STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

HOW TO PICK THE BEST FUNDS

The simple way to sort through thousands of products to create your perfect portfolio

THE BEST FUNDS

IMPACT OF

HURRICANES HARVEY AND IRMA ON THE STOCK MARKET

THE ACCOUNTING

CHANGE YOU CANNOT AFFORD TO IGNORE

HOUSEBUILDERS: STILL A GOOD INVESTMENT?

Beware any UK consumer-facing stocks in your portfolio

It might be time to take profit on some of your best performing investments

Consumer confidence is influencing the direction of many share prices at present. Anyone invested in a business which relies on consumer spending is already likely to be nervous; and the near-term outlook doesn't look promising.

You may wish to think about taking some profit in your best performing UK consumer-facing stocks and switching to more broad investments with defensive characteristics for the time being. For example, retailers **Boohoo.com (BOO:AIM)** and **Sports Direct (SPD)** are up 86% and 44% respectively since the start of the year.

A few examples of places to which you could redirect your profits include investment trusts with a capital preservation strategy such as **Personal Assets Trust (PNL)** or **Capital Gearing (CGT)**.

WHAT'S GOING ON?

Last week saw a mixture of profit warnings and gloomy outlook statements from two companies which sell food and drink and one company which sells doors and windows.

Respectively, these were pub operator and brewer **Greene King (GNK)**, restaurateur **Fulham Shore (FUL:AIM)** and **Safestyle UK (SFE:AIM)**. They all saw their share prices fall by more than 15% on earnings warnings.

Those bits of news also prompted share price declines among peers and other sectors reliant on the consumer. For example, B&Q-owner **Kingfisher (KGF)** had a bad week on the market, so did kitchens seller **Howden Joinery (HWDN)**.

We've already had plenty of profit warnings from retailers over the past few months including **Dixons Carphone (DC.)** and **DFS (DFS)**.

Now we're seeing problems in the supply chain including a warning earlier this week (11 Sep) from **UP Global Sourcing (UPGS)** which distributes items such as small domestic appliances. It predicts no revenue growth in its current financial year, blaming retailers for not wanting to order stock too far forward in the future.

CONSUMER CREDIT PROBLEM

We've written several times over the past year about the UK's elevated level of personal debt. Consumers have been using credit cards and loans to fuel their spending and this is unsustainable.

Rising inflation has pushed up the cost of living so consumers are likely to have less money in their pocket after paying for the costs of everyday living. You then need to account for the cost of servicing debt – perhaps acting as a wake-up call that they can't keep spending on credit indefinetely.

Visa's latest analysis of consumer spending shows weakness in car purchases, air travel and clothing. However, it notes a rise in 'small treats' such as jewellery, beauty products and trips to hair salons.

Overall it says UK consumer spending is on course for its weakest year since 2013. It is therefore vital you check the source of earnings when looking at consumer-facing stocks from an investment perspective. The higher the proportion of sales from the UK, the higher the earnings risk in the present climate, in my opinion.

A dominance of earnings from UK could leave a stock in a difficult position. For example, BooHoo talks about being an international business but nearly two thirds of its sales come from the UK. Any weakness in its home territory would certainly be disastrous for the share price. (DC)

THE SCOTTISH
Investment Trust

We're investing in ugly ducklings...

At the Scottish, we take a contrarian approach to global stock markets.

We are high-conviction investors and focus on stocks that are out of favour with mainstream investors, as we believe these offer the greatest potential for long-term gains. This is because popular stocks tend to be overvalued – while out-of-favour stocks are often too cheap. We aim to exploit this inefficiency for our shareholders.

The investment environment is inherently cyclical. We see cycles in industry fundamentals, corporate behaviour, analyst views and investor sentiment. These cycles are closely linked: when an industry's fundamentals have been strong for some time, management teams, analysts and investors tend to be overly optimistic about its future. This leads to irrational investment decisions. Some of our best opportunities arise at the opposite point in the cycle – when a downturn leads to excessive pessimism about a company's prospects. When this happens, we can buy stocks precisely when the profit opportunity is greatest.

An innovative investment approach

We believe investment returns are driven by a change in a company's prospects and an accompanying change in market perceptions. Often good companies are overly admired and consequently become overvalued. A company that has been badly run or is down on its luck may offer much more potential for improvement and, eventually, for outstanding returns. As contrarian investors, we see three distinct investment categories.

We categorise the first as **ugly ducklings** – unloved companies that most investors shun. These firms face fundamental challenges, and the market has become extremely pessimistic about their prospects. But we see their out-of-favour status as an opportunity.

The second category is where **change is afoot**. These companies have made significant changes to their prospects, but the improvements are not yet recognised by the market. So, while other managers continue to steer clear, we see the potential for profit.

In the third category are companies that have **more to come**. Unlike the first two categories, these companies are generally recognised as good businesses but we see an opportunity as the market does not appreciate the scope for further improvement.

A painstaking process

To identify the right opportunities, we use a qualitative and quantitative analytic framework to research companies' fundamental prospects. We carefully assess any management change and restructuring actions, and consider the likely extent of any earnings recovery.

Companies in our portfolio can move along an axis from "ugly ducklings" to "change is afoot" and then "more to come". When ugly ducklings become fully fledged swans, we're looking to sell. Until then, we keep portfolio turnover to a minimum.

For more information visit www.thescottish.co.uk

Please remember that past performance may not be repeated and is not a guide for future performance. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations. You may not get back the amount you invest.

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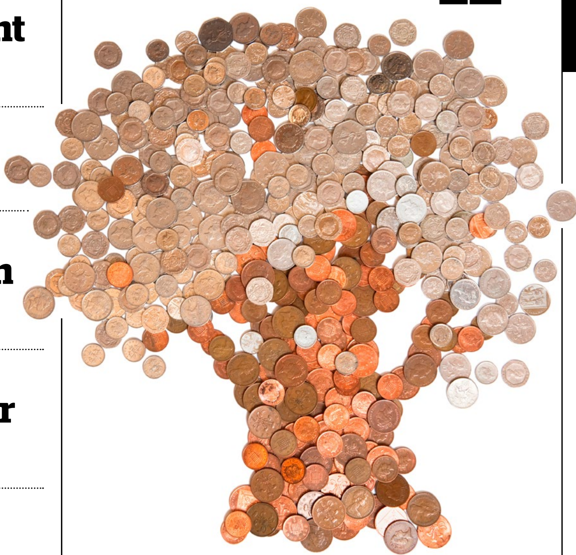

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BROKER RATINGS EXPLAINED:

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.

Impact of Harvey and Irma on the market

UK insurers may have escaped a big financial hit from recent US hurricane activity

Hurricane season is upon us and it has been a rollercoaster for the share prices of listed Lloyd's of London insurers.

After Hurricane Harvey hit at the end of August, the costs for the likes of **Beazley (BEZ)**, **Lancashire (LRE)** and **Hiscox (HSX)** are estimated at around £100m each.

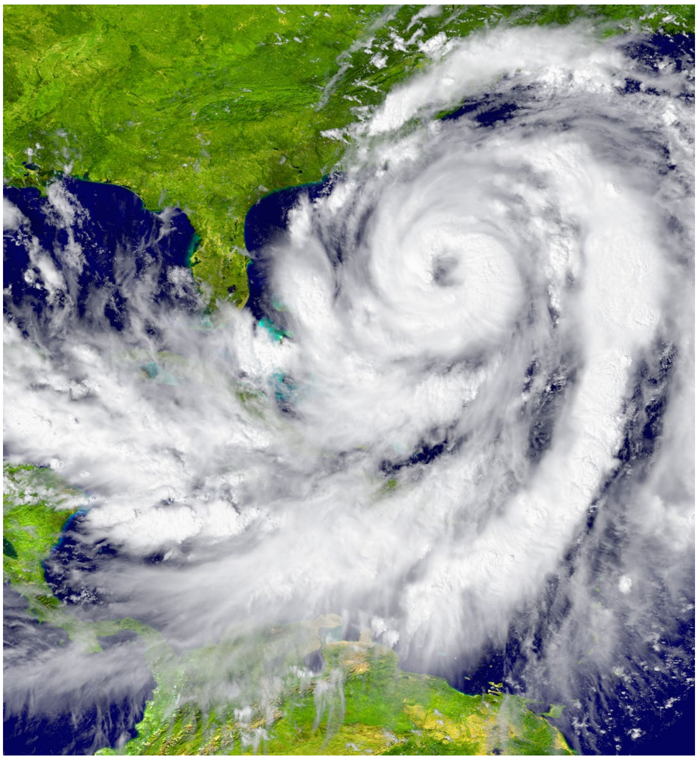
Beazley and Lancashire suffered the most, with their shares dropping 12% and 11% respectively.

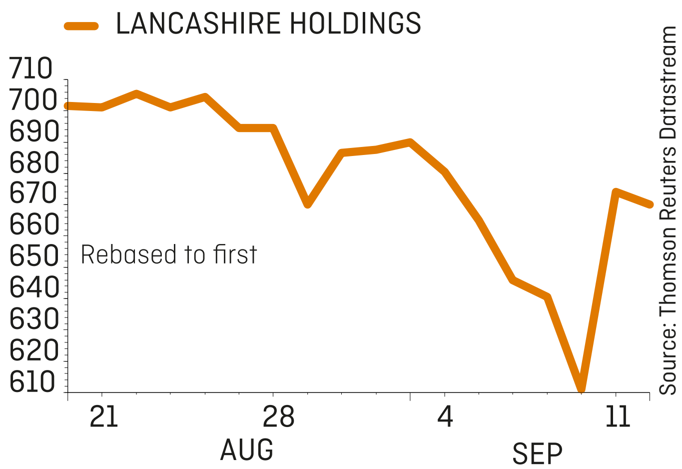
Since making landfall, the latest scourge of Hurricane Irma has been downgraded to a tropical storm, implying less damage. The revised cost of Irma has been slashed to as low as $20bn for the insurance industry, a long way off the $150bn touted for some time.

This seems reflected in the market reaction to the insurance firms once Irma had begun to pass through Florida.

For instance, Lancashire gained 10%, Beazley was up 4.3% and Hiscox ticked up 3.3% on Monday (11 Sep).

The idea that these events could 'harden' the insurance market and hike premiums in the future is soundly rejected by Panmure Gordon analyst Barrie Cornes. He tells *Shares* 'there's so much capital in the world insurance system it would take about three or four Irmas to take enough money out of the system to allow rates to go up'.





We note that UK-listed **Catco Reinsurance Opportunities Fund (CAT)** has seen its share price fall 16% to $1.12 since 23 August and its shares didn't enjoy the reprieve rally seen among the Lloyd's insurers. It has a portfolio of investments linked to catastrophe reinsurance contracts.

CLEARING UP THE MESS

The hurricanes may conversely help those in the construction business. Equipment rental specialist **Ashtead (AHT)** could do well from the hurricane season. It makes the majority of its money in the US through its Sunbelt division and is particularly strong in Florida and Texas.

When the rebuilding starts, firms might hire substantial machinery from Sunbelt. Ashtead's chief executive Geoff Drabble on Tuesday said the incidents 'will result in an increase in demand for our fleet'. (DS)

The rise of small cap trackers

Emerging tracker funds could increase active investor edge

According to analysts at UBS, UK investors could benefit from an emerging number of small cap tracker funds if UK markets follow US investment trends.

Roughly 40% of all small cap investment in the US is placed through tracker vehicles, considerably more than the circa 15% of a decade ago, according to UBS.

In the UK only around 5% of small cap assets under management is invested in tracker vehicles, and it is roughly the same in Europe.

UBS believes greater depth and liquidity of US markets are largely responsible for the difference, although the investment bank confirms small cap trackers are growing outside of North America.

One of the chief challenges to widening the number of small cap tracker options in the UK is inconsistency in establishing what constitutes a small cap, and which indices to track. Some investors believe anything outside of the FTSE 100 index should qualify, including FTSE 250 mid cap constituents.

Debate over small cap size

UBS itself runs a more pure small cap tracker; the **UBS Life UK Small Company Tracker A (GB0002680576)**, which aims to match the performance of the FTSE SmallCap index.

Alternatively, the **iShares MSCI UK Small Cap (CUKS)** is an exchange-traded fund that tracks the MSCI United Kingdom Small Cap index.

Importantly, UBS believes the emergence of additional small cap tracker funds is a plus for active investors who typically outperform benchmark indices.

'Capital flows into passive funds are likely to distort returns, increase the information advantage to active funds, and drive cost rationalisation.' (SF)

No sign of demand weakness for lighting group

LIGHTING MANUFACTURER **Luceco (LUCE)** says it has not seen any signs of demand weakness despite many retailers warning of a slowdown in consumer spending. It says any reduction in end-user demand would start to show in its orders three months later. First half UK trading was better than expected, helping to offset a temporary setback in the Middle East. It expects to return to growth in the latter territory by year end. (DC)

Servelec cuts guidance

ENTERPRISE SOFTWARE supplier **Servelec (SERV)** has had to cut back its growth ambitions thanks to end user investment delays in parts of the automation and healthcare industries. The company's broker has Investec cut revenue and earnings before interest, tax and amortisation (EBITA) forecasts by 5% and 11% respectively, and the shares have sunk around 15% to 245p. (SF)

Somero seeks solution for China trading weakness

CONSTRUCTION EQUIPMENT group **Somero Enterprises (SOM:AIM)** is to undertake a strategic review of its Chinese operations after sales in the country fell 29% in the first half of 2017, year-on-year. One of its key sales people in China has just been poached by another firm, so Somero also needs to recruit a replacement as part of its efforts to revive its fortunes in this part of Asia. (DC)

The accounting change you cannot afford to ignore

New standard is set to change the way companies recognise revenue from a contract

A new accounting standard from January 2018 called IFRS 15 will affect the way companies recognise revenue from a long-term contract. We believe it could impact equity valuations as earnings forecasts may have to change for some companies.

Outsourcers and other contractors are among the types of companies which could be affected. Their contracts are often based on the provision of a service over several years. The way revenue from this contract is recognised and reported to the market has historically been open to interpretation.

NO CASH IMPACT

On 7 September support services firm **Capita (CPI)** became one of the first businesses to clarify the impact of IFRS 15 as it restated its 2016 results. The outcome was a 30% write-down to earnings before interest and tax from £481m to £335m. Though importantly there was no impact on cash flow performance.

The market was not too alarmed by the news with the shares ultimately down just 2% on the day.

Investment bank Liberum says: 'Going forward revenue is expected to be more evenly phased over the life of contracts and active software licences in line with the delivery of valued outcomes to clients and, consequently, the timing of profits is re-profiled.'

It adds Capita will 'recognise lower profits or losses in the early years of contracts where there are significant upfront restructuring costs or higher operating costs prior to transformation, with a compensating increase in profits in later years.

'The total net impact at the group level is a function of the balance of contracts in early or late stage of their life cycle at transition to IFRS 15.'

WHO ELSE MIGHT BE AFFECTED?

Liberum notes many companies have not yet implemented the changes and sees 'more surprises in the pipeline' with aerospace and defence, construction, software, support services and telecoms firms most susceptible.

To highlight the risks, it has screened for stocks with the highest long-term receivables and amounts recoverable on contracts as a percentage of revenue.

This could be a sign the company has been booking most of the revenue from a contract upfront, something which will no longer be possible under the new rules.

A selection of relevant names is shown in the accompanying tables. (TS)

LONG-TERM RECEIVABLES AS % OF REVENUE

Company	EPIC	Current financial year (%)
Vodafone	VOD	9.6
MJ Gleeson	GLE	9.5
United Utilities	UU.	6.6
Domino's Pizza	DOM	5.8
Crest Nicholson	CRST	5.4
Dixons Carphone	DC.	5.0
AstraZenca	AZN	3.9
IWG	IWG	3.7
Cobham	COB	3.4
Galliford Try	GFRD	3.0

Source: Liberum, Bloomberg

AMOUNTS RECOVERABLE ON CONTRACTS AS % OF REVENUE

Company	EPIC	Uplift in the last year (%)
Rolls-Royce	RR.	23.5
Severfield	SFR	15.5
Servelec	SERV	15.3
Carillion	CLLN	14.0
Ultra Electronics	ULE	12.2
Galliford Try	GFRD	11.4
Cape	CIU	10.9
Amec Foster Wheeler	AMFW	9.2
BAE Systems	BA.	7.2
QinetiQ	QQ.	7.0

Source: Liberum, Bloomberg

Scottish housebuilder Springfield heads for AIM

IPO funds will be used to build 'villages' across central and northern Scotland

Scottish housebuilder **Springfield Properties** is planning to join AIM and raise up to £25m to fund the next step in its growth plan.

Executive chairman Sandy Adam took over his grandfather's market garden operation in the late 1980s and switched the focus to housebuilding.

The group now builds a mixture of affordable homes and houses for private sale and points to 'a track record of profitability throughout the Scottish housing market cycle'.

To grow its private housing arm, it plans to build five new 'villages' at a cost of between £8m and £12m apiece across north and central Scotland.

The company has either secured land 'or entered into other arrangements' on the sites which will incorporate 10,000 homes and have a gross development value of £1.5bn.

The villages, located near Edinburgh, Stirling, Dundee, Elgin and Perth, are set to have shops, other amenities and local schools.

The company benefits from the legal framework for housing transactions in Scotland which often allows Springfield to secure a legally binding sale before commencing building.

The company also hopes to benefit political support with the Scottish government outlining an intention to build 50,000 affordable homes during the life of the current parliament.

On this basis Springfield believes it could double revenue from its affordable housing division by 2019 from the £23.2m generated in the year to 31 May 2017. (TS)

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GLOBAL MONEY MANAGERS

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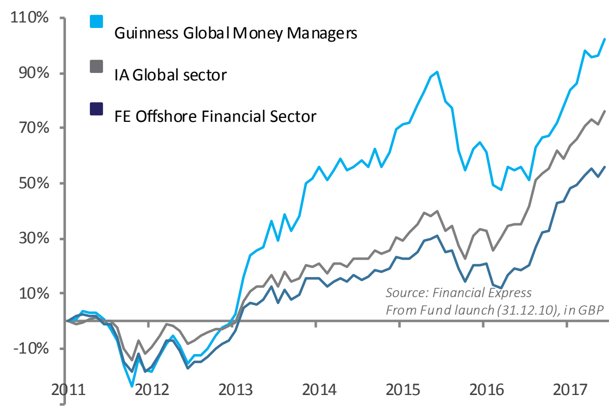

Total Return, in GBP (to 30.06.17)		YTD	1 Year	3 Years	5 Years	From Launch
Fund	Return	13.6%	38.2%	31.6%	138.3%	107.0%
	Quartile	1st	1st	4th	1st	1st
	Rank in IA Sector	10/272	6/269	206/236	13/204	40/179
IA Global Sector	Return	7.1%	23.7%	43.1%	89.2%	75.6%
FE Offshore Financial Sector		9.0%	37.5%	48.0%	98.2%	71.9%

Discrete years (X Class, in GBP)		Jun '13	Jun '14	Jun '15	Jun '16	Jun '17
Fund		47.8%	22.6%	13.3%	-16.0%	38.2%
IA Global Sector		21.4%	9.0%	8.4%	6.7%	23.7%
FE Offshore Financial Sector		29.6%	3.3%	12.8%	-4.6%	37.5%

Source: Financial Express

Guinness Funds are built on an investment philosophy focusing on areas we know well and like. The global listed asset management sector is one of those areas that can offer exciting returns. Our Global Money Managers portfolio invests in asset managers around the world.

- **High returns on capital**
Successful asset management companies can grow using relatively little capital and are highly scalable. Overall shareholder returns can therefore be very high

- **Growing global savings**
Global savings, particulary in conventional assets under management, are growing significantly faster than world GDP. This is supporting surprisingly resilient growing revenues in the sector, despite some pricing headwinds

- **Low balance sheet risk**
Asset management companies tend to have very low gearing versus other financial sectors (especially banks), reducing balance sheet risk

- **Above average dividend yield**
The sector typically exhibits high free cashflow, which currently translates into higher dividend yields on average than the broad equity market

- **Higher beta**
The sector has the potential to significantly outperform the market (capture higher beta) during periods of equity market strength, however bear in mind it may underperform noticeably in weak markets

- **Which investors should consider this Fund?**
Those who will accept higher year year-on-year volatility in return for the potential for a higher long run return; and have a long term investment time horizon

Learn more about what managers Tim Guinness and Will Riley think about the investment opportunity at guinnessfunds.com/global-money-managers-fund

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WILL TAX PAYER SPEND £100BN ON WATER?

ANALYSTS AT MACQUARIE are sceptical over future government plans to renationalise key utility assets, including energy and water. They estimate a prohibitive £100bn bill for the UK tax payer to take ownership of the nation's water reservoirs and supply networks.

While the current Conservative minority government has not such plans, renationalising vital utility assets was among Labour's pre-election pledges. Polls since the 8 June General Election show a strengthening of public support for Jeremy Corbyn's party.

But Macquarie argues that, even if Labour was to form a government down the line, financing this promise would be hugely difficult.

'If the government were to take on a £100bn investment in this industry, this would need financing, and would increase overall cost of borrowing for overall debt,' the research house says.

'The government already has significant control over the industry and regulator, Ofwat.'

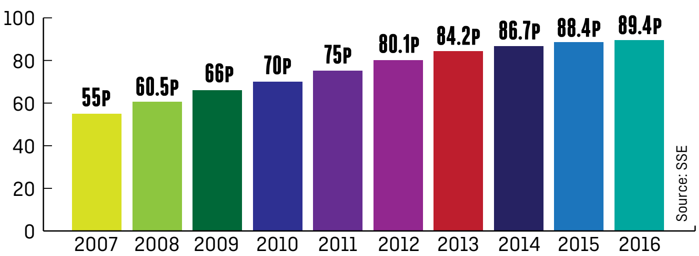
SSE's £324.5m cash saving trick

INVESTORS BUY UTILITY stocks largely for their reliable and hefty dividends. Compounding, where investors reinvest their income back into new shares, has significant potential for value creation.

Energy big six supplier **SSE (SSE)** operates a scrip dividend scheme and is reaping the rewards, saving a staggering £324.5m in cash after 27,670 shareholders elected to take their latest payout in new shares.

That was for the final, or second half, 63.9p per share dividend. That will mean issuing nearly 23.5m new shares in the company, beefing up the shares in issue count by 2.35%.

SSE'S 10 YEAR DIVIDEND RECORD



SUPERGROUP

FOUNDERS TO REWARD STAFF IF SHARES RISE

EMPLOYEES OF **SUPERGROUP (SGP)** will share a potentially large pot of money donated by the company's founders if the clothing retailer's share price trades above £18 between 1 October 2017 and 30 September 2020. The shares currently trade at £15.66.

Julian Dunkerton and James Holder will transfer into a fund 20% of their share price gain above the £18 level. For example, hitting £23 per share would see the founders put £30m into the pot and divide it up among all staff including part-time workers, but excluding the board.

Janus Henderson exists to help you achieve your long-term financial goals.

INVESTING IN YOUR FUTURE

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The company was formed in 2017 from the merger of Janus Capital Group and Henderson Global Investors, but our history dates back to 1934, and investment trusts are our oldest business.

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Discover one of the most exciting small cap stories

Filta has already cracked the US and UK; Canada is underway and Europe could be next

Franchise group **Filta (FLTA:AIM)** looks poised to accelerate its geographical expansion, making now an ideal time to buy the shares. It has just made its first move into Canada and we understand a deal to crack mainland Europe could be imminent.

It's a really simple business to understand. It owns FiltaFry which provides services to commercial kitchens. It has 182 franchisees which pay Filta a monthly royalty for each mobile filtration unit supplied by the plc company.

Filta also earns a margin on waste oil sales and providing supplies such as chemicals to franchisees, as well as charging an administration fee on some of the larger accounts.

The franchisees clean deep fryers and filter the oil used to cook food. One of the biggest markets is sports arenas and stadiums in the US. It also serves schools, hospitals, universities, casinos, hotels and corporations. Many of the contracts involve being an approved vendor for some of the world's biggest catering companies including **Compass (CPG)** and Sodexo.

We alerted readers to the stock's potential three months ago. Since then, Filta has issued a positive trading update (7 Aug), bought a drain services business which strengthens its position in the UK and reported very strong half year results (7 Sep).

FILTA BUY
(FLTA:AIM) 170p
Stop loss: 100p
Market value: £45.9m

It boosted underlying operating profit for the six months to 30 June by 62% and lifted gross profit margins from 43% to 46%, year-on-year.

CASHED UP, READY TO GO

The company allocated £2.9m from its November 2016 IPO (initial public offering) fundraising to enter new local markets including Canada and Europe, as well as launch new services in existing markets (UK and US) and as working capital.

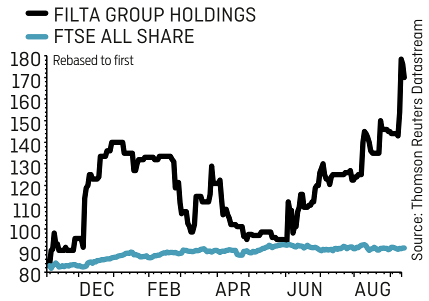
Chief executive Jason Sayers reveals to *Shares* that Filta is talking to two master franchise holders in Germany and Benelux 'about a different way of doing Europe between us'. He says Europe expansion would still be done as a franchise model.

Its first franchise agreement in Canada was signed in June and trading began in August. The franchisee already has 300 customers to whom it delivers groceries, so it is hoped that persuading them to also have fryer cleaning services should be an easy win.

Filta trades on 23.3 times forecast earnings for 2018 which we don't see as excessive given low capital expenditure requirements, high margins, lots of recurring revenue and strong cash flow potential.

It is forecast to pay 2.3p dividend next year, implying a 1.4% yield. We expect the yield to increase significantly as the business gains scale and its franchisees start providing more services to customers. (DC)

BROKER SAYS: 1 0 0



Is your portfolio **strong** where it matters?

Investec UK Alpha Fund
A keystone for your portfolio

This core UK equity fund invests in Quality companies. Exceptional businesses with dominant market positions which can help them navigate good and bad economic times. It could be an ideal UK fund to hold for the long-term, within a diversified investment portfolio. Shares can lose value rapidly, and typically involve higher risks than bonds or money market instruments. The value of your investment may fall as a result.

- The Fund seeks to **outperform the FTSE All Share Index by 3-5% per year** although this is not guaranteed.[1]
- **An experienced investment team,** led by Co-Head of Quality investing Simon Brazier, who has been managing funds for more than 14 years.
- **The Investec UK Alpha Fund is an AJ Bell Favourite Fund.** However, this is not a recommendation to buy or sell.

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[1]Gross of fees over rolling 3 years. This is an aim and not a guarantee. The Fund Prospectus and Key Investor Information Documents (KIIDs) may be obtained from www.investecassetmanagement.com. Telephone calls may be recorded for training and quality assurance purposes. Issued by Investec Asset Management, which is authorised and regulated by the Financial Conduct Authority. September 2017.

Textile rental firm is in a sweet spot

Johnson Service offers good growth prospects plus some income as a sweetener

Are you looking for a growing company that pays a bit of income as well? If so, you might want to look at **Johnson Service (JSG:AIM)**.

It's in the business of textile rental which includes supplying work and protective wear to over 40,000 customers including clients such as BMW. It also provides linen services for the hotel, catering and hospitality markets.

Selling its dry cleaning business in January this year seems to have paid off. Group revenue for the remaining textile rental business interests grew 19% to £138m in the first six months of 2017, due in part to some acquisitions the firm made in 2016.

Adjusted operating profit was up 20% to £18.6m and the half year dividend was lifted by 12.5% to 0.9p per share.

JOHNSON SERVICE
BUY
(JSJ:AIM) 141.75p
Stop loss: 100p

Market value: £518m

BENEFITING FROM PEER'S ACTIONS

Johnson Service is currently benefiting from strategic changes at larger rival Berendsen which has been struggling due to various internal problems.

Firstly, Berendsen has pulled out of serving customers with less than £250 of weekly business – leaving Johnson Service to step in.

Secondly, Berendsen is now being taken over by French group Elis, so there may be another period where it is distracted by the new owner trying to make changes. The UK might even become less of a priority as it will only represent 15% of the enlarged Elis business by sales, based on 2016 numbers.

Outgoing chief executive Chris Sander says Johnson Service has been successful in gaining new customers, 1,200 this year, and also good at keeping them. He says Johnson Service has a 95% retention rate for customers; most of the 5% it loses is down to corporate insolvency.

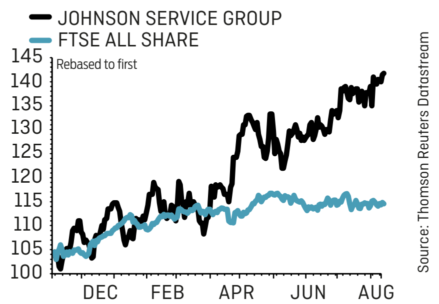
NOT SITTING ON ITS HANDS

While Johnson Service appears to be in a sweet spot, it isn't only reliant on taking market share from Berendsen. For example, it recently bought high volume hotel linen business PLS which is viewed as a good move by investment bank Investec, extending coverage to Scotland and Northern England.

Investec forecasts the move will add around £5m in revenue with an additional £0.5m in earnings before interest and tax per year.

RBC analyst Andrew Gibb says the shares are trading at historic highs of 16.6 times forecast earnings. He claims this rating is warranted due to accelerating organic growth levels, acquisition benefits and internal investment. Johnson Service has a 2% prospective dividend yield. (DS)

BROKER SAYS: 2 0 0



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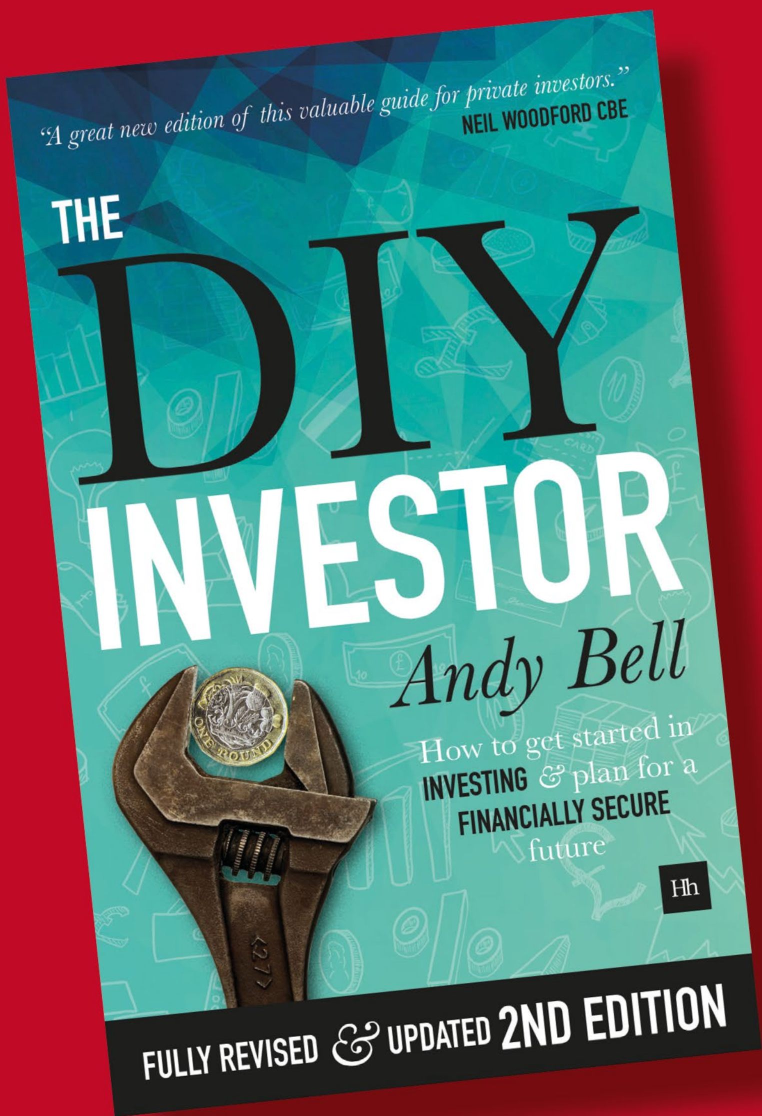
Definitely worth the paper it's written on

Written by AJ Bell founder and investment expert Andy Bell, 'The DIY Investor' is the bestselling guide to achieving a financially secure future

Available from **Amazon, Harriman House, Waterstones, and other major book shops**



UP GLOBAL SOURCING
(UPGS) 95p

Original entry point:
Buy at 178p, 4 May 2017

OUR FAITH that consumer products distributor **UP Global Sourcing (UPGS)** could buck a weak retail trend has proved misplaced.

A little more than six months after joining London's Main Market the company has been forced to release a damaging profit warning.

Ultimate Products, as it is better known, has warned of no growth in its current financial year running to 31 July 2018.

The retailers which form its customer base are exercising caution on buying stock for the autumn and winter. 'The fact that this retailer caution is occurring in the seasonally more important first half of the year (in FY17 61.9% of the group's revenues were generated during this period) represents a significant short-term headwind,' it comments.

We had hoped the company could compensate for a fall in retail demand by increasing market share. Despite pointing to its experience in managing these dynamics and of delivering growth 'in the longer term' this has not proven to be the case in the short-term.

SHARES SAYS: ↘
Our stop loss has been triggered, bringing our trade on UP Global Sourcing to a loss-making end. It could take some time for the business to rebuild the market's confidence so don't race to buy on price weakness. (TS)

ALUMASC
(ALU) 171p

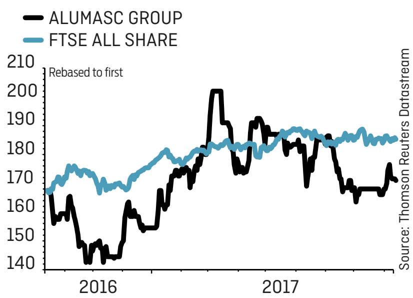
Original entry point:
Buy at 174.5p, 9 Feb 2017

MANAGEMENT AT building products outfit **Alumasc (ALU)** admit they still have work to do in telling the story of its transformation from an engineering conglomerate to a focused play on niche building products.

Speaking to *Shares* on the publication of full year results (5 Sep), chief executive Paul Hooper and finance director Andrew Magson point to underlying pre-tax profit up 9% to £9m in the 12 months to 30 June. Revenue was up 14%, partly driven by a doubling in export sales. Its Levolux solar shading business was the star performer.

We still think the new iteration of the business warrants a higher price-to-earnings ratio than the 7.8 times implied by house broker Peel Hunt's forecasts. The company also offers a dividend yield of 4.5% and trades on a free cash flow yield of 8.7%.

Management's ambition to perform better than the wider construction market is supported by its focus on products which, among other things, promote energy efficiency, manage and control the flow of water, provide bespoke solutions and support customers on quality and cost. The balance sheet is robust with net cash of £6.1m.



SHARES SAYS: ↗
Keep buying as we think the market will eventually realise the business is undervalued. (TS)

BROKER SAYS: 3 0 0

THIS IS AN ADVERTISING PROMOTION

BLACKROCK

THE QUEST FOR *INCOME AND GROWTH*

Growing a portfolio and enjoying sustainable income is a challenge for retirees hoping to make the most of pension freedom and choice. BlackRock's **Adam Avigdori** discusses how the BlackRock Income and Growth Investment Trust plc has the potential to overcome this dual challenge.

We have regularly seen the markets being dominated by volatility. How can you use this to your advantage?

The domestic economy faces challenges from rising inflation, low wage growth and uncertainty around Brexit and we have begun to see more conservative forecasts for growth[i]. For this reason, we invest in companies reliant on the UK market only where we see strong businesses with low share valuations, or businesses that are less dependent on UK economic growth.

We aim to identify companies that we believe can meaningfully grow their earnings over three to five years rather than reacting to short-term volatility in share price. We have been reassured by the earnings results that companies in the Trust have delivered so far this year[ii]. Please remember that past performance is not a reliable indicator of future results and the value of an investment and any income from it can fall as well as rise.

What is your view on including 'turnaround' companies in the portfolio to generate growth?

In September 2013 the income and growth team decided to restructure the portfolio and split it into three parts: yield and free cash flow, growth and turnaround companies. Around 70% of the portfolio is invested in companies that potentially generate attractive revenues and cash-flow and are expected to pay a growing dividend over the long-term[iii]. Roughly 20% of the Trust is invested in companies that have demonstrated long-term growth and could be the dividend-payers of the future[iv]. The final 10% is allocated to 'turnaround' companies[v] that in our opinion have strategic value and the potential to recover from tough times. This strategy has been a differentiator when compared with other funds in the income sector[vi].

Income is still hard to come by for investors – which companies look most promising for delivering on dividends?

Strong dividend levels have been seen across the Trust in the energy, financials and telecommunications sectors (up to 6.7% versus the Benchmark of 3.9%)[vii]. We continue to avoid utilities because these companies are often required to invest a lot of capital back into the business. We look to invest in companies that we believe are capable of generating sustainable free cash flow which can be used to fund dividend growth into the future and seek to avoid companies that are funding dividend growth with debt.

What impact have the UK's freedom and choice pension reforms had on the uptake of income and growth investment trusts?

Pension scheme members are looking for ways to grow their savings while receiving a sustainable income.

While a unit trust has to pay out all the income it receives to its investors, an investment trust's board can retain some income and so maintain a consistent level of payments to investors. Please note income payments and their level cannot be guaranteed.

To take advantage of BlackRock's experience in selecting companies with the potential to deliver both income and growth, please **visit here**

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[i] Trading Economics, as at 13 June 2017
[ii] Peel Hunt Economics & Strategy: UK earnings revisions, May 2017
[iii] BlackRock, June 2017
[iv] As above
[v] As above
[vi] NAV return BlackRock and FTSE All-Share Index, as at end of December 2016
[vii] BlackRock, as at 31 August 2017. Benchmark is the FTSE All Share Index

Trust specific risks: Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall. The Trust's investments may have low liquidity which often causes the value of these investments to be less predictable. In extreme cases, the Trust's may not be able to realise the investment at the latest market price or at a price considered fair.

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Why Croda has the right formula for success

The chemicals firm is bouncing back as it focuses on recovery in its biggest division

The outlook for chemicals firm **Croda (CRDA)** is looking more positive as its biggest division Personal Care continues to recover.

Last year, speciality products in this division struggled due to slower export markets and weaker customer demand.

Continued weakness in consumer spending in Latin America and Croda's distributor exit programme also contributed, temporarily reducing the inventory pipeline.

Since the start of 2017, Croda has rallied nearly 18% to £38.66 (8 Sep 2017).

WHAT DOES CRODA DO?

Croda creates and sells speciality chemicals for a range of products. Its core businesses are Personal Care, Life Sciences and Performance Technologies.

In Personal Care, Croda produces natural speciality oleochemical raw materials for health and beauty products such as moisturisers, sun cream, deodorants and colour cosmetic products.

The Life Sciences division focuses on products for the pharmaceutical and nutraceutical markets. It also develops products that help farmers achieve superior yields and improve seed performance.

Croda delivers innovative ingredients for lubricants, coatings, polymers, polymer additives, geo technologies and home care through its Performance Technologies business.

WHY IS PERSONAL CARE BOUNCING BACK?

Personal Care experienced encouraging progress as sales rose 2.3% in constant currency in the six months to 30 June 2017 as speciality products and trading in North America improved.

Morgan Stanley & Co's Paul Walsh says the outlook for Personal Care has improved with management expecting 2% to 3% organic growth in the second half of the year.

One of the key selling points for Croda is that it appeals to companies that want to be sustainable, which is expected to benefit its Personal Care division.

According to Croda, over a quarter of customer product launches now make a sustainability claim. The chemicals firm is in a strong position to support this growing trend as approximately 60% of its raw materials come from natural sources.

WEAKER POUND TO BOOST PERFORMANCE

UBS analyst Andrew Stott is reassured by the continued recovery in Performance Technologies as the 9.1% sales increase in the first half beat his forecast 7%.

He also highlights the beneficial impact of currency movements, which boosted sales by 12.4%.

Stott is confident that the weaker pound could help margins and market share, particularly in Performance Technologies as nearly a fifth of its sales are exports from the

UK production base.

'HIGH BARRIERS TO ENTRY'

Croda has the advantage of working in an industry with high barriers to entry because it invests significantly in research and development and infrastructure.

The company has constructed a $175m bio-surfactant plant in North America that is due to be commissioned in the second half of this year. Once it is up and running, the facility will replace petrochemical feedstocks with a new range of 100% sustainable products.

A diversified customer base also bodes well for Croda, with its top 10 customers only accounting for 20% of overall sales. The lack of dependency on key contracts means the chemical firm can focus on innovating thousands of products for various customers.

These customers include big firms such as L'Oreal and *Head & Shoulders* seller Procter & Gamble, as well as Swiss agri-chemicals producer Syngenta.

IMPROVING SALES TRENDS

Over the last few years, Croda has experienced more subdued top line growth due to the broader economic environment, which has impacted the underlying sales performance.

The company is making good progress in returning to growth thanks to improving sales trends at the end of 2016, which have continued throughout the first half of the year.

In the six months to 30 June, Croda increased sales by 16% to £707.3m, driven by organic growth across the core businesses and positive currency movements.

Adjusted pre-tax profit in constant currency rose 4.4% to £169.7m, which is expected to increase to £330m in the year to 31 December 2018.

The group actually has a history of prioritising profit over market share gains and volume growth. That's why past results have often shown solid profits despite weak sales.

According to Croda, innovation is the key to its organic growth and investment in faster growth niches to boost success in emerging markets such as Asia.

An example of this is the recent launch of Solaveil Clarus transparent sunscreen for 'Asian-led trends' and an expansion in bio-technology ingredients.

While organic growth is key to Croda's future, there is potential for M&A activity as the company continues to evaluate opportunities, particularly from small technology businesses.

SHARES SAYS:

We are optimistic on Croda based on the prospects for Personal Care and Performance Technologies. The chemical firm's focus on innovating and expanding into emerging markets is also encouraging for future growth. (LMJ)

BROKER SAYS: 10 7 2

WEEK AHEAD

FRIDAY 15 SEPTEMBER

AGMS	
BLENHEIM NATURAL RESOURCES	BNR

MONDAY 18 SEPTEMBER

FINALS	
BLUEFIELD SOLAR INCOME FUND	BSIF
FINSBURY FOOD	FIF
GREEN REIT	GRN
INTERIMS	
CONCURRENT TECHNOLOGIES	CNC
ERGOMED	ERGO
MEDICA	MGP
MP EVANS	MPE
SECURE INCOME REIT	SIR
AGMS	
MERCIA TECHNOLOGIES	MERC
ECONOMICS	
UK	
RIGHTMOVE HPI	

TUESDAY 19 SEPTEMBER

FINALS	
EAGLE EYE SOLUTIONS	EYE
PURECIRCLE	PURE
INTERIMS	
FLOWGROUP	FLOW
GULF MARINE SYSTEMS	GMS
JUDGES SCIENTIFIC	JDG
KEYWORDS STUDIOS	KWS
MAXCYTE	MXCT
YU GROUP	YU.
AGMS	
HML HOLDINGS	HMLH
SAFELAND	SAF

WEDNESDAY 20 SEPTEMBER

INTERIMS	
ACCESSO TECHNOLOGY	ACSO
SCIENCE IN SPORT	SIS
SHIELD THERAPEUTICS	STX
AGMS	
UNITED CARPETS	UCG
ECONOMICS	
UK	
CBI INDUSTRIAL ORDER EXPECTATIONS	

THURSDAY 21 SEPTEMBER

INTERIMS		
CAMBRIDGE COGNITION	COG	
QUIXANT	QXT	
VENTURE LIFE	VLG	
AGMS		
AUTO TRADER	AUTO	
ACCSYS TECHNOLOGY	AXS	
BEGBIES TRAYNOR	BEG	
CIRCLE PROPERTY	CRC	
FIRST PROPERTY GROUP	FPO	
GLOO NETWORKS	GLOO	
IG GROUP	IGG	
TWENTYFOUR INCOME FUND	TFIF	
VIETNAM HOLDING	VNH	
WHITBREAD	WTB	
WYG	WYG	
ECONOMICS		
US		
UNEMPLOYMENT CLAIMS		
EX-DIVIDEND		
ADEPT TELECOM	ADT	4P
BOOT (HENRY)	BOOT	2.8P
CREST NICHOLSON	CRST	11.2P
CONSORT MEDICAL	CSRT	13.21P
DRAX	DRX	4.9P
DART	DTG	3.9P
DIGNITY	DTY	8.64P
EMIS	EMIS	12.9P
FORTERRA	FORT	3.1P
HENDERSON HIGH INCOME TRUST	HHI	2.38P
HARGREAVES SERVICES	HSP	4.5P
IRISH CONTINENTAL	ICGC	€0.04
KAINOS	KNOS	4.4P
LADBROKES CORAL	LCL	2P
MACFARLANE	MACF	0.6P
NON-STANDARD FINANCE	NSF	0.5P
OLD MUTUAL	OML	3.53P
OXFORD INSTRUMENTS	OXIG	9.3P
PENDRAGON	PDG	0.75P
PETROFAC	PFC	$0.13
PLAYTECH	PTEC	€0.12
RANK	RNK	5.3P
RENISHAW	RSW	39.5P
STEWART & WIGHT	STE	14.5P
TAYLOR WIMPEY	TW.	2.3P
VAN ELLE	VANL	1.75P
VTEC	VTC	10.4P
WEIR	WEIR	15P

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

Shares in video game services provider Keyword Studios (KWS:AIM) have shot up by more than 50% since telling the market in July that half year results would be very good.

Given the extent of this rally and that Keywords has already given the market revenue and profit figures, we believe there is a risk the shares could fall when interim results are published on 19 September as investors cash in some profit.

We've seen this happen on many occasions over the years. Investors buy on positive trading updates and cash in their gains once the figures are confirmed on results day.

Analysts have already upgraded earnings forecasts for Keywords off the back of the July update, so it is hard to see them doing this again next week. We believe the shares will only sustain upwards momentum if Keywords can provide an exceptionally positive outlook statement at the results.

Full year results from diversified bakery business Finsbury Food (FIF:AIM) on 18 September are forecast to show an improvement in pre-tax profit. That would be good going in a tough consumer market with rising input costs putting the margin squeeze on the sector.

We expect the celebration cakes-to-muffins and breads maker to issue cautiously optimistic outlook commentary, likely expressing confidence in its ability to maintain its market leading position.

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The TB Saracen Global Income and Growth Fund, co-managed by Graham Campbell and David Keir, aims to grow both capital and income over the long-term by investing in market leading businesses at attractive valuations and supportive dividend yields.

The most important part of any investment decision is the price you pay. We aim to identify and invest in 40-60 leading global businesses which we believe will be able to grow profits and increase dividends over the long-term.

The fund is independently rated by RSM and "A" rated by Square Mile Research. TB Saracen Global Income and Growth Fund has an active share of over 90%.

The fund has been ranked first quartile over one year and second quartile over five years.

The historic dividend yield is 2.6%[1], which rose 8% year on year[2]. There is an annual management fee of 0.75% and ongoing charges of 0.99% (B shares) and there is no entry or exit fee and no performance fees. We offer Income and Accumulation shares.

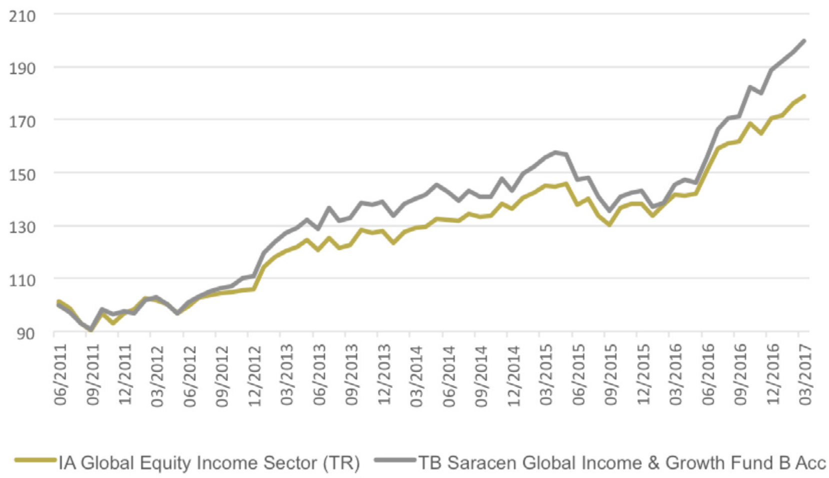
Saracen Fund Managers has a rigorous investment process. We have a long-term investment horizon and we focus on factors that drive returns, namely: cash and growth. Many investors require income and capital to fund their aspirations. Banks and government bonds offer very low levels of return for savers. In comparison, equities still appear attractive and with signs that economic growth is strengthening, we believe we have identified a portfolio of quality businesses that offer value and will benefit from the persistence of global economic growth.

Click **here** to find out more information

[1] Based on 4.27p per share on Income shares for 2016

[2] HI 2017 rate was 3.94p per share.

Fund Performance since inception (from 06/11 – 03/17)



Source: Financial Express

Total Return, Bid to Bid, GBP terms. Past performance is not a reliable indicator of future results. The value of your investment and the income derived from it can go down as well as up and you may not get back the money you invested.

Fund has been selected as part of the **AJ Bell Favourite Fund List 2017**

AJ BELL FAVOURITE FUND LIST 2017

Cumulative Performance after all ongoing charges to 31st August 2017

	1 month	6 months	1 year	3 years	5 years	Since launch[1]
TB SGIG B Acc	+1.5%	+3.9%	+19.2%	+42.1%	+92.9%	+103.7%
Sector Average	+1.5%	+4.5%	+14.1%	+36.9%	+77.6%	+84.1%
Quartile Ranking	3	2	1	3	2	2

[1]Source: Financial Express; launch date 07 June 2011
Sector: IA Sector (Global Equity Income)

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Are housebuilders still a good investment?

We analyse the latest batch of financial results from the sector

Flintshire-headquartered **Redrow (RDW)** appears to be the winner of the latest set of financial results from the housebuilding sector.

We also note that investor sentiment has finally turned positive towards **Bovis Homes (BVS)**. Its recovery plan was well received last week, helping to shift the focus away from an earlier scandal over the quality of its construction.

WHY HAS REDROW EMERGED VICTORIOUS?

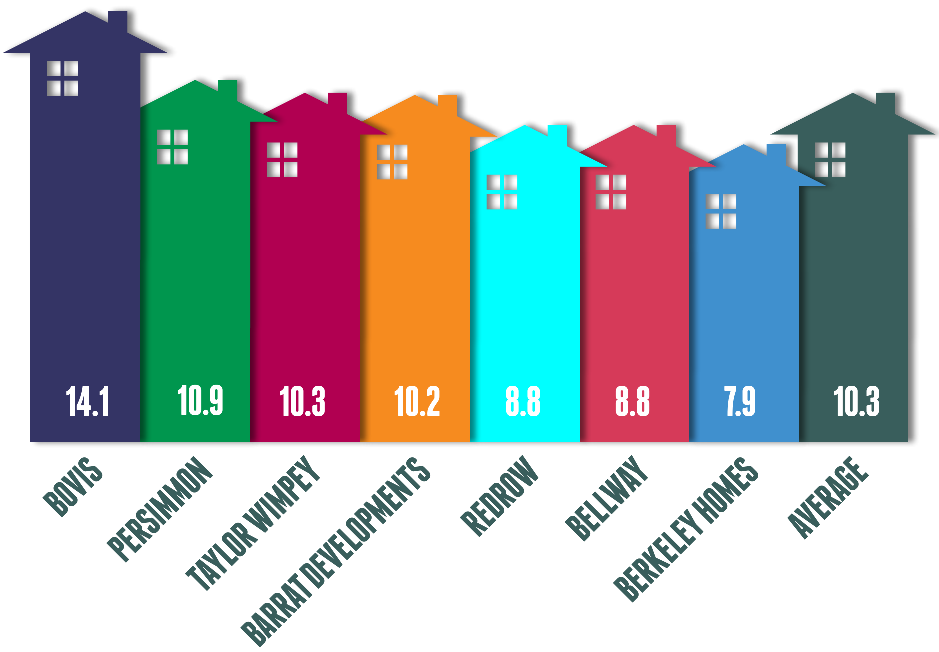
Numis analyst Chris Millington says Redrow's management has ability to 'under-promise and over-deliver'.

Alongside results on 5 September, the housebuilder set ambitious targets for 2020 of £2.2bn in turnover and pre-tax profit of £430m thanks to strong performance and robust demand.

In the year to 30 June 2017 sales increased 20% to £1.66bn, driven by higher legal completions and a 7% rise in the average selling price to £309,800.

The company also anticipates the dividend will rise to 32p per share in 2020, almost double the 17p for the year just gone. That implies a 5.1% yield in three years' time – which is already eclipsed by the 6%+ returns expected this year from Bovis and **Persimmon (PSN)**.

HOUSEBUILDERS VALUATION SNAPSHOT – 2017E PE



Source: AJ Bell, Digital Look, 5 September 2017

HAS REDROW BEEN A GOOD INVESTMENT?

Redrow has delivered 32.6% total return over the past two years, being share price appreciation and dividend income. That's about the same as Persimmon but a lot better than Bovis's 12.6% total return, according to data from SharePad.

Canaccord Genuity analyst Aynsley Lammin notes Redrow's management, led by chief executive John Tutte who has been at the helm since 2014, 'has shown itself to be opportunistic and entrepreneurial as well as adaptable over the last few years'.

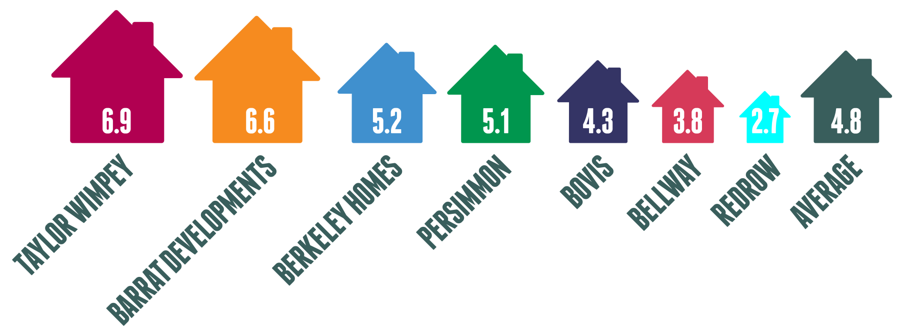
Lammin adds: 'The group has a good land bank from which it expects to generate an attractive return on capital employed of more than 25% going forward.'

WHAT'S HAPPENING WITH THE OTHER QUOTED HOUSEBUILDERS?

The UK's largest housebuilder, **Barratt Developments (BDEV)**, warned in July of only modest growth in housebuilding in 2018. That view remained the same when it reported full year numbers on 6 September.

There was also some disappointment that Barratt did not offer firm guidance on margin performance. It has proved to be a poor investment on a two year view, having only delivered 3.5% total return. It has fared better over the past year

HOUSEBUILDERS VALUATION SNAPSHOT – 2017E DIVIDEND YIELD (%)



Source: AJ Bell, Digital Look, 5 September 2017

with its shares up 21%.

In an otherwise in-line trading update (6 Sep), London-focused **Berkeley Homes (BKG)** warned the London market continued to face pressure from Brexit-inspired uncertainty and tax changes.

WHY IS BOVIS BACK IN FASION?

Bovis Homes is an outlier in the sector as industry veteran and chief executive Greg Fitzgerald looks to lead a recovery in the company from previous problems.

Two profit warnings around the turn of the year, the departure of previous chief executive David Ritchie in January, and a £7m compensation payment to customers for defects in their new homes, left investors frustrated with the company.

A positive response last week to Fitzgerald's pledge to increase its gross margin to 23.5% from the current 18.3% by 2020s suggests he is off to a promising start.

IS THE SECTOR STILL A GOOD INVESTMENT?

As the accompanying graphics show, on a price-to-earnings basis Bovis is the most expensive housebuilder. It is lagging its peers on a price to net asset value basis which is typically a better measure of a housebuilder's value. All the major quoted housebuilders are trading at a premium to net asset value.

AJ Bell investment director Russ Mould comments: 'The question investors must therefore address is whether the industry's excellent near-term profit momentum can be maintained.

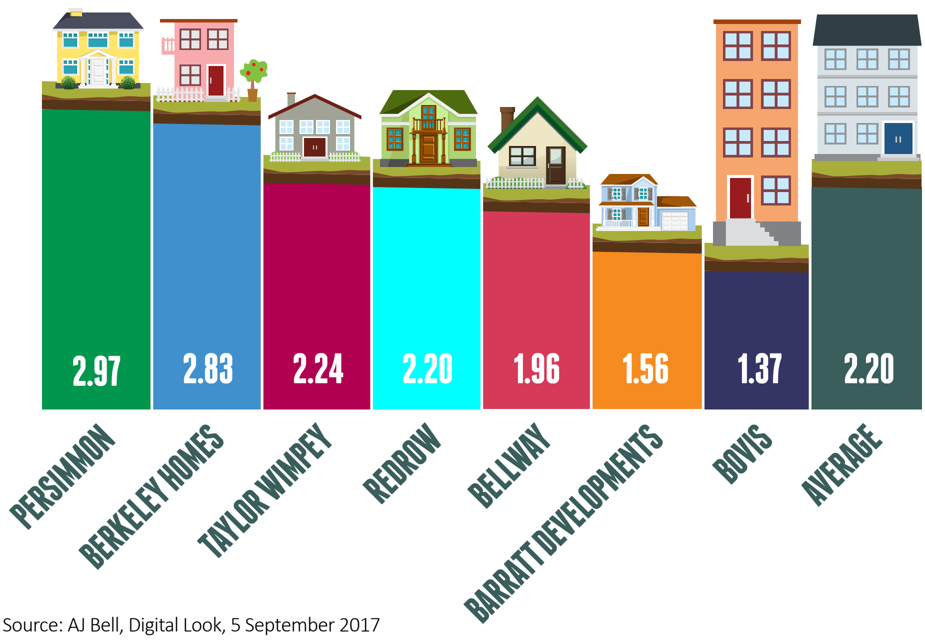
'If so, asset valuations will continue to rise and the sector will look less expensive (and even cheap over time) and for the moment demand clearly continues to outstrip supply.'

Despite positive sector fundamentals, we do note several very large share disposals over the past week by directors and associated parties at two of the major housebuilders. These transactions don't exactly fill us with confidence as they send a negative signal.

Berkeley's chairman Anthony Pidgley sold £26.8m worth of shares, having already sold £31m of stock five months ago. The wife of Berkeley chief executive Robert Perrins offloaded just under £17.9m of stock.

Redrow's legal director Graham Cope sold nearly £1.9m worth of shares. And the company's founder and chairman Steve Morgan sold a 7% stake for £152.8m. (TS)

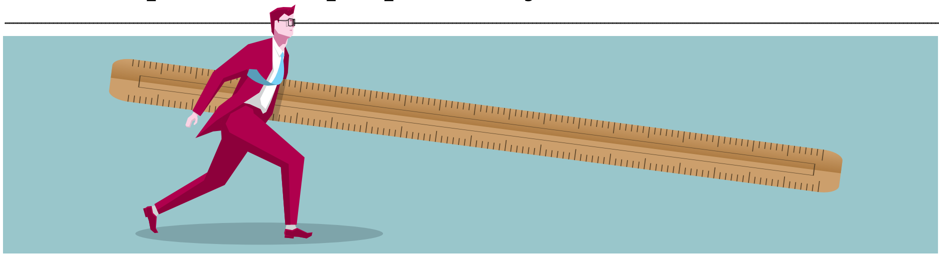
PRICE TO NET ASSET VALUE



Source: AJ Bell, Digital Look, 5 September 2017

New trust plans to shake-up investment short-termism

The People's Trust prepares to join stock market with longer-term returns approach



A new investment trust hopes to lead the fight against investment short-termism, and at the same time fling open the doors to thousands of new investors.

The People's Investment Trust is hoping to raise £125m and float on 17 October. Retail investors can take part in the IPO (initial public offering) offer via most good stockbrokers, if they so wish.

WHAT'S THE INVESTMENT STRATEGY?

The People's Trust plans to invest across a range of funds with a particular emphasis on social impact and renewable energy assets.

An initial 1% of the funds raised will be allocated to social impact investment, aimed at addressing social deprivation in the UK and beyond. This could increase to a maximum 5% of trust funds in time.

Five highly-rated external fund managers will build and run its investment portfolio. They include a clean energy investment strategy run by hedge fund Lansdowne Partners; and a UK smaller company component run by Artemis Investment Management.

HOW MUCH MONEY COULD YOU MAKE?

The chief selling point to new investors, according to the trust, is that its investment returns performance will be measured over a seven year time horizon, longer than the typical three year cycle.

The People's Trust is aiming generate total returns of 7% per year over its seven year cycle after costs. That target assumes consumer price index (CPI) inflation averaging 2% a year. The estimated ongoing cost ratio will be 1.07%.

It wants to encourage the companies in which it invests to 'stand up to pressure from shorter-term investors and markets and to invest in their own long-term sustainable futures'. It believes this will lead to better long-term returns for shareholders.

'The People's Trust has created our own investment chain, so that we can focus on long-term, sustainable wealth creation without the short-term pressure that plagues the investment chain,' says chief executive Daniel Godfrey.

'Short-termism may be caused by profit risk and career risk, but it has done enormous damage to investor returns and to the potential that long-term investment has to make the world a better place.'

Fund manager performance fees will also be linked to the trust's seven year performance cycle, aligning their aims with those of ordinary investors.

'The UK needs a radical transformation of capital markets if they are to fulfil their purpose of sustainable wealth creation,' says Vince Cable, MP and leader of the Liberal Democrats.

'The current system awards prizes for short-term, relative returns and this comes at a high opportunity cost to long-term productivity and GDP growth as well as poorer returns for millions of pension savers.

'The People's Trust has created a structure and purpose which is able to challenge the present model. Writing as an individual who sought in government to promote "long-termism" in financial markets, I hope that the People's Trust will be a success,' he adds. (SF)

THIS IS AN **ADVERTISING FEATURE**

THE NEXT 50% CRASH IS COMING

HERE'S A GOOD WAY TO AVOID THE NEXT DOWNTURN AND BEAT THE FTSE

It's easy to forget, but huge market crashes happen with alarming frequency.

In only the last 15 years there have been two crashes of 50%. First the dotcom bust of 2000-03. And then the financial crisisof 2007-09. Both times your stock market investments would have been cut in half.

Could you cope with the next potential 50% drop in your investments? Smart investors are getting nervous again, so you need to be prepared.

Ray Dalio, the founder of the biggest hedge fund group in the world, has just announced he's pulling back from the markets because of political instability. Think Trump, North Korea, Putin, the Middle East.

Other big financial players think the markets are way too high because of what central banks have been doing. Stock markets have doubled since 2009, mainly thanks to QE and low interest rates. No-one knows how this will end. Things are very precarious.

So how can you protect yourself from a potential 50% drop in the markets, whilst still making good profits?

One extremely effective method is trend investing.

Compared to the 'buy and hold' approach that many investors use, this is a more active approach to investing. Instead of ignoring the ups and downs of the market, you deliberately respond to them.

The principle is simple: any market trend – whether up or down – is likely to keep going in the same direction. Rising prices tend to keep rising, and falling prices tend to keep falling. This is known as the 'momentum effect', and is a well-researched phenomenon.

As a trend investor, you buy into uptrends and get out of downtrends. That way you can make profits, and avoid wealth destroying crashes. Perfect for difficult investing times, like now.

Obviously you need an effective method for spotting emerging trends. This is what we offer here at Saltydog Investor.

We provide an easy-to-use trend investing method, based on data and charts updated weekly. You can apply the data yourself, or simply copy our market-beating portfolio.
It's very straightforward and successful. We've been running for seven years, and have consistently beaten the market.

"It's easy to understand and lets you know the sectors which are doing well at present. I'm up 25% in 18 months… It's worth every penny." David Moody

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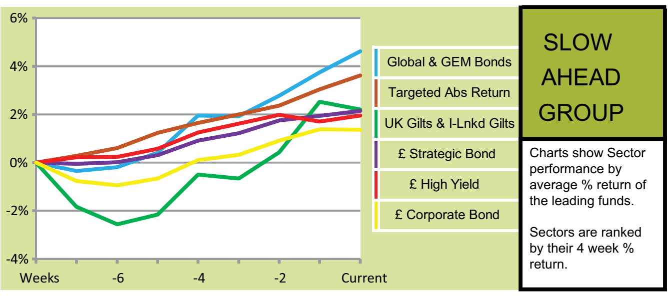
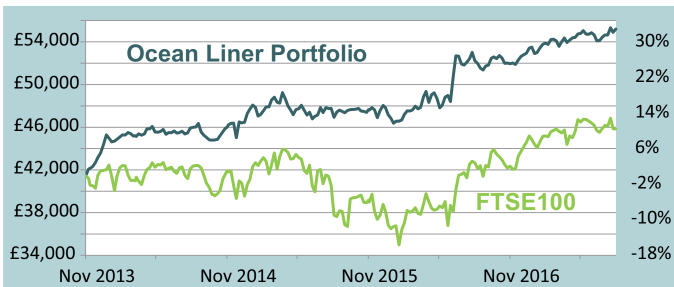
Spot new trends, with clear, easy to follow charts & data



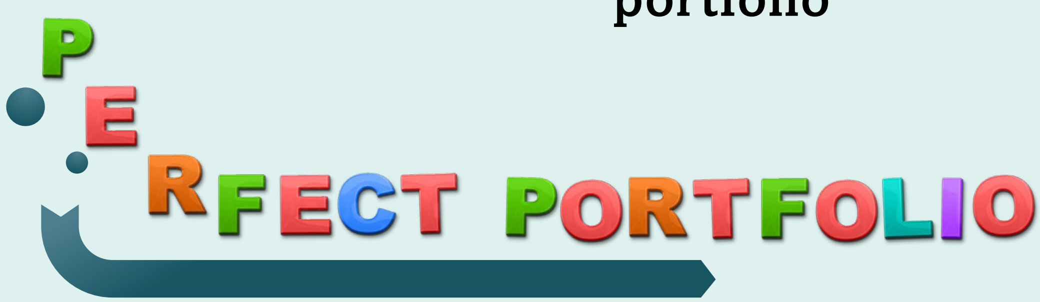
Follow our market-beating portfolio



FREE TRIAL Try our trend investing system, free for 2 months. Go to: www.saltydoginvestor.com

HOW TO PICK THE BEST FUNDS

The simple way to sort through thousands of products to create your perfect portfolio



Saving money either as a lump sum or on a regular basis is an excellent first step towards having a healthy and wealthy time in later life. The second step is choosing where to put your money.

This task isn't always straightforward as there are more than 2,000 individual companies on the London Stock Exchange and more than 3,000 unit trust and Oeic (open-ended investment company) funds available to UK investors alone.

Add in hundreds, if not thousands, of investment trusts and exchange-traded funds and you're drowning in investment options.

To help you navigate this busy landscape, we will now explain how to pick actively-managed funds, focusing purely on unit trusts and Oeics.

You will learn how to filter the wide range of funds and find the products that match your investment requirements.

Our guide will explain which details are most important when reading fund documents and the vital bits of information which many investors neglect to obtain when researching products.

STEP 1: INVESTMENT GOAL AND TIME HORIZON

Picking funds is easier than you might think. It requires a systematic approach and a short amount of time for in-depth research once you've built a short list of products that meet your needs.

You should always start by writing down your investment goal and time horizon for achieving that goal; i.e. why you want to invest, how much you want to make and when you will need to access that money.

For example, let's say you are a 40 year old who wants to build up an investment portfolio that will pay for your child's university education in 10 years' time; you might alternatively be a 50 year old who wants to have a decent sized ISA in 15 years' time to bolster a workplace pension.

You then need to establish your appetite for risk. For example, it's no good buying a fund with high risk assets like biotech firms or miners if you have to rely on that money in five years' time to pay certain bills. Those types of businesses can generate high returns – but they can also experience large losses if drug trials fail or commodity prices are weak, for example.

In contrast, buying a very low risk fund may not be appropriate if you need to make 12%+ annual returns in order to hit your investment goal. You need to find a balance between taking on enough risk to generate the desired returns and not being too bold so as to risk losing a large chunk of your money.

Importantly, you may need to rethink your time horizon if your financial goal requires you to take excessive risks. It is better to be invested for a bit longer than to go all guns blazing with high-risk investments and hope nothing goes wrong.

Start by writing down your investment goal

> IT'S NO GOOD BUYING A FUND WITH HIGH RISK ASSETS IF YOU HAVE TO RELY ON THAT MONEY IN FIVE YEARS' TIME TO PAY CERTAIN BILLS

STEP 2: INCOME OR GROWTH OR BOTH?

Investors fall into different camps. Some want to generate a regular income from their investments, particularly people in retirement. Others don't need income at present and simply want to grow the value of their investments over time. And there are people who want a bit of both.

It is fairly easy to see which funds offer income, growth or both as they will either have the styles in their product title or it will be clearly explained on their website.

> SOME WANT TO GENERATE A REGULAR INCOME FROM THEIR INVESTMENTS, PARTICULARLY PEOPLE IN RETIREMENT. OTHERS DON'T NEED INCOME AT PRESENT AND SIMPLY WANT TO GROW THE VALUE OF THEIR INVESTMENTS OVER TIME

One way to filter the pack is to use an online screening system such as the one offered by financial data specialist Morningstar. For example, it powers the fund screening system on AJ Bell Youinvest's website where you can you search by geographic focus such as funds that invest in Asian companies; as well as filtering by category such as bond fund, property fund or US small cap equities.

To find funds that pay a regular income via Youinvest's fund screener, click the 'Inc' box on 'Distribution Status' and that will instantly knock out funds that either don't pay a dividend or coupon, or ones that essentially roll up any payouts back into your fund holding. You can then narrow the search by using the variety of drop down menus including the name of the company running the fund such as Baillie Gifford or Jupiter.

STEP 3: DON'T LIMIT YOURSELF TO ONLY BUYING FUNDS THAT HAVE DONE WELL IN THE PAST

You need to understand the bigger picture

There will be a temptation at this point to pick the funds which have the best past performance data. Many people assume a fund that has done well in the past will continue to thrive in the future. They may also ignore funds that haven't done well, presuming they are inferior products.

Don't make this mistake. You need to understand the bigger picture, namely how the broader markets were performing and whether a fund should have unperformed or outperformed due to the style of their investment strategy either being out of, or in, favour. More on that point later.

LOOK AT ANNUAL DATA

We like to look at discrete annual performance data over at least five years; a 10 year period is even better. That will show you if a fund has been fairly consistent with its returns or whether it simply had one or two good years over a decade which made its headline data (also known as cumulative data) look attractive.

For example, let's say a fund has gone up 80% over 10 years. It may have seen eight years with negative or flat performance but had two amazing years (perhaps because the overall market was soaring) with which to achieve that large overall performance when looking at a 10 year view.

'It is very easy to be lucky over a short period of time,' says Ryan Hughes, head of fund selection at AJ Bell. 'You see a lot of fund managers that exhibit exactly that characteristic.

'They have a very strong period of performance over a very short period of time. The skill of someone researching and choosing a fund is to determine whether that performance was genuine skill or simply just good fortune,' he adds.

'I would equate that to going to the casino. You might have a one-off visit and make a profit. That is very lucky. If you go to the casino week after week, I would imagine over time the casino would win – so there is no evidence of skill in that approach. Over the longer term skill is separated from luck. It is genuinely difficult to be lucky over a long period.'

LOOK AT WHAT'S DOING WELL AND WHAT ISN'T

It is important to recognise that not all managers who are performing poorly are doing a bad job. It may well be that their investment style is out of favour.

> IT IS IMPORTANT TO RECOGNISE THAT NOT ALL MANAGERS WHO ARE PERFORMING POORLY ARE DOING A BAD JOB. IT MAY WELL BE THAT THEIR INVESTMENT STYLE IS OUT OF FAVOUR.

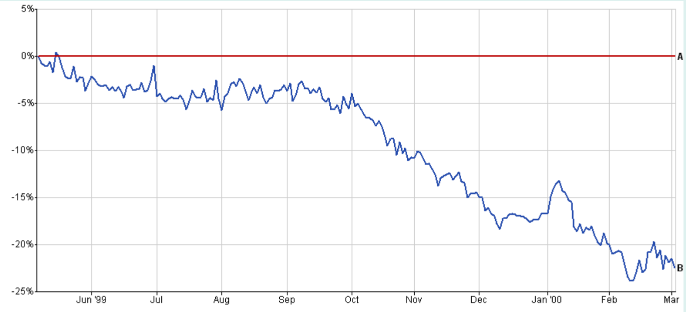
They might be value investors who only buy stocks when they are really cheap in the belief that the market has priced them incorrectly. They may struggle when the market is chasing growth stocks, even ones that are trading on high valuations.

The fund will stand a chance of having a stronger period of performance when its style comes back into favour.

For example, **JOHCM UK Opportunities Fund (GB00B95HP811)** is very strict on valuation and will sell a holding when its valuation looks excessive. You may have heard the phrase 'run your winners', referring to investors holding on to their best performing stocks in the hope that an upwards share price trend will remain intact. For JOHCM, it doesn't think twice about selling its winners when they look overvalued.

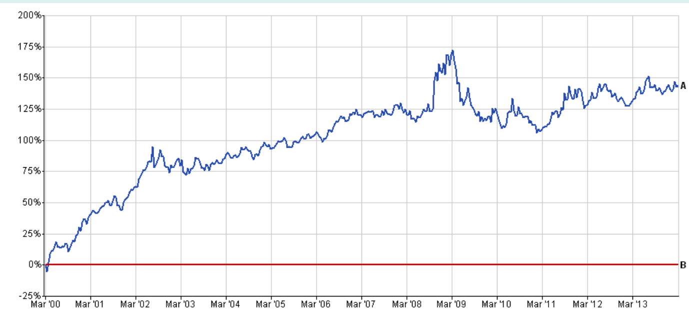
It has underperformed the FTSE All-Share benchmark on a one, three and 12 month basis, so too on a five year basis. That's because its value-led approach is not in kilter with current market trends. Indeed, one fifth of its portfolio is in cash, waiting for opportunities to emerge should valuations start to fall across the market. On a longer term basis, the fund has outperformed the index four out of seven years up to the end of 2016 and it has actually produced a positive return in each of those seven years.

'There remains no value in this market and we continue to stick to our valuation discipline than fold just as the craziness reaches its peak,' it said in a recent commentary to investors.



FTSE All Share TR in GB (0.00%)
Well known fund

The chart above illustrates how a well-known fund underperformed the broader stock market by more than 22% in less than a year. Would you buy that fund if it appeared on your list when filtering the market? Many people would probably say no. That would have been the wrong decision, as the next chart illustrates.



FTSE All Share TR in GB (0.00%)
Invesco Perpetual High Income (GB00BJ04HP86)

The fund in question is **Invesco Perpetual High Income (GB00BJ04HP86)** which went on to outperform the market by 143% over the subsequent 10 years.

The fund manager during that period was Neil Woodford who is back in the headlines for once again underperforming the market, this time with his **CF Woodford Equity Income Fund (GB00BLRZQ620)** which has lagged the FTSE All-Share by 7.6% so far this year.

Several of his investee companies have suffered high profile setbacks, causing their share prices to fall and ergo the value of Woodford's fund.

Many of the best performing stocks are those linked to China

The manager also attributes the fund's underperformance to the 'rather odd characteristics' of the current stock market bull-run, saying many of the best performing stocks are those linked to China and that his bias towards the UK is out of favour.

'I'm very sorry for the poor performance that we've delivered since 2016. But in terms of what it means for me as a fund manager, it's very, very important that through a period like this that you maintain your investment discipline,' says Woodford.

'The temptation is to take the easy option, to sort of hide in the strategy that everybody else is pursuing. And then all the attention, and all the fuss, and all the criticism would go away. But that would be a betrayal of my investment principles.'

Just remember that Woodford made investors a lot of money when at Invesco and his approach is unlikely to have radically changed. Therefore we don't expect his run of bad luck to be permanent.

> **"THE TEMPTATION IS TO TAKE THE EASY OPTION, TO SORT OF HIDE IN THE STRATEGY THAT EVERYBODY ELSE IS PURSUING. AND THEN ALL THE ATTENTION, AND ALL THE FUSS, AND ALL THE CRITICISM WOULD GO AWAY"**

STEP 4: UNDERSTAND EACH FUND'S INVESTMENT PROCESS

This is where you will have to do a bit of leg work. It is paramount to understand how a fund manager will use your money. You must understand their investment process, namely what they want to achieve and how they will do so.

We would avoid all funds that fail to properly explain their process. You need to have utmost faith and trust in a fund manager; so why would you hand over money not knowing how they will use it?

Examples of processes include:

- Backing young companies which have the potential to be much bigger in the future and which could disrupt traditional markets.
- Finding companies which generate high returns on the money they invest in their business.
- Building a portfolio of companies tied into thematic investment topics such as profiting from an ageing population.

We like funds that are disciplined and have a clear plan for what they want in an investment. For example, asset manager Liontrust prides itself on having detailed investment processes published on its website, saying this helps investors to understand how its teams manage money and the fact that the process is 'predictable and repeatable'.

'It is critical that you understand a fund's process before you invest,' says Hughes at AJ Bell. 'Good fund managers are hard to find. You should only invest when you believe they can outperform otherwise use a passive solution (such as an exchange-traded fund).'

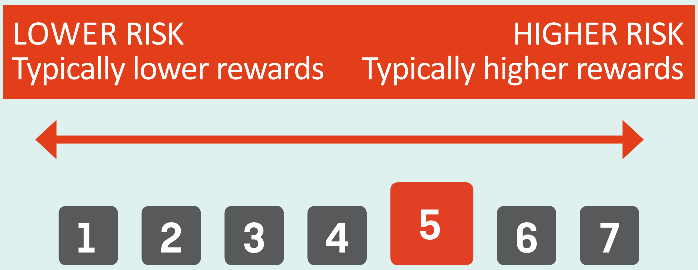
Avoid all funds that fail to properly explain their process

STEP 5: THE IMPORTANT BITS ON FACTSHEETS

Regulation has led to the introduction of a two-page factsheet called KIID which is better known as a key investor information document. It aims to provide investors with a transparent and succinct overview of funds in a common format.

Its aim is to help clarify the facts and help you find out more about whether a fund could meet your investment goals.

It details what the fund is trying to achieve and how they are going about it, although you may find this information to be very basic compared with the way some asset managers discuss their process on their website.



The KIID will show the annual charge for the fund and it gives a risk profile, scoring from 1 (lowest risk) to 7 (highest risk). It will also show some past performance data.

Admittedly the KIID looks like very dry reading, particularly as they are text-heavy, visually-unappealing documents. However, we urge you to read all the information as they do provide valuable insight into how a fund works and what it will cost you to own.

You may also find references to factsheets which will either be longer documents produced by the fund manager including commentary on how the fund is performing and a list of the largest holdings; or they will be a link to various data points on the fund's performance, history and charts, such as those offered by Morningstar.

You may also see reference to something called the Sharpe ratio. This is a quick way of thinking about whether you are being adequately rewarded for the risks you are taking.

If a fund takes a lot of risk and you are getting a good return, it is likely to have a good Sharpe ratio. If the fund takes a lot of risk and you aren't getting a good return, the Sharpe ratio will be much less.

> IF A FUND TAKES A LOT OF RISK AND YOU ARE GETTING A GOOD RETURN, IT IS LIKELY TO HAVE A GOOD SHARPE RATIO. IF THE FUND TAKES A LOT OF RISK AND YOU AREN'T GETTING A GOOD RETURN, THE SHARPE RATIO WILL BE MUCH LESS

As a rule of thumb, a fund with a ratio above 1.0 is said to be doing well. A ratio above 3.0 is considered to be excellent.

STEP 6:
STILL NEED HELP? LOOK AT THE VARIOUS 'BEST BUY LISTS' OR TOP RATED FUNDS

We've tried to explain that researching funds isn't as hard as you might think. However, we appreciate many of you just want to be presented with a ready-made short list of good funds.

Fortunately there are many places which provide such a helping hand. Firstly, we would point you towards a wide range of 'top fund' lists produced by various financial services providers.

For example, AJ Bell Youinvest has a 'favourite funds' list which includes 50 actively-managed funds selected for being low-cost, great value for money, having a proven track record and a high quality fund management team. You may also wish to look at ratings given to funds by the likes of Morningstar and Lipper. (DC)

DISCLAIMER
The author (Daniel Coatsworth) has a personal investment in JOHCM UK Opportunities referenced in this article.

POINTS TO REMEMBER

STEP 1:
ESTABLISH YOUR INVESTMENT GOAL AND TIME HORIZON

STEP 2:
ESTABLISH WHETHER YOU WANT YOUR FUNDS TO PROVIDE INCOME OR GROWTH OR BOTH

STEP 3:
DON'T LIMIT YOURSELF TO ONLY BUYING FUNDS THAT HAVE DONE WELL IN THE PAST

STEP 4:
MAKE SURE YOU UNDERSTAND EACH FUND'S INVESTMENT PROCESS

STEP 5:
KNOW THE MOST IMPORTANT BITS TO READ ON FACTSHEETS

STEP 6:
STILL NEED HELP? LOOK AT THE VARIOUS 'BEST BUY LISTS' OR TOP RATED FUNDS

Special dividends on the cards at Victrex

A significant tax rate cut is expected to reap rewards for investors if the company has enough cash

Investors should be excited about polymer manufacturer **Victrex's (VCT)** reduced tax rate as it may result in special dividends going forward.

News the company's hefty investment in R&D spending has made it eligible for the UK's Patent Box tax break translates into a cut in the firm's tax rate from approximately 21% to 12%, which is expected to have a favourable impact on earnings per share (EPS) and cash.

The cash benefit is expected to kick in from 2018 onwards.

Since the announcement on 4 September, shares in the company have rallied nearly 8% to £23.35.

Victrex plans to pay a special dividend if net cash hits £85m by the end of September. Investors won't find out if it has reached this threshold until full year results are published on 5 December 2017.

Out of the 19 analysts that cover Victrex, 18 are forecasting a special dividend in the year to 30 September 2017.

Berenberg's Sebastian Bray says there is the likelihood of 'a special dividend every year' and upgrades his recommendation to 'buy' on the back of the tax cut.

YIELD BOOST FROM TAX BREAK

'The estimated £13m per annum tax saving from 2018 is likely to raise yields to 5% per annum in the long term,' comments Bray.

He anticipates a headline uplift to EPS by 10% to 11% and flags that Victrex will have enough cash to fund further bolt-on acquisitions.

Victrex makes high performance polymer products used in a broad range of markets including automotive, aerospace, electronics and medical.

According to Bray it will benefit from an end market that is 'near universally positive for volumes', while its innovative pipeline leaves 'considerable upside to the current price'.

N+1 Singer analyst James Tetley believes the special dividend could be 50p apiece in 2017 and 2018.

Victrex is currently forecast to generate net cash of £105.5m this year, which is anticipated to increase to £109.9m in 2018.

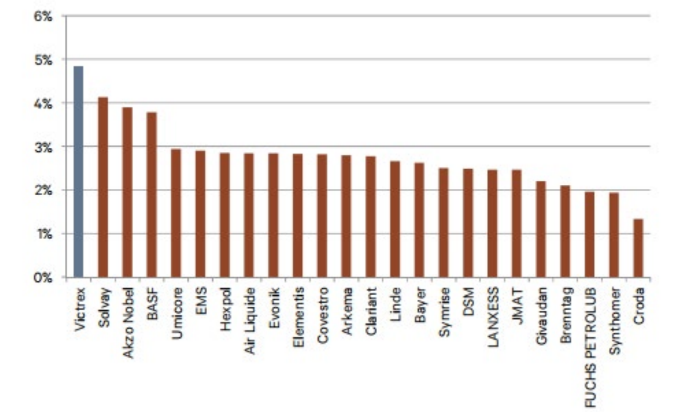
RISK WARNING

Although it is a cash-generative business with no debt, there are risks. Weakening demand in key markets, including the aerospace and electronics sectors, could impact its ability to be so generous to shareholders.

The company currently trades on a forecast 18.9 times EPS in 2018.

Though this is a high valuation, Bray notes Victrex is among the fastest growing constituents in the UK chemicals sector with a forecast EPS compound annual growth rate of 11% between 2017 and 2019.

2018 DIVIDEND YIELD OF VICTREX VERSUS PEERS



Source: Bloomberg, Berenberg

SHARES SAYS: ↗
We believe the company is has a bright outlook and is set to reward investors handsomely. Buy at £23.35. (LMJ)

BROKER SAYS: 5 10 3

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McBride shines after fixing its business

Clean up with the private label laundry liquids-to-mouthwash maker

Margin improvements under a winning transformation strategy and scope for growth are reasons to keep buying private label household-to-personal care products play **McBride (MCB)**.

Investment bank Investec believes you could make at least 25% return over the next 12 months, based on its 250p price target.

The £356m business develops and supplies products for sale under retailers' own brands, often referred to as private labels or own labels. These span everything from toilet cleaners and laundry products to shower gels and toothpastes and are supplied to Europe's leading grocery retailers.

'REPAIR, PREPARE, GROW' STRATEGY

Under chief executive Rik De Vos, Manchester-headquartered McBride is successfully progressing its 'Repair, Prepare, Grow' strategy to simplify the business and return it to sustainable growth.

It previously struggled with poor quality products, too many customers and too much debt.

McBride now appears to be in a better place despite input cost inflation, promotional retail markets and increased competition in France and Germany.

We highlighted the attractions of McBride at 150p in the 21 July 2016 edition of *Shares* and the stock has subsequently enjoyed a good run. We still see significant upside.

Margins are improving following completion of the 'Repair' phase, while McBride is now executing its 'Prepare' phase, which will bridge the path to the 'Grow' stage.

Full year results on 7 September revealed headline sales up 3.6% to £705.2m, boosted by a translation gain on weaker sterling.

At constant currency, revenues were 5.9% lower, a consequence of deliberate customer rationalisation, price deflation and increased competition in some markets.

Encouragingly, operating margins increased to 5.9% (2016: 5.3%), moving towards management's 7.5% target thanks to cost reductions and efficiency improvements. Return on capital employed rose from 23.4% to 27.7%, within De Vos' stated 25-30% target.

FISCAL FIREPOWER

Significantly, net debt reduced from £90.9m to £75.7m and is still expected to reduce despite higher capital expenditure at key sites in the years ahead.

McBride, which has halted the sale of its aerosols business, has firepower for acquisitions. We like the rationale behind its £39m acquisition (4 Sep) of Denmark-based Danlind, giving McBride exposure to the fast-growing dishwasher tablets market and access to a range of Nordic customers.

McBride looks good value on a prospective price-to-earnings ratio of 12.2 and 2.5% dividend yield, with the earnings multiple dropping to 10.4 times on 2019's estimates.

SHARES SAYS: ↗
We remain positive on McBride's transformation at 197.25p. (JC)

BROKER SAYS: 4 0 0

MCBRIDE'S EARNINGS PROFILE

Year to June	Pre-tax profit (£m)	Earnings per share (p)	Dividend per share (p)
2017 (A)	35.5	13.6	4.3
2018 (E)	42.2	16.2	5.0
2019 (E)	48.8	19.0	5.5
2020 (E)	52.6	20.7	6.0

Source: Company accounts/Investec Securities' estimates

Biometrics group in surprise decision to float in UK

SecurLinx is reversing into Polemos as a quick way of listing on the AIM market

Shares in AIM-quoted cash shell **Polemos (PLMO:AIM)** have been suspended after it agreed a reverse takeover of US-based cyber security group SecurLinx. The deal values SecurLinx at £17.8m and will be paid for through the issue of 51m Polemos shares.

SecurLinx is a specialist in biometric identification. This uses unique anatomical features instead of passwords to unlock secure personal services. Fingerprints, eye scans, facial and voice recognition are the most common types.

The transaction has raised a few eyebrows among people in the IT sector, particularly the decision to bring SecurLinx to the UK stock market.

'It's difficult to understand the rationale behind gaining a London stock market listing for SecurLinx, given that the US remains the single largest market for cyber security (and biometric) products,' says Megabuyte analyst Indraneel Arampatta.

'The company's main, if not sole source of business, seems to come from US law enforcement or governmental organisations,' adds Arampatta.

Presumably, SecurLinx would argue its small size ideally suits it to AIM, where listing costs are lower and smaller companies have better opportunities to build profile with investors.

Revenue figures were not made available but most recent estimates suggest around $5m. The company did confirm a $0.55m loss for the calendar year 2016.

'We are very pleased to have found an opportunity which combines low capex, a very fast growing market, an experienced management team and an impressive order pipeline,' says Polemos chairman Hamish Harris. (SF)

Safestyle loses 50% of value in four months

WINDOWS AND DOORS retailer **Safestyle UK (SFE:AIM)** has halved in value since May thanks to issuing three profit warnings in five months.

The latest warning came on 8 September where the company warned orders had declined 'beyond the board's expectations' since July.

Disappointing annual profits will also reflect margin deterioration. (JC)

Alpha FX takes market by storm

CURRENCY MANAGER **Alpha FX (AFX:AIM)**, which joined the stock market in April this year, managed to grow revenue by 90% in the six months to 30 June to £6.3m.

It is a small player in market dominated by multinational banks and makes up for less than 1% of the UK corporate foreign exchange market.

It raised £30m at IPO to support a greater volume of FX trades and working capital to scale up the business. (DS)

Midwich pleases with outstanding results

AUDIO VISUAL distributor **Midwich (MIDW:AIM)** ticked up 6.6% to 420p on strong half year results (12 Sep).

Revenue grew 34% to £211.6m with adjusted pre-tax profit up 36% to £10.3m, year-on-year. Shareholders are also being treated to a 36% hike in the dividend to 4.2p.

Midwich is now up 12% since we said to buy in 24 August issue of *Shares*. Keep buying. (DS)

INVESTMENT FACTS.

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Could you benefit from pensions child benefit tax planning trick?

We explain the simple method to beat the system

While there might be no such thing as a free lunch, by understanding the tax system there are simple ways to boost your wealth.

If you have young children and earn between £50,000 and £60,000, there's a little known – and perfectly legitimate – bit of tax planning you can use to save hundreds of pounds a year.

Child benefit is paid at £20.70 per week for the first child and £13.70 per child thereafter – so two parents with two kids could be eligible for £1,788.80 a year.

However, since 2013 working families where one parent earns more than £50,000 a year have been levied with a 'High Income Child Benefit Charge'.

This tax operates on a sliding scale so that for every £100 earned above the £50,000 threshold a 1% charge is levied on any child benefits. Where someone in the family is earning over £60,000 the charge wipes out the entire child benefit entitlement.

HOW TO BEAT THE SYSTEM

Those are the basics, now here's the trick. When the HMRC, aka the Government tax office, measures earnings for the purposes of the child benefit tax charge, it looks at income net of (or excluding) pension contributions.

> IF YOU ARE EARNING BETWEEN £50,000 AND £60,000 IT COULD MAKE SENSE TO INCREASE THE AMOUNT YOU PAY INTO YOUR PENSION IN ORDER TO DECREASE THE TAX CHARGE LEVIED ON YOUR CHILD BENEFIT PAYMENTS

That means if you are earning between £50,000 and £60,000 it could make sense to increase the amount you pay into your pension in order to decrease the tax charge levied on your child benefit payments.

HOW IT WORKS IN PRACTICE

Let's say a family of four has two children eligible for child benefit, but one of the parents earns £55,000. They are hit with a tax charge of £894.40 which is half the value of the child benefit they received.

However, if the parent earning £55,000 instead paid £5,000 into their pension, they wouldn't have to pay the child benefit tax charge because their net income would fall to £50,000.

Furthermore, as a higher rate taxpayer they'd be able to claim pension tax relief at the 40% rate, worth a tidy £2,500 on the £5,000 contribution.

It's worth remembering that if you're over 55 and have already accessed your pension flexibly, your annual allowance – the amount you can save in a pension each year tax-free – drops from £40,000 to £4,000.

When you combine that extra tax relief boost with child benefit charge saving, flipping the £5,000 of income into pension has added £3,394.40 to the family's overall wealth.

Royal London, the insurer, reckons 320,000 families could benefit by paying salary into a pension to reduce their child benefit tax bill, potentially saving a combined £171m.

Tom Selby,
Senior analyst, AJ Bell

How to determine your investment goals

Having a goal makes building a portfolio a lot easier

Having a financial goal is an important first step when it comes to investing. It can be tricky to determine what your goal is, so we've come up with a few ideas and some accompanying investment strategies to help you on your way.

WHY DO I NEED A GOAL?

There are lots of reasons why it is important to have an investment goal.

From a psychological point of view, having a goal makes it easier to put money aside each month. If you're just saving for a rainy day you might be tempted to dip into your savings, whereas if you have a specific goal making small sacrifices, like cutting back on eating out, can seem more worth it.

Setting a goal will help you to decide how long you need to invest for.

'The timescale around your investment goal will determine the type of investment required and whether or not you are prepared to take any element of investment risk,' says Alex Edmans, head of product at Saga Money.

For example, a 30 year-old saving for retirement will be able to take more investment risk with their money and tie it up in longer-term investments than a 30 year-old saving for a holiday within the next few years.

Joshua Gerstler, financial adviser and company director at The Orchard Practice, says unless you have a goal you won't be able to assess the performance of your investments.

'You should at least know if you are investing for income or growth,' he says. 'If the income from your portfolio increases by 10% and the valuation drops by 10%, how do you decide whether this is good or bad if you do not know what your end goal is?'

WHAT IF I DON'T HAVE A SPECIFIC GOAL?

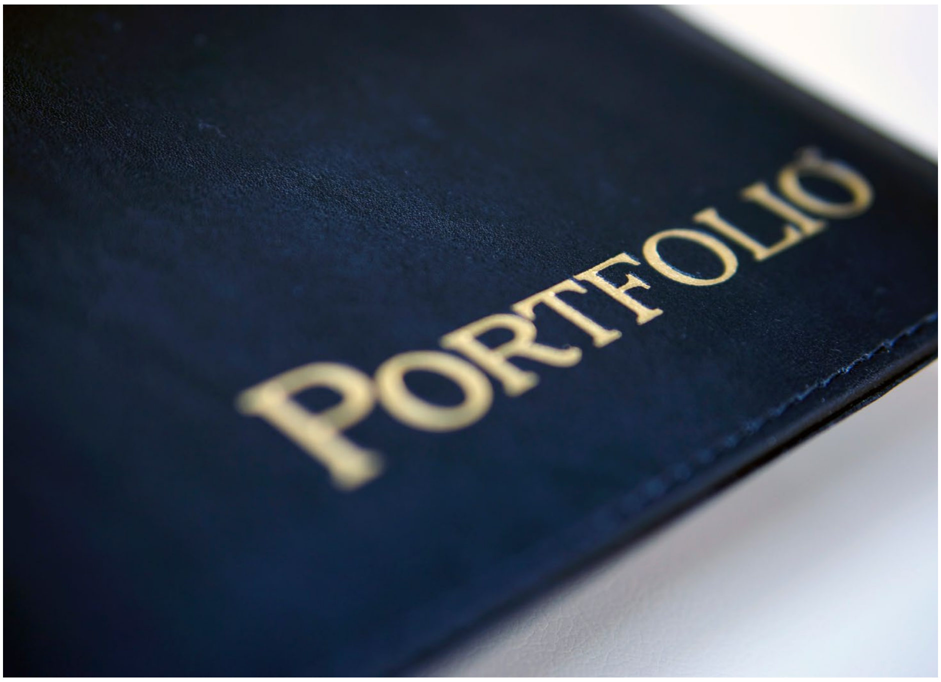
Some examples of investment goals are saving for retirement, a house deposit, a wedding, a dream holiday, a loft conversion or your children's education.

A lot of investors simply have a goal of 'investing for the future'. Neil Adams, head of pension planning at Drewberry Wealth, says although there is nothing wrong with this, it can be less rewarding – and so a lot harder – than saving towards a specific goal.

He suggests trying to break down your goals into clear achievable targets with finite timespans.

'Most of us do better when we break down challenges into smaller, more achievable targets and this is especially true when it comes to saving towards a future goal,' he says.

'It's far easier to think in terms of saving, say, £250 a month for three years than it is to set out to



save £10,000 in one go.

'This approach means that you meet a series of smaller goals along the way rather than just saving endlessly toward a finishing line that could be years in the future.'

Edmans recommends thinking about your lifetime plans and aspirations for the future and whether these require a financial commitment.

'For example, you may wish for your children to go to private school and so saving for school fees will become a goal. Alternatively, you may wish to spend your retirement travelling, in which case reviewing pension plans and making sure that you are well-prepared for your retirement will be crucial,' she adds.

> MOST OF US DO BETTER WHEN WE BREAK DOWN CHALLENGES INTO SMALLER, MORE ACHIEVABLE TARGETS AND THIS IS ESPECIALLY TRUE WHEN IT COMES TO SAVINGS TOWARDS A FUTURE GOAL

HOW DO I SAVE FOR SHORT-TERM GOALS?

Short-term goals tend to be three years or less and include things like saving for a dream wedding or holiday, buying a new car or building up a deposit for a new property.

Ryan Hughes, head of fund selection at AJ Bell Youinvest, says a short timeframe leaves little opportunity for taking risk.

There isn't enough time to ride out the stock market's volatility, so if you invest in equities there's a chance that the market could crash just before you need the money.

This means cash-based savings products tend to be most suitable, despite interest rates being at an historic low.

CAN I INVEST FOR MEDIUM-TERM GOALS?

A medium-term goal would encompass anything within the next five to 10 years – perhaps saving up for your children's university fees.

You can take some element of investment risk but should probably avoid very high-risk investment strategies as there may not be sufficient time to recoup market volatility.

Assets to consider include government and corporate bonds, which can be accessed through funds or exchange-traded funds, as well as lower-risk equities and property.

Hughes says investing monthly could help to smooth out the volatility of the market. He suggests using a Junior ISA and saving monthly into global equities, for example via **Fidelity Index World (GB00BLT1YP39)**, which tracks the MSCI World Index.

> YOU SHOULD AT LEAST KNOW IF YOU ARE INVESTING FOR INCOME OR GROWTH

HOW DO I INVEST FOR LONG-TERM GOALS?

A long-term goal could be building up enough money for your retirement in 10 or more years' time.

In general, the longer the timeframe the more risk you can afford to include in your portfolio.

Adams says the default position should be to start with a notional 100% exposure to equities and then whittle this down by diversifying into asset classes such as property and bonds, based on your individual preferences.

Within these specific assets you can add risk by investing in riskier regions, for example emerging markets.

Hughes suggests long-term investors consider funds like **Baillie Gifford Global Alpha Growth (GB00B61DJ021)**, **Fidelity Emerging Markets (GB00B9SMK778)** and **River & Mercantile UK Equity Smaller Companies (GB00B1DSZS09)**.

'These funds would all work for this purpose and could even work together in a portfolio for a higher-risk investor,' Hughes says. (EP)

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Companies presenting

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The Cadence board has a blend of mining, commodity investing, fund management and deal structuring knowledge and experience that is supported by access to key marketing, political and industry contacts. These resources are leveraged not only in our investment decisions but also in continuing support of our investments, whether it be increasing market awareness of an asset, or advising on product mix or path to production. Cadence Mineral's goal is to assist management to rapidly develop the project up the value curve and deliver excellent returns on its investments.

i3 Energy (I3E) Graham Heath, CFO
i3 Energy is an oil and gas development company initially focused on the North Sea. The Company's core asset is the Liberator oil field discovered by well 13/23d-8 located in License P.1987, Block 13/23d in which it has a 100% operated interest. The Company's strategy is to acquire high quality, low risk producing and development assets, to broaden its portfolio and grow its reserves and production.

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How to invest in wood

Timber funds can help your cash grow

Investing in timber could disprove the old adage that money doesn't grow on trees.

Gaining exposure to the timber industry doesn't mean buying a patch of forest in a distant location. A far more accessible way to tap into this trade is by investing in the shares of companies which produce pulp or lumber, businesses which supply the construction industry, or paper and packaging firms. Not only are company shares easier to buy, they are more liquid than real estate or land.

And many investors will prefer to buy a fund which invests in a basket of stocks operating in this space.

Timber is a so-called soft commodity – one which is grown such as coffee or soybeans, rather than mined or extracted such as 'hard' metal commodities such as copper or nickel. 'Crucially, unlike most commodities which are finite resources, trees grow,' says Nathan Sweeney, investment manager at Architas.

DRIVEN BY HOUSING SECTOR

Also unlike hard commodities, the primary driver for the timber industry is the housing sector, with its fortunes heavily tied to the number of construction starts. As a result, the timber industry was hit hard during the global financial crisis when building work dried up and construction volumes fell as much as 75%.

When demand drops commodity companies typically rein in their spending on exploration and, for metal miners, that means there is usually a dearth of supply when demand picks up again. The same is not true for timber and lumber producers, of course, because trees will keep on growing regardless of the economy.

> DEMOGRAPHICS AND GROWING POPULATIONS SUPPORT THE CASE FOR INVESTING IN TIMBER

The price of lumber is up more than 25% over the past year. And that price could keep rising as the number of new home starts climbs. It is estimated that the US needs to increase construction of single homes by 80% to sustain long-term trend needs. Currently there are around 1.2m housing starts a year – well below historical averages.

David Heyl is an analyst on the **Investec Enhanced Natural Resources (GB00B2QVX896)** fund, which has 20% of its assets in soft commodities. He says: 'Growing trees requires very little ongoing running costs so, even though there weren't necessarily new plantations started, the natural growth from 2008 to 2013 meant that more wood and fibre was available once demand returned.'

> IN THE US THE AVERAGE INDIVIDUAL USES ALMOST 300 KILOS OF PAPER A YEAR, THE GLOBAL AVERAGE IS JUST 55 KILOS, SUGGESTING THERE IS PLENTY OF LATENT DEMAND

THE ROLE OF TECHNOLOGY

But Heyl is concerned that the abundant supply could drag prices lower in the coming years. He adds: 'This additional supply is still far from being absorbed by demand growth'.

You can offset this by tapping into other parts of the supply chain. Heyl, for example, prefers companies such as Toronto-based Norbord, which is focused on other building products such as oriented strand board and plywood. The fund has returned 12.2% over the past year.

Gary Greenberg, head of emerging markets at Hermes Investment Management, likes Klabin, which is the largest paper producer and exporter in Brazil, where steady rainfall through the year allows eucalyptus and pine trees to thrive.

While in the US the average individual uses almost 300 kilos of paper a year, the global average is just 55 kilos, suggesting there is plenty of latent demand. Meanwhile, demand for wood fibre from China is expected to increase by 30% between 2015 and 2020, and new technologies mean the material can now be put to use in much larger building projects.

Christoph Butz, co-manager of the **Pictet Timber (LU0448837087)** fund, says: 'Timber is used in far more applications than you might think.' He says the trend towards internet shopping is supportive of the industry as retailers need strong packaging, such as corrugated cardboard wrap, in which to post their products.

His fund, which has returned 21.4% over the past year, invests across the entire supply chain with investments in timber land owners Weyerhaeuser, UK paper supplier **Mondi (MNDI)** and US packaging manufacturer WestRock.

RISK WARNING

Investing in timber is not without its risks. This is a small, concentrated investment universe, with only around 160 companies in the supply chain; the top four packaging providers have a market share of 75% between them.

And while timber might grow regardless of the economic environment, it is not immune to its surroundings – in Canada, it is feared up to 50% of this year's timber crop may have been damaged by a beetle infestation.

Other risks for the industry include US president Trump's protectionist trade policies which could impact the amount of lumber being imported – typically the US has imported around 30% of its lumber from British Columbia. There are also sustainability issues, with some managers avoiding investments in countries such as Indonesia where there is not a strong focus on sustainable growing practices.

Sweeney says: 'Demographics and growing populations support the case for investing in timber, particularly at times such as now where a major natural disaster can lead to an uptick in building work. But there are challenges for this industry over the long-term too and investors should not put more than a small amount of their money into these assets.' (HB)

Should you expect a change of fortune for the euro?

How to profit from movements in the sterling-euro exchange rate

There are many aspects of Brexit that are yet to be finalised, but one of the most serious consequences to date is the fall in the value of the pound. In the period since the referendum sterling is down by about 15% against the euro.

The pound is now only worth around 1.09 euros and the last time it was languishing at this level was in 2009 during the aftermath of the financial crisis. It is within touching distance of its all-time low of 1.03 that it hit at the end of 2008 when the Bank of England slashed interest rates to help support the economy after the collapse of the banks.

Martin Arnold, director – global & FX strategist at ETF Securities, says that at the last meeting, ECB policymakers expressed concern 'about the risk of the exchange rate overshooting in the future'.

> THE EURO HAS MOVED HIGHER SINCE AND WITH THE FUTURES MARKET POSITIONING AT THE HIGHEST LEVEL ON RECORD, THERE ARE DOWNSIDE RISKS FOR THE EURO AGAINST THE POUND

'The euro has moved higher since and with the futures market positioning at the highest level on record, there are downside risks for the euro against the pound.

'The long EUR short GBP trade is overcrowded and the currency pair could move back toward more historically average levels around 1.11 with further downside toward 1.17 in the coming year as clarity around Brexit negotiations is gleaned.'

CURRENCY ETFS

One way to take advantage of movements in the exchange rate is to use a currency ETF. If you think that the euro will continue to strengthen there is **ETFS Long EUR Short GBP (GBUR)**, whereas if you expect the pound to recover you can use **ETFS Short EUR Long GBP (URGB)**.

'The absence of leverage (or trades on margin) should mean that products such as GBUR and URGB should be less volatile than currency spread bets, CFDs or binary bets and as such would be more suitable for taking a longer-term view on a currency pair,' says Russ Mould, investment director at AJ Bell.

GBUR and URGB are both intended to reflect the performance of a position in currency forward contracts which are rolled on a daily basis. This exposure is achieved via a derivative known as a swap that is provided by Morgan Stanley & Co and that is backed by collateral to protect against the counterparty risk.

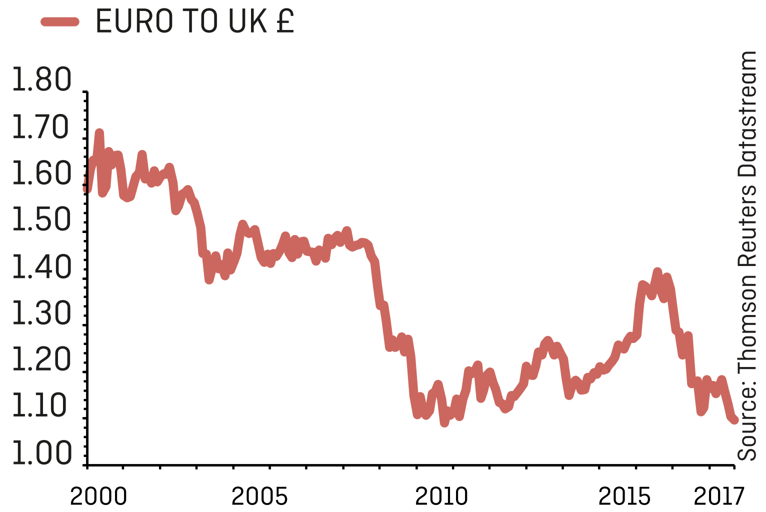
'With this type of synthetic replication, the ETF provider enters into a collateral-backed

derivative agreement with a third-party bank. This method will incur trading costs and cash payments between the product provider and the counterparty,' explains Mould.

GBUR has an annual management fee of 0.39% and over the two years to the end of July the index that it tracks returned 23.6%, while the spot EUR/GBP exchange rate rose by 25.9%.

Townsend Lansing, head of ETCs at ETF Securities, says that the return of GBUR and URGB reflects a total return on a fully funded currency position. 'This comprises: the spot return from the index pair, the differential between the interest rates of the two currencies, a collateral yield on the funding to purchase the security, and the ongoing management fee and swap costs.'

Before you can trade these securities you would need to fill in a complex instruments application form from your broker.



EUROPEAN EQUITY FUNDS

The 15% rise in the euro since Brexit has also helped the performance of European equity funds as it will have increased the value of their underlying portfolios once translated into sterling.

According to data from Morningstar, the 299 funds in the sector have risen by an average of 36% over the period from the Brexit referendum to 30 August 2017. The top three performers were **Henderson European Smaller Companies (GB0007476087A)**, **Neptune European Opportunities (GB00B8LF7310)** and **GAM Multistock Euroland Value (LU1005066292)** with gains of 65.05% to 61.61% respectively.

If the euro continues to strengthen against the pound it would tend to further boost the performance of European funds still further, although a significant reversal would probably mean that investors would have to give back some of their gains. Anyone concerned about this could reduce their European exposure or switch into a sterling hedged fund share class that hedges out the exchange rate risk.

Darius McDermott, managing director of Chelsea Financial Services, recommends **BlackRock European Dynamic (GB0000495209)** an investment fund which backs companies of all shapes and sizes across Europe, as well as **BlackRock Continental European Income (GB00B3Y7MQ71)**, which pays an above-average yield with below-average volatility.

He also likes **Threadneedle European Select (GB0001529345)** which he says has delivered some of the strongest returns in the sector, while simultaneously being one of the least volatile funds. All three have sterling hedged share classes for those that want them. (NS)

> IF THE EURO CONTINUES TO STRENGTHEN AGAINST THE POUND IT WOULD TEND TO BOOST THE PERFORMANCE OF EUROPEAN FUNDS STILL FURTHER, ALTHOUGH A SIGNIFICANT REVERSAL WOULD PROBABLY MEAN THAT INVESTORS WOULD HAVE TO GIVE BACK SOME OF THEIR GAINS

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