Potential

What really confounds investment experts is the BAT's apparent ability to defy the law of large numbers, the idea that growth rates should converge towards the mean as an organisation gets bigger. Alibaba and Tencent have both been putting up revenue growth of around 40% for the past five years and current forecasts anticipate similar progress ahead.

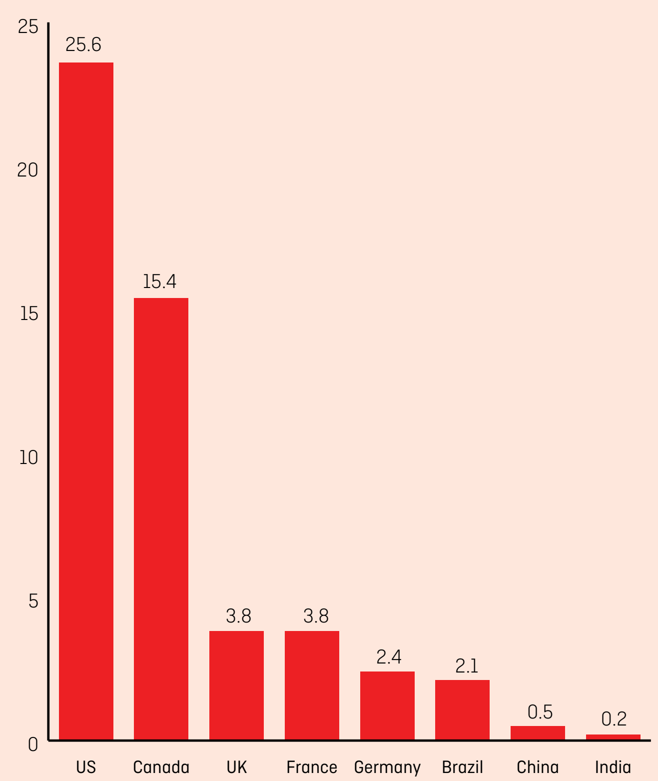
'I find it extraordinary,' says Ali Unwin, manager of the **Neptune Global Technology Fund (GB00BYXZ5N79)**. Unwin was a fan of the Chinese internet boom long before he helped launch his Neptune fund in December 2015, and his fund has held stakes in all three of BAT stocks during the 21 months since launch.

China still has enormous growth potential. One of the reasons that so many Chinese are adopting online commerce is historical and cultural. Outside of the big cities there is little retail infrastructure, as Neptune's Unwin explains. Where we in the UK are all used to local high streets for shopping – with a butcher, baker and candlestick maker - little of that exists in rural China, where a single hardware store may exist.

And to buy anything more than everyday goods, an iPhone say, or a book, it's either a trek to the nearest large town, a round trip that could be hundreds of miles, or buy online.

>> continues on page 27

Retail space per capita (m2)



Source: Barclays

BAIDU (BIDU:NDQ) $220 – THE CHINESE GOOGLE?

Nasdaq-listed Baidu is the largest Chinese language search engine in China, with an estimated 80% market share that sees about 3.3bn searches per day. About 80% of Baidu's revenue comes from online ads across its search services, through applications such as Baidu Encyclopedia, maps, image search, music and video search, news search and so on.

Like its US peer, Baidu has expanded beyond its original search market. Its offering includes a translation service capable of recognising subtle differences between the many Chinese dialects.

These days the other 20% of its revenue comes from Baidu Wallet, a mobile payments app, and iQiyi, a video streaming service. This latter business has grown fast and is now reckoned to be the largest online video platform in China.

This is typically higher margin, subscription based income although it also means Baidu must spend fortunes in both buying in quality content as well as investing in its in-house production arm.

Baidu has undoubtedly benefitted from Google's exit from the Chinese market in 2010 but it has come up against accusations of slowing growth and declining gross profit margins more recently.

In 2016 a gross margin of 50.1% represented the fourth straight year of decline and the 71% levels of 2012 seem like a long time ago. There's also ballooning research and development costs as Baidu pushes into potentially large future markets (healthcare technology, artificial intelligence, augmented and virtual reality, for example).

TOP FUNDS FOR BAIDU

Fund	ISIN	% of fund
Invesco Perpetual Hong Kong & China	GB0033028332	6.04
Neptune China	GB00B04H0Y06	5.93
Jupiter China	GB00B1DTDX49	4.39
Legg Mason IF Martin Currie China	GB00BVZ6TV39	4.08
Invesco Perpetual Asian	GB0033028225	3.95
Threadneedle China Opportunities	GB00B1PRWF12	3.50
Rosenberg Global Emerging Markets Equity Alpha	IE00B101JZ71	3.30
M&G Asian	GB0030939556	3.21
Fidelity China Consumer	GB00B6WFC751	3.00
HSBC Chinese Equity	GB00BYNBTL16	2.42

Source: Trustnet

Alibaba Group

ALIBABA GROUP (BABA:NYSE) $154 – THE CHINESE AMAZON, OR EBAY, OR BOTH?

Ranked as the largest IPO of all-time, when the company floated on the New York stock market in 2014, clawing in $25bn for selling shareholders. Alibaba operates China's largest e-commerce platforms Taobao and Tmall.

The latter is a classic business to consumer platform (B2C) where online retailers sell to individuals, more like Amazon. In contrast, Taobao is a consumer to consumer (C2C) marketplace model that's more in tune with **Ebay (EBAY:NDQ).**

With more than 700m Chinese already online, that's about the same number of people as the entire EU population, and a far greater proportion of China's 1.6bn-odd population is expected to join them in future. That gives Alibaba an enormous domestic market alone.

But that hasn't stopped the company from expanding into new growth areas, such as cloud computing, digital media and entertainment.

Alipay, their third-party online payment platform, has now become the dominant player in the Chinese online payment market, which neatly links its main businesses into a coherent digital ecosystem. The big push now is to rapidly hike its active buyer base. It has around 423m buyers now but the company wants to hit 2bn by 2036, an astonishing ambition.

To do this Alibaba has made digital vertical investments into things like smart logistics, payment services, cloud computing, online marketing services, travel booking, music and video streaming. It has also fired the gun on overseas expansion, with Indonesia and other South East Asia territories in its sights. India is also on the cards.

The e-commerce giant has already steered the market to expect revenue growth of between 45% and 49% this year to 31 March 2018.

TOP FUNDS FOR ALIBABA

Fund	ISIN	% of fund
Invesco Perpetual Hong Kong & China	GB0033028332	10.25
HSBC Chinese Equity	GB00BYNBTL16	9.53
Threadneedle China Opportunities	GB00B1PRWF12	9.40
Henderson China Opportunities	GB0031860934	9.37
Fidelity China Consumer	GB00B6WFC751	7.50
Baillie Gifford Greater China	GB00B39RML74	8.00
Allianz Total Return Asian Equity	GB0031384257	5.70
JPM Asia	GB00B235GR40	5.40
Newton Oriental	GB0006781289	4.92
Investec Asia Ex Japan	GB0031141913	4.60

Source: Trustnet

TENCENT HOLDINGS (0700:HK) HK$305.4 – THE CHINESE FACEBOOK?

Tencent is an investment holding company that provides internet value-added services and online advertising across mainland China, Hong Kong and elsewhere internationally. That rather loose description basically covers a wealth of messaging and social networking platforms - Weixin/WeChat and QQ.

Weixin/WeChat is a phenomenon and one of the world's fastest growing social apps. Released in 2011, the platform combines messaging, social communication and lots of mobile games, all in a single easy-to-use app. Estimates suggest the average Chinese user is on the platform for up to four hours daily. The equivalent figure for the likes of Facebook, Twitter, Instagram, Whatsapp is one-and-a-half hours.

QQ provides an internet-based all-in-one instant messaging service, with text messaging, video, voice chat as well as online/offline file transmission.

Both services have upwards of 800m monthly active users, implying than the majority use both services for different things. Website QQ.com, for example, is China's largest local language portal integrating news, interactive communities, entertainment products and widely used basic services.

Like its peers, Tencent has also been busy expanding elsewhere, with cloud computing support, video streaming and its TenPay app, which are all growing fast. Integrating TenPay with its social platforms is also streamlining the purchase of products and services. The stock is listed in Hong Kong and Tencent is one of the largest public companies in Asia.

TOP FUNDS FOR ALIBABA

Fund	ISIN	% of fund
Neptune China	GB00B04H0Y06	10.69
Legg Mason IF Martin Currie China	GB00BVZ6TV39	9.52
Threadneedle China Opportunities	GB00B1PRWF12	9.30
Baillie Gifford Greater China	GB00B39RML74	9.20
Baring Eastern Trust	GB0000799923	8.97
Allianz Total Return Asian Equity	GB0031384257	7.13
Henderson Asia Pacific Capital Growth	GB0007681603	6.40
Schroder Global Emerging Markets	GB0007906463	6.25
Legg Mason IF Martin Currie Emerging Markets	GB00BVZ6TX52	6.17
AXA Rosenberg Asia Pacific Ex Japan	GB0007705071	4.40

Source: Trustnet

The nation also lacked a retail business establishment, leaving the way free for BAT companies to rapidly gain scale. The Chinese government's ongoing ban on western social media businesses, including FANG plays Facebook, Twitter, Google previous exit and Amazon's lacklustre progress in that market to date, have also helped.

> **TENCENT IS THE QUALITY PLAY, ALIBABA THE GROWTH PLAY, BAIDU THE VALUE PLAY.**
>
> PAUL DANES, CO-MANAGER, MARTIN CURRIE ASIA UNCONSTRAINED INVESTMENT TRUST

Middle Class Millions

But the real growth engine is China's rapidly growing middle class, which is having a massive impact on available spending power. Average household earnings have been outstripping the high single-digit growth of China GDP for several years, and with continue to do so. Estimates suggest this middle class going from 50m or so a few years ago to 500m over the next decade, perhaps quicker. It is a demographic trend that Apple CEO Tim Cook has talked up in the past.

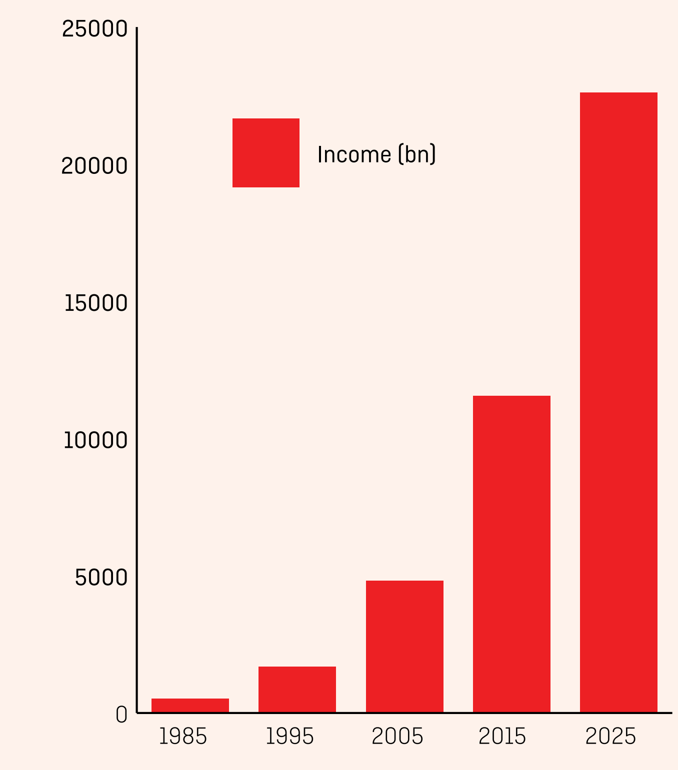
Why is this? Paul Danes, co-manager of the **Martin Currie Asia Unconstrained (MCP)** investment trust, uses a handy analogy. Imagine, for example, an average family earning the equivalent of say, $2,000 a year. About $1,800 of that goes on day to day necessities, food, keeping the light on and the home warm in winter, clothing, basic education and healthcare etc. That leaves $200 a year of disposable income for fun stuff – eating out, going to the pictures, and mobile phones.

But as demand for cheap Chinese labour rises from western markets, local salaries rise. If that average family's annual income goes up to $2,500 a year, even with modest inflation in necessities (say to $1,900 annually), it means disposable earnings will have jumped 200% to $600 a year, and clearly a lot of that extra money is finding its way to BAT companies' online platforms, one way or another.

'We look for long-term, quality growth that is well-priced,' says Danes. He's a particular fan of Tencent despite the company's frustratingly opaque disclosure.

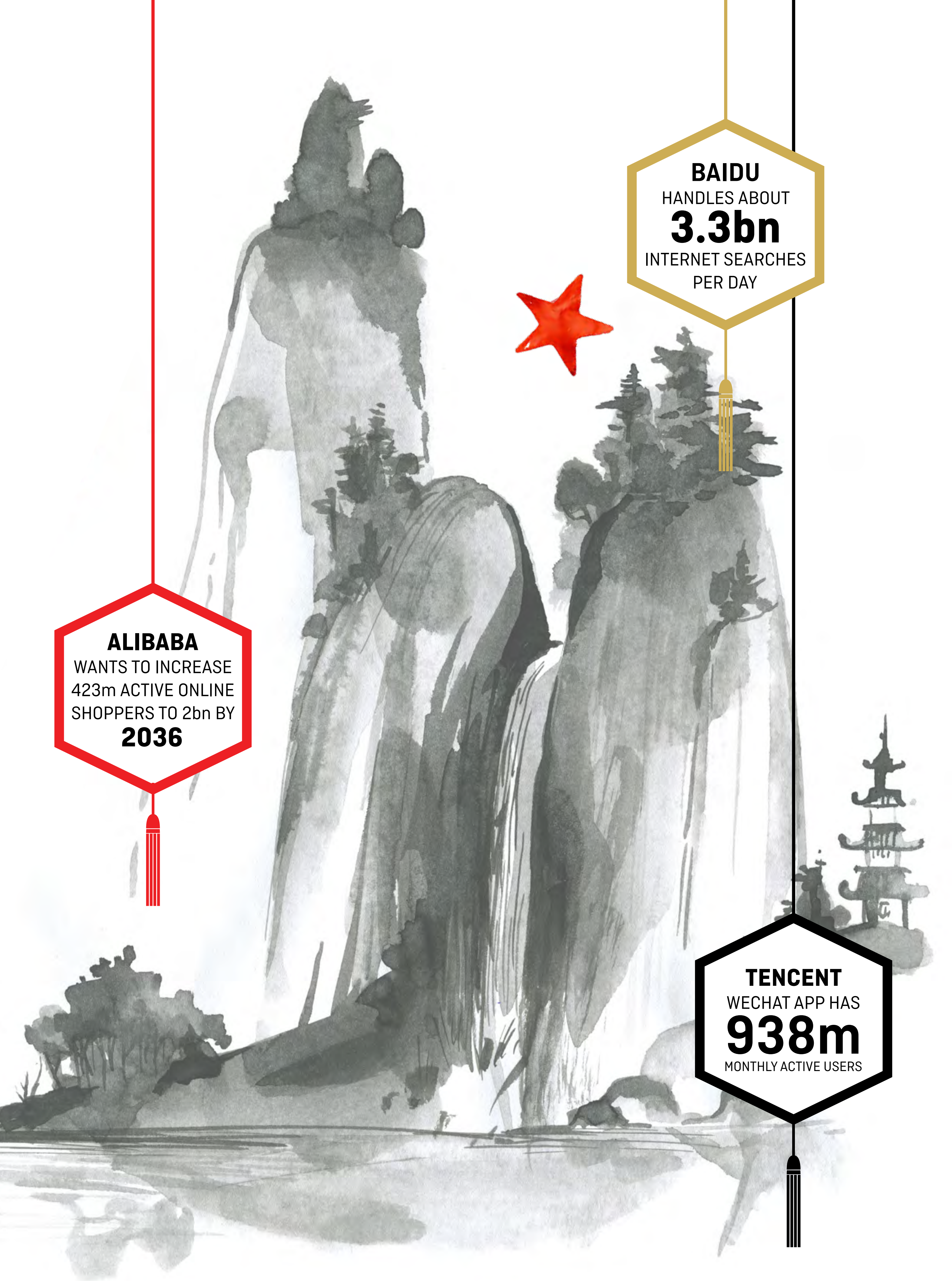
For example, 70% of the firm's revenue comes

China's soring household income



	1985	1995	2005	2015	2025
Per capita Renminbi (CNY)	2,084	4,796	8,575	16,218	27,177
US $ equivalent	267	267	614	1,098	2,076

Source: McKinsey


BAIDU
HANDLES ABOUT
3.3bn
INTERNET SEARCHES
PER DAY
ALIBABA
WANTS TO INCREASE
423m ACTIVE ONLINE
SHOPPERS TO 2bn BY
2036
TENCENT
WECHAT APP HAS
938m
MONTHLY ACTIVE USERS

TOP 10 MOST VALUABLE BRANDS IN CHINA, 2017		
Brand	**Brand value**	**% annual change**
Tencent	$106.18	29
Alibaba	$58.01	22
China Mobile	$57.90	1
ICBC	$31.48	-8
Baidu	$23.89	-11
Huawei	$20.38	10
China Construction Bank	$18.40	-7
Ping An	$16.46	5
Moutai	$16.22	41
Agricultural Bank of China	$14.85	-9

Source: Kantar

from 'internet value-added services,' with little more detail available for ordinary investors. Fund managers like Danes get the opportunity to meet management, and from those conversations have been able to work out that a massive 50% of the group's entire income stems from gaming. Danes remains comfortable with that, but not everyone will be.

Neptune's Unwin is less comfortable with this specific Tencent dynamic, which is why he has trimmed exposure to the company over the past few months. The fund manager remains right behind Alibaba, however, his preferred BAT play. He likes the Chinese Amazon/Ebay's use of data to really get to know its customers and users, which helps Alibaba push increasingly relevant products and services that its user base really wants.

Governance Risks

Baidu remains the arguable weakest link of the BAT trio. According to Neptune's Unwin, slowing growth, the loss of key personnel (such as former chief scientist Andrew Ng earlier this year), greater competition in its core search markets and poor business transparency are key reasons why 'I've sold, I'm concerned, ' the fund manager says.

Limited transparency and disclosure is a big issue for many investors, and Martin Currie's Paul Danes also waves this potential red flag. Things like dual share structures that limited the voting power of outside investors.

Lesser understood risks come in the form of complex ownership vehicles, such as VIE schemes, explains Danes. This stands for variable interest entity, structures that involve owning stakes in holding companies that themselves own shares in the end business. This adds complication, while Danes also points out that these structures have never been legally tested in terms in courts.

How To Invest

Should you look for exposure to these fast growth internet stories? Yes, says Neptune's Unwin, 'if you are interested in material growth over the next couple of decades,' he says. 'It's hard not to.'

Investors that do want to pursue the potentially vast Chinese internet growth opportunity might choose to do so through relevant funds or investment trusts. Danes' investment trust may be an option. Other investment trust options include the **Polar Capital Technology (PCT)** investment trust or **Allianz Technology Trust (ATT)**, both run by the highly respected Ben Rogoff and Walter Price respectively.

There are many funds with sizeable stakes, and we have pulled together handy lists of 10 with decent exposure to Baidu, Alibaba and Tencent in turn.

Alternatively, a small handful of exchange traded funds (ETFs) provide ways of tracking the wider Chinese internet investment theme. Some worth looking at in further detail include the **BLDRS Emerging Markets 50 ADR Index Fund (ADRE)**, **Guggenheim BRIC ETF (EEB)**, **iShares MSCI China ETF (MCHI)** or the **KraneShares CSI China Internet Fund (KWEB)**. All but the iShares product are US-listed ETFs.

'Finding growth in China is not difficult,' says Paul Danes, 'but finding growth that translates into shareholder returns is more challenging.'

THE SMALL CAPS WHICH COULD SUCCEED WHERE ASTRA FAILED

These UK-listed firms are awaiting big news which could trigger further growth

Cancer treatments are dominating the headlines after at least £10bn was wiped off **AstraZeneca (AZN)** following its failed MYSTIC lung cancer trial on 27 July.

AstraZeneca could not prove the combination of durvalumab and tremelimumab immunotherapies was more effective at stopping the progression of lung cancer compared to chemotherapy.

Cancer can be treated in various ways, but one of the biggest breakthroughs set to redefine treatment is immunotherapy, also known as immuno-oncology.

This involves using the immune system to target and destroy cancerous cells without invasive and dangerous side-effects from surgery or chemotherapy.

There are a few UK-listed companies benefitting from these innovative treatments against cancer through immuno-oncology breakthroughs, providing tech to develop treatments or protecting against side effects from chemotherapy.

Companies breaking ground in these areas are **Oxford BioMedica (OXB)**, **Abzena (ABZA:AIM)** and **Clinigen (CLIN:AIM)**.

The World Health Organisation believes new cancer cases are expected to rise by 70% over the next two decades.

BLOCKBUSTER POTENTIAL

It has been a whirlwind year for Oxford University spin-out Oxford BioMedica, which we initially flagged back in March before Novartis submitted its CTL019 treatment for approval.

Oxford BioMedica manufactures lentiviral vectors, in laymans terms tools for gene delivery, for CTL019.

Since March, the biopharmaceutical company's share price has nearly doubled to 8.6p. This is before the therapy has even been approved by the US Food and Drug Administration (FDA) so we believe the share price has further to run.

Jefferies analyst Peter Welford believes CTL019 has the potential to hit blockbuster status, forecasting at least $1bn in peak worldwide sales.

CTL019 replaces genes in the white blood cells of leukaemia sufferers, which allows them to recognise and attack cancer cells.

N+1 Singer's Sheena Berry has upgraded earnings before interest, tax, depreciation and amortisation from £1.5m to £2.4m in 2017 on a new supply agreement with Novartis.

The analyst believes Oxford BioMedica could potentially receive over $100m over the next three years.

Earlier this month, the US Food and Drug Administration's Advisory Committee voted unanimously in support of CTL019. This is good news for Oxford BioMedica as the FDA typically follows recommendations from the panel.

The FDA's ultimate decision is expected by 29 September 2017.

If the treatment is approved, Rodman & Renshaw analyst Joseph Pantginis forecasts 3% of royalties for the biopharma firm. He estimates $127.3m in revenue for Oxford BioMedica from sales of CTL019 in 2022.

CANCER IS THE SECOND LEADING CAUSE OF DEATH GLOBALLY

ACCORDING TO THE WORLD HEALTH ORGANISATION.

GROUNDBREAKING TECHNOLOGY

Life sciences group Abzena is set for a potential share price rally as it waits for American biopharma firm Gilead's Phase III trial results for andecaliximab in the third quarter of this year.

Abzena provided the composite human antibody technology for andecaliximab, which was developed by Gilead to treat gastric cancer.

The share price has rallied 29.5% to 49.9p since the start of 2017 as excitement over the looming results from Gilead mounts.

If Gilead is successful in developing the treatment, Abzena would benefit from licence fees, royalties and milestones in the low-to-mid digit range.

While this sounds low, Gilead is anticipated to hit $1.4bn in peak sales for andecaliximab, which could potentially also be used to treat rheumatoid arthritis and cystic fibrosis. Gilead aims to launch the treatment in 2020.

Abzena improves the properties of pharmaceutical products to make them work more effectively through its Inside programme.

In June, Numis analyst Stefan Hamill said the ultimate sales potential from the Abzena Inside programme currently in the clinic is approximately $10bn.

Since then, Abzena has sealed a licence agreement with Telix Pharmaceuticals to develop products for the imaging and treatment of prostate cancer.

The deal has the potential to deliver over $65m in licence fees and milestone payments to Abzena.

In April, the firm raised £25m to upgrade its US biomanufacturing facilities. The funds will allow Abzena to supply more products and enhance its biology and chemistry offerings in the US and UK.

PROTECTION AGAINST CHEMOTHERAPY SIDE EFFECTS

Specialty pharmaceutical company Clinigen is one to watch this year after it was able to lift restrictions for its cardio protective cardioxane in Europe.

In the year to date, Clinigen has rallied 21.9% to 988.4p.

Cardioxane helps protect the heart during chemotherapy, but was seen as dangerous to children. The drug was thought to put children at risk of a major heart attack so sales were restricted to adults in Europe.

Clinigen has worked hard to lift the restriction and prove that cardioxane does not cause heart attacks, which it was able to do through support from over 60 key opinion leaders in cardiology.

While leading French regulatory agency ANSM is happy to lift the restriction, it needs to be rubber stamped by the European Medical Agency so Clinigen can promote the drug to senior physicians.

It would also allow the company to revitalise the product and benefit from an uplift in sales in the medium term.

Broker Stifel analyst Max Herrmann is optimistic about the company's outlook and anticipates that cardioxane will drive 'strong growth going forward.' [LMJ]

Four ways to use investment trusts

As investment trust assets hit an all-time high we look at ideas for four different types of investor

Record issuance of investment company shares during the first half of 2017 has propelled industry assets to an all-time high of £167.9bn.

Ten new initial public offerings raised £1.5bn, while secondary issuance reached £3.3bn – a record over a half-year period.

The closed-end structure holds benefits for a range of investors: gearing (borrowing money to invest alongside shareholders' capital) can supercharge returns for younger investors with a long investment horizon, while the ability to smooth dividend payments is a boon for income-seekers in retirement.

'People who discover investment trusts and invest in reputable ones (and there are virtually no disreputable ones) will rarely if ever regret it,' says John Newlands, founder of Newlands Fund Research.

'By doing so they are joining a sort of club in which members, or rather shareholders, are stakeholders, however modest, in an incredibly worthwhile enterprise.'

1 BEGINNER TRUSTS

For beginners dipping their toes in the world of investment, experts recommend both UK and global trusts.

'Don't be too specific about sector or geographic location, and don't be misled by articles suggesting you can afford to invest in far-flung locations or esoteric sectors just because you can take a longer-term view,' says Francis Klonowski of Leeds-based Klonowski & Co. 'A simple, well-diversified trust will include some of those areas, but have much else besides.'

Like charity, investing often begins at home, so you could start with 60% in a UK equity income trust, like **Finsbury Growth & Income (FGT).** 'Reinvested dividends should give a steadier overall return than growth-orientated funds that tend to invest in smaller companies and can be more volatile,' says Klonowski.

Add a global trust that excludes the UK, such as **Monks (MNKS)**, part of the Baillie Gifford stable, with the other 40%.

This 60/40 approach works whether you are investing a lump sum or saving regularly. Newlands recommends drip feeding money into markets and many trusts have regular savings schemes from £50 per month.

2 TRUSTS FOR MEDIUM-TERM GOALS

Investment trust shares can trade at a discount or premium to the value of underlying assets, and those saving for a medium-term goal, like school fees, could consider buying into a growth sector on a decent discount.

'There are some great managers in the smaller companies space with strong long-term returns and you can pick some up on double-digit discounts,' says Monica Tepes, investment companies research director at Cantor Fitzgerald.

INVESTMENT TRUST ASSETS AT ALL-TIME HIGH OF £167.9bn

She likes **BlackRock Smaller Companies (BRSC)**, **BlackRock Throgmorton Trust (THRG)** and **Schroder UK Mid & Small Cap (MCP)**.

Newlands favours listed private equity trusts, like **ICG Enterprise (ICGT)**, also on a double-digit discount, for more adventurous investors.

These sectors can be choppy, so be aware of gearing and consider how you will manage your investment as you approach the time you need the money.

'Many investment trust managers use gearing to enhance performance, which can then exaggerate losses in falling markets,' says Jim Harrison, a director at Master Adviser. 'Invest for at least five years and look at the share price and total return in 2007/09 so you're not just considering returns in a bull market.'

3 TRUSTS AS SATELLITE HOLDINGS

Specialist investment trusts make good satellite holdings for investors with portfolios of open-ended funds.

'Investment trusts are excellent vehicles for diversifying portfolios and gaining exposure to more illiquid or specialist markets – infrastructure and alternative sources of fixed income, such as peer-to-peer lending and asset-backed securities,' says Harrison.

All infrastructure trusts are trading on a premium at present – sometimes a double-digit one – but experts point to the likely conservative nature of net asset value calculations: discount rates used to value infrastructure assets have fallen much less than yields on other assets and remain close to levels seen a decade ago.

After a five-year absence, asset manager 7IM has re-entered the sector, using recent fundraisings as an attractive entry point into **HICL (HICL), BBGI (BBGI)** and **International Public Partnerships (INPP)**.

Tepes likes alternative energy trusts, like **NextEnergy Solar Fund (NESF)** and **Greencoat UK Wind (UKW)**, as satellites, while Gavin Haynes, managing director of Whitechurch Securities favours trusts like **F&C Commercial Property (FCPT)** for illiquid investments like property.

The closed-end structure means managers will never be forced into a fire-sale of assets at knock-down prices to meet redemptions.

4 INCOME-GENERATING TRUSTS

Investment trusts can work well for income-seekers not least because trusts can hold back 15% of dividends generated by the underlying portfolio each year.

'This can be used to supplement dividends in future years should the income disappoint due to dividend cuts,' says Haynes. 'It can prove an excellent way for trusts to build long records of dividend growth.'

Diane Weitz, a director of Ashlea Financial Planning in the Cotswolds, points to many trusts' history of more than 40 years' rising income.

Among them are UK equity income trusts **City of London (CTY)** and **JP Morgan Claverhouse (JCH)**, which have increased their dividends for 50 and 44 years respectively.

Weitz also likes **F&C European Assets (EAT)**, which is designed to yield around 6% and generate capital growth.

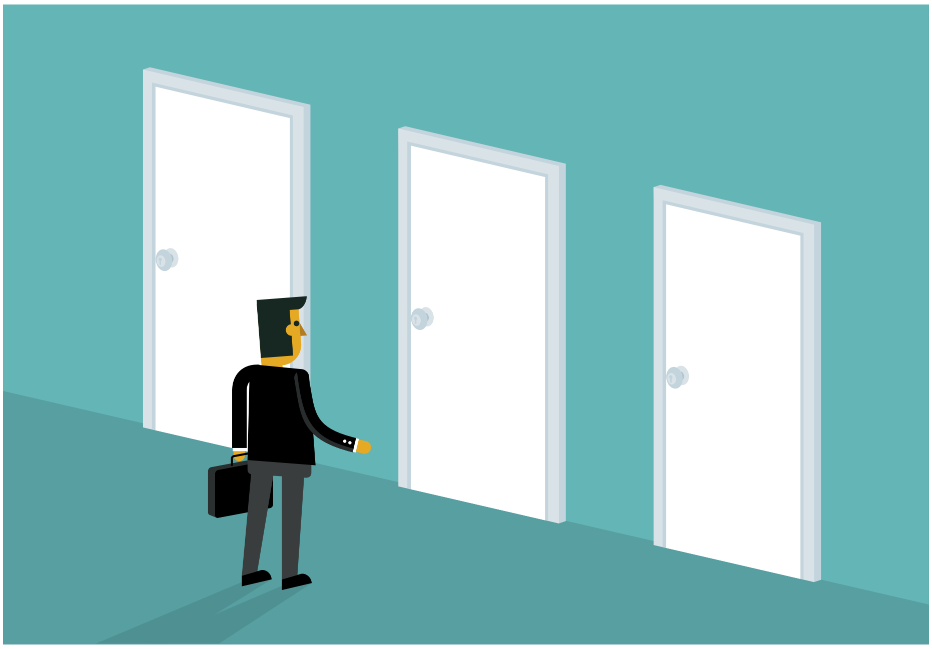
Newlands tips equity income and growth trusts for retirees, such as **Edinburgh (EDIN)**, **Perpetual Income & Growth (PLI)** and **Temple Bar (TMPL).**

'That way you can draw a very decent income of say 3% per annum to pay for the groceries while having the expectation of longer-term and, extremely importantly, potentially inflation-beating capital growth,' he says. (JH)

Weighing up the Vanguard LifeStrategy funds

Is their low cost, diversified nature too good to be true?

Investors have been pouring money into the Vanguard LifeStrategy funds, attracted by their low fees, diversification and strong track record. But the funds' inability to respond to market movements has led some people to question whether their advantages are overstated.



WHAT ARE THE VANGUARD LIFESTRATEGY FUNDS?

The funds provide investors with a static portfolio made up of Vanguard's equity and bond index funds. You can choose from one of five funds, ranging from a 20% equity exposure all the way up to a 100% equity exposure, with any remainder in bonds.

The funds are passive, which means they track indices rather than employing a fund manager to make strategic investment decisions. This enables them to have a low ongoing charge of 0.22%.

The funds are built on a market capitalisation-weighted basis – the largest companies in the indices carry a higher weighting than the smallest companies.

The US is home to the greatest number of large cap stocks, but to make the funds more appealing to UK investors Vanguard has given them a UK bias. For example, the **Vanguard LifeStrategy 60% Equity Fund (GB00B3TYHH9)** has a 25% equity weighting to the UK, considerably higher than the UK's weight in the global market.

James Norton, senior investment planner at Vanguard, says one of the advantages of the funds is their diversification. Someone who invests in the 60% equity fund will get exposure to 17 underlying funds containing a total of 19,822 equity and fixed income holdings.

The funds rebalance to ensure the equity and bond allocations remain consistent over time.

WHO ARE THEY SUITABLE FOR?

The funds are designed to be a one-stop-shop solution that meets the needs of investors regardless of their risk profile. The funds with the lowest equity exposure are designed for low-risk investors and the funds with the highest equity exposure are for higher-risk investors.

Mark Entwistle, an investment

VANGUARD LIFESTRATEGY PAST PERFORMANCE

Fund	5 year annualised return
20% Equity Fund	5.62%
40% Equity Fund	7.89%
60% Equity Fund	10.16%
80% Equity Fund	12.42%
100% Equity Fund	14.69%

Source: Morningstar. Data as at 21 July 2017 manager at Walker Crips, says the products may be particularly appealing for smaller investors, for whom high costs can make building a diversified portfolio uneconomical.

'Vanguard's ready-made, diversified proposition may suit such investors who are looking for a simple, diversified approach to their investments without needing to involve a finance professional,' he explains.

Dan Smith, investment analyst at Thomas Miller Investment, says passive portfolios are suited to investors who are starting to accumulate wealth and investing regularly into the markets. He says this typically this implies a long investment time horizon.

WHAT ARE THE DISADVANTAGES?

Although the LifeStrategy funds are diversified across equities and bonds, they exclude other asset classes such as infrastructure, absolute return, property and commodities.

Entwistle says in order to achieve a truly diversified portfolio, investors would ideally hold a portfolio exposed to these other asset classes alongside a LifeStrategy fund. 'This would be clunky, however, and would mean more work for the investor,' he adds.

The funds have a bias towards large-cap stocks. Smith reckons investors would benefit from a higher allocation to the mid-cap sector as it tends to include companies at earlier stages of development with stronger growth characteristics.

'History also suggests that over time mid-cap stocks have outperformed large-cap in virtually all developed equity markets, albeit with slightly higher levels of volatility,' he says.

THE PASSIVE VS ACTIVE DEBATE

Unlike active funds, the LifeStrategy funds can't outperform their benchmark index.

The vast majority of active US equity managers have failed to outperform the S&P 500 in recent years, but there are UK and Asia equity managers who have consistently outperformed their benchmarks.

For example, since the Vanguard LifeStrategy funds launched in 2011 the **Threadneedle UK Equity Income Fund (GB00B888FR33)** has outperformed the FTSE All Share by almost 40%.

Randal Goldsmith, an analyst at Morningstar, says it's very difficult to identify at the outset which managers will outperform.

'If you're going with an active manager you need to look at their performance for a long time before you can be confident in their abilities. Even then, you don't know what is going on in the manager's life or what their priorities are, so what they do going forward could be very different to what they've done in the past,' he argues.

The LifeStrategy funds have performed strongly since their inception, but Smith says this is partly owing to the fact that equities and government bonds have been the principle beneficiaries of central banks' monetary stimulus programmes.

Smith says equities and bonds currently look expensive both relative to history and on an absolute basis.

'Going forward, we expect some reduction in central bank stimulus and it seems logical to expect those markets that have benefitted most from central bank policies to suffer some losses when stimulus is withdrawn. This is not a position or opinion that can be expressed using the Vanguard strategies, which to our mind is a negative factor, recognising that not taking such positions is precisely what the strategy is designed to do,' adds Smith. (EP)

Alternative Options

BlackRock's Consensus range consists of five funds ranging from a 35% equity exposure to a 100% equity exposure. The equity allocation isn't fixed but instead can move within a defined range. The **BlackRock Consensus 85 Fund (GB00B8D0SR58)** can invest between 40% and 85% in equities.

Legal & General has eight multi-index funds but they can invest opportunistically, as long as this is within the fund's targeted risk level. As well as bond and equity index funds, they can hold UK commercial property.

Another alternative would be to create your own portfolio of index funds. It could be more diversified and better suit your needs, but it's likely to be more expensive.

Lessons from the pension freedoms

More than two years after they were introduced we look at the impact of the changes

When the pension freedoms launched in April 2015, nobody was quite sure how savers would react.

Some feared people wouldn't be able to resist draining their pots quickly to fund immediate spending needs. Others, including former pensions minister Steve Webb, insisted people could be trusted with their savings and wouldn't splurge the lot on sports cars.

We are now beginning to get a clearer picture of how the flexibilities are being used and the retirement choices people are making.

So far the worst fears about people spending their retirement pots irresponsibly have not been borne out.

SAVERS MAKING SENSIBLE RETIREMENT INCOME DECISIONS

In fact, the average amount withdrawn per person has been steadily declining since April 2015, according to the latest Government stats. The average value of withdrawals dropped from £11,132 in the second quarter of 2016 to £9,300 – or £3,100 per month - in the same period this year.

More savers also appear to be setting up regular payments from their pensions, with the average number of payments per person increasing from 1.86 in Q2 2016 to 1.97 this year. It's impossible to draw firm conclusions from this limited data, of course, but if people are taking less out of their pension at regular intervals that feels like a good sign.

The sustainability of these withdrawals is still not clear, however, and will depend on the circumstances of the individual investor. For example, a healthy 65 year old with a £1m pot can be confident withdrawals of £15,000 a year should last throughout their retirement (with something left over to pass on to the kids). If the same person had a total pot worth £100,000 then there is a serious risk their money would run out.

It's absolutely vital you think about how long your fund will need to last when you make your retirement income plan. Someone retiring at 65 might need their pension to last for 30 years or more, so a sustainable withdrawal plan needs to reflect this.

TIP: THINK CAREFULLY ABOUT WHAT YOU WANT TO DO WITH YOUR MONEY

One of the mistakes a lot of people make when using the pension freedoms is to access their pot without really considering what they want to do with the money. For some it is a trust issue – the pensions 'brand' is tarnished and they would simply rather have the money elsewhere.

If this is you, think carefully about your decision. Pensions are extremely tax efficient, with any investment growth free of capital gains tax. Furthermore, if you take any taxable income from your pot, the amount you can subsequently save into a pension and receive tax relief will plummet from £40,000 a year to just £4,000.

You also need to think about how you will protect your money from rising prices. The rate of inflation currently stands at 2.6%, so if you withdraw your pension and put it in a Cash ISA paying an interest rate of 1%, the value of your savings will be guaranteed to fall in real terms. (TS)

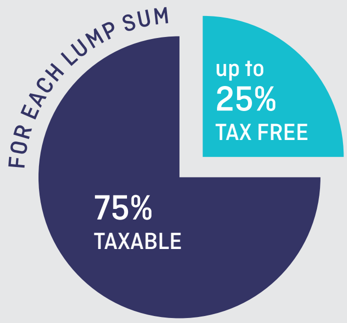
Recap: How do the freedoms work

If you are aged 55 or over and are in a defined contribution (DC) pension scheme, you can withdraw as much of your pension as you want. Up to 25% is available tax-free, with the remainder taxed in the same way as income.

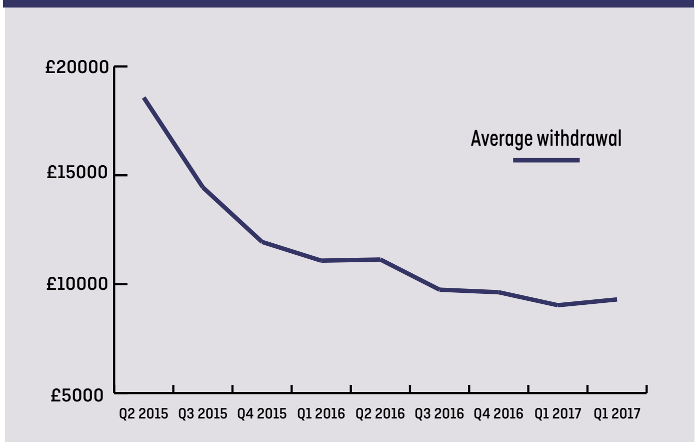
You can choose to take ad-hoc lumps sums from your fund, with 25% of each chunk tax-free, or leave your money invested and take an income by entering drawdown.

Alternatively, you can still buy an annuity – products sold by insurers which provide you with a guaranteed income for life.

Unused drawdown funds can be passed on tax-free if you die before your 75th birthday, or at your beneficiaries' marginal rate of income tax otherwise.

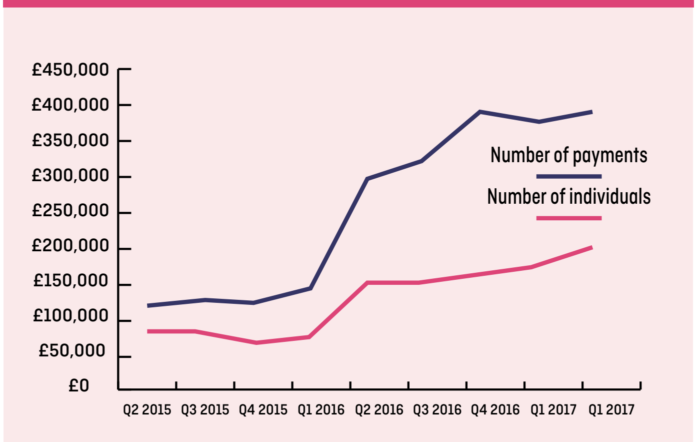


AVERAGE WITHDRAWAL PER PERSON



Source: HMRC

TAKE UP OF PENSION FREEDOMS



Source: HMRC

Can AstraZeneca recover from failed cancer trial?

Mixed views on the drug company's prospects as dividend fears surface

Analysts are split on whether drugs titan **AstraZeneca (AZN)** can bounce back from the shocking failure of its MYSTIC lung cancer trial as fears of a dividend cut and opportunistic takeover bids emerge.

Shares in AstraZeneca crashed 15.6% on 27 July after the trial failed to demonstrate that a combination of durvalumab and tremelimumab immunotherapies could help patients in the advanced stages of lung cancer. After a modest recovery they trade at £45.42.

AstraZeneca has been trying to catch up to leaders in immunotherapy – a means of treating cancer and other diseases which taps into the power of the immune system.

ANALYST SAYS 50% DIVIDEND CUT COULD BE ON THE CARDS

COULD THE DIVIDEND BE CUT?

Beaufort Securities analyst Ben Maitland has downgraded AstraZeneca to 'sell' on the failed drug trial and believes the dividend is at risk.

He has also cut his forecast target price by 11% to £39.

'Looking forward, we are becoming more concerned that the core AstraZeneca business is not generating enough cash to justify its generous dividend policy,' comments Maitland.

He believes the full year 2018 dividend is at risk and suspects that a cut in a range of 25% to 50% may be on the cards. In the full year to 31 December 2016, AstraZeneca paid $2.80 per share.

Maitland says a potential takeover of the company is unlikely as nothing has significantly changed since US rival Pfizer tried to acquire AstraZeneca in 2014. This deal was largely justified by UK cost cutting and tax rate savings and was ultimately blocked by the authorities.

He believes AstraZeneca is not deterred from its oncology focus, despite the setback and the high capital expenditure spent on the MYSTIC trial.

EARNINGS HIT QUANTIFIED

Jefferies is also negative and says the 'failure of MYSTIC to hit the progression-free survival endpoint for the mono and combo arms is a significant blow.' The investment bank estimates the disappointing results have wiped off between 10% and 15% of mid-term earnings and valuation from AstraZeneca.

Despite AstraZeneca's setback, Jefferies believes the company has an interesting pipeline and highlights that the *Imfinzi* (durvalumab) drug experienced success in other areas and could be used to treat other cancers.

It adds the pipeline could make the pharma giant a 'potential consolidation target, once the negative impact of MYSTIC has been priced in.'

FAILURE SEES BIGGEST EVER 1 DAY SHARE PRICE FALL OF 15.6%

Cantor Fitzgerald's Brian White also sees recovery potential in AstraZeneca thanks to the strong launch of oncology drugs Lynparza and Tagrisso, which generated $59m and $232m in sales in the first half of 2017.

AstraZeneca trades on a forecast 15.1 times earnings per share in the year to 31 December 2018. [LMJ]

Victoria's a compelling growth yarn

Global growth scope and dividend potential are not fully understood

Shares views the global growth scope and future dividend paying potential of innovative flooring specialist **Victoria (VCP:AIM)** as underappreciated. Take advantage as the design-led carpets-to-hardwood flooring manufacturer ahead of further earnings upgrades and acquisitions in a fragmented global flooring market.

Victoria has achieved scale in carpet manufacturing through acquisitions and is now turning its attentions to growing its hard flooring business.

In a real coup, the £485m cap recently hired seasoned flooring industry operator Philippe Hamers as CEO, enabling executive chairman Geoff Wilding to focus on acquisitions. In response to rapid growth, Victoria has also kick-started a reorganisation of its UK production and logistics that will also increase capacity, drive efficiencies and boost cash flow.

ON A ROLL

Better-than-expected full year results (25 Jul) showed revenue up 29.5% to £330.4m and a 61% surge in underlying profit before tax to £29.4m, reflecting organic growth and earnings enhancing acquisitions. The second half performance was boosted by contributions from acquired underlay makers Ezi-Floor and Dunlop.

Going forwards, the acquisition of Dutch artificial grass businesses GrassInc and Avalon has positioned Victoria in a rapid growth, high margin European artificial grass market. With scale now achieved in carpet manufacturing, Victoria is turning its acquisitive attentions to higher margin hard flooring in Europe.

FORMIDABLE CASH FLOW

Last year, Victoria generated £23.7m of underlying free cash flow, equating to more than 100% of underlying profit after tax. The charismatic Wilding reminds investors that in 2006, Warren Buffett acquired leading flooring manufacturer Shaw Industries for its prodigious cash flow. Well-run flooring makers generate oodles of cash due to attractive supplier terms, quality debtors and the long life of their manufacturing assets.

Victoria currently trades without a dividend, management's focus being on industry consolidation and paying down debt which remains manageable – the net debt to earnings ratio is comfortably below 2 times. In the medium-term however, Victoria's formidable cash flow means it will be capable of paying an attractive dividend indeed.

For the year to March 2018, Cantor Fitzgerald Europe forecasts pre-tax profit of £38.2m and earnings per share of 31.3p, rising to £40.2m and 32.9p respectively by March 2019. Despite a series of upgrades in recent years, *Shares* believes consensus estimates are conservatively pitched, as canny Wilding likes to under-promise and over-deliver.

SHARES SAYS: ↗

A prospective PE of 17.4 doesn't immediately scream value but we're increasingly bullish about Victoria's global growth potential, cash generation and future dividend-paying potential. Buy at 545p. (JC).

BROKER SAYS: 2 0 0

Tarsus to take off in second half

Big events coming in the remainder of the year

Events company **Tarsus (TRS)** could do better than anticipated in the second half and the valuation looks undemanding.

Buy now ahead of a pivotal second six months of 2017 and for a decent and rising dividend, hiked 11% at the half-year stage. At 299.3p the shares trade on an average price to earnings ratio for 2018 and 2019 of 14.2 based on Investec's forecasts and offer a prospective yield of 3.5%.

This smoothes out the significant disparity in earnings per share between odd and even years as its two biggest events, the Dubai Air Show and Labelexpo, both fall in odd years.

There is also a significant weighting to the second half of 2017, which includes both of these shows, expected to account for 85% of adjusted pre-tax profit.

The hefty increase in the dividend and a big rebound in its Turkish business which saw revenues fall 15% in the first half but is expected to end the year flat, implies to us that the second half could be a bit better than the market expects and this could result in earnings upgrades.

Risks to weigh include a rebound in sterling which would impact the value of Tarsus' predominately overseas earnings and net debt of £85.8m. Borrowings have built up partly as a result of M&A in China and the US which should in the long-term be a positive for the business.

SHARES SAYS: ↗

Numis has a price target of 350p and we also see upside at current levels. (TS)

BROKER SAYS: 4 0 0

Monitise cranks up takeover pressure

CYNICS MIGHT ARGUE that mobile money technology designer **Monitise (MONI:AIM)** is attempting to twist shareholder's arms to accept a £70m cash and shares offer for the company. Investors have been reluctant to take the terms from Nasdaq-listed Fiserv. News that Monitise, once valued at more than £1bn, has missed lowly-set revenue forecasts by a mile could change their minds, Monitise flagging £50.9m, 25% south of consensus £58.9m expectations. (SF)

Investors panic after Augean issues warning

Waste management company **Augean (AUG:AIM)** spooks investors by saying that profits will come in at the lower end of market expectations.

The result was a 21% drop in the share price to 50p following the announcement (25 Jul). The company's first half results to 30 June also warns that its energy and construction business profits were 'marginally down' while integrated services were flat year on year. (DS)

Surgical Innovations to buy Elemental Healthcare

Med tech **Surgical Innovations (SUN:AIM)** is to acquire medical products distributor Elemental Healthcare for £9.3m in a bid to enhance earnings and provide a direct route to the UK market. Co-founder David Marsh and managing director Adam Power from Elemental will become significant shareholders once the acquisition is completed. In the last 12 months Surgical Innovations is up more than 100% to 3.8p. (LMJ)

Join the 20% club

We examine the best performing funds from AJ Bell Youinvest's list of favourites

Like a number of investment platforms AJ Bell Youinvest offers a list of 'favourite funds' to help you narrow down your selections from the thousands of options available to you. There are 72 active and passive funds to choose from, all selected with the help of investment consultant Square Mile, for this article we're focusing on funds that have returned more than 20% to investors, all but one over a three-year period.

Polar Capital Global Technologies IE00B42W4J83

Fund size:	$1.48bn
3-yr return:	29.22%
Annual fee:	1.16%
Top holdings:	Alphabet, Facebook, Microsoft

As the name suggests, this fund looks to capitalise on the growing value of technology equities. Its aim is to beat its benchmark, the Dow Jones World Technology index, by 3% to 7% a year.

According to Square Mile, lead manager Nick Evans supported by his team visit 800 companies each year as well as industry events to keep up with developments.

The fund's portfolio is made up of between 70 and 90 stocks. While the idea is for a single holding to make no more than 3% of the fund, it has 8% of the fund in mega cap Alphabet.

But the fund is really looking to those smaller companies which may be the next generation of tech leaders. Jake Moeller, head research for the UK and Ireland at Thomson Reuters' Lipper, says 'Polar has managed to outshine competitors in a tough market for tech funds. It takes on a bit more risk in smaller cap stocks to do so but has converted its bets well.'

Jupiter Asian Income GB00BZ2YMT70

Fund size:	£480.27m
Return (since inception in Feb '16):	28%
Annual fee:	0.98%
Top holdings:	Samsung Electronics, Taiwan Semiconductor, Sands China

This fund is the odd one out from the selection as it offers a healthy yield of 3.72% as well stellar growth opportunities. Run by Jason Pidcock, who Moeller describes as an 'industry veteran', at Jupiter he is free to use his own investment philosophy, unconstrained by house styles seen at other firms. He has over 20 years of experience investing in Asian stocks.

The fund is new, launching in early 2016 and has already returned 26%.

Square Mile says Pidcock 'likes growing companies where he can understand their business models and which in his view are both sustainable and scalable'.

The portfolio of between 40 and 50 holdings will contain those with higher yielding dividends than the market as well as those with good growth prospects.

Artemis US Smaller Companies GB00BMMV5766

Fund size:	£178.44m
3-yr return:	24.65%
Annual fee:	0.9%
Top holdings:	Advanced Energy Industries, Swift Transportation, Digitalglobe

This fund offers investors exposure to smaller US companies with a market cap between $1bn and $10bn. Square Mile says that although this fund doesn't have a long track record, starting in 2014, 'we are comforted by our belief that [fund manager] Mr Weldon is an accomplished investor who built a highly credible track record at Threadneedle Asset Management where he ran a similar product.

Lipper's Moeller says 'the US economy is well placed to support smaller companies and this fund should provide good opportunities for investors with a decent risk budget'. The fund aims for diversification and contains between 50 and 70 holdings with a rule that for every unit of downside risk, a stock should have at least twice the upside potential.

Polar Capital Global Insurance IE00B5339C57

Fund size: £843.84m
3-yr return: 22.42%
Annual fee: 0.91%
Top holdings: Chubb, Marsh, Arch Capital

Fund manager Nick Martin's aim with this fund is to invest in quality insurers that can produce sustainable underwriting profits. These companies tend to have management teams that are underwriting with their own money through material stock ownership.

Standard Life Investments Global Smaller Companies GB00B7KVX245

Fund size: £542.63m
3-yr return: 22.32%
Annual fee: 1.06%
Top holdings: Align Technologies, Balchem, Wintrust Financial

This fund looks for companies that have the potential to be future leaders in their field. Square Mile views that manager Alan Rowsell 'has a very good understanding of his asset class and shows a deep commitment to the fund's investment philosophy and process'.

Baring Europe Select Trust GB00B7NB1W76

Fund size: £1.76bn
3-yr return: 21.05%
Annual fee: 0.81%
Top holdings: Teleperformance, IMCD, Plastic OMNIUM

This fund's team of managers, Colin Riddles, Rosie Simmonds and Nicholas Williams, look for companies with growth potential and reasonable market valuations.

The fund limits the market cap of companies it can invest in to €5bn.

Old Mutual UK Smaller Companies GB00BHBX8S02

Fund size: £1.08bn
3-yr return: 20.74%
Annual fee: 0.94%
Top holdings: Fevertree, Ascential, Paysafe

Managed by small cap veteran Dan Nickols, his team has a growth bias but also take a macro view which can guide them to more cyclical or defensive companies when appropriate.

The fund's objective is to outperform the Numis Smaller Companies (ex Investment Trust) benchmark.

Invesco Perpetual Asian GB00BJ04DS38

Fund size: £1.11bn
3-yr return: 20.24%
Annual fee: 0.9%
Top holdings: Samsung Electronics, Netease, JD.com

According to Square Mile, the team, led by manager Wiliam Kam, believes that investors behavioural biases can give rise to market inefficiencies, such as overreactions to short-term news.

The previous lead manager Stuart Parks now heads the Asian equity team at the firm.

Baillie Gifford Japanese GB0006011133

Fund size: £1.56bn
3-yr return: 20.22%
Annual fee: 0.68%
Top holdings: Softbank, Inpex, Sumitomo Mitsui

According to Square Mile, this fund is managed by a highly regarded team with a long established record of investing in Japanese equities. One distinguishing feature of this fund is the longer time horizon used by the management team consisting of Matthew Brett and Sarah Whirley. (DS)

Source for all data AJ Bell Youinvest

KEY

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