STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 19 / ISSUE 46 / 23 NOVEMBER 2017 / £4.49

SHARES

WE MAKE INVESTING EASIER

CAN YOUR HOME FUND YOUR RETIREMENT?

THE BUDGET

GOOD AND BAD NEWS FOR INVESTORS

WHY DO COMPANIES BUY BACK SHARES?

DIGITAL DISRUPTION

HOW TO INVEST IN GAME CHANGING COMPANIES

5 QUESTIONS RAISED BY ZPG'S MOVE ON GOCOMPARE

When should you sell an investment?

Important lessons on monitoring your portfolio and making high quality investment decisions

Investors share a common goal: finding an investment which subsequently goes up in value. Knowing when to sell that investment depends on a variety of factors. This could include hitting a valuation target, a company (assuming you've bought a stock) experiencing a change in circumstances or you simply needing the money for something else.

While we're often told by investment experts about the merits of a 'buy and hold' strategy, that doesn't mean ignoring your investments completely. It is important to monitor changes in price and the reasons behind a rise or fall in the value of your investments.

If something has shot up in value, try and work out if there is a valid reason and whether that additional valuation is justified – if not, that might be your trigger to sell or at least take some profit. The theory is that markets will eventually revert to fair value.

If an investment has fallen in value, do the same exercise and work out if something has gone wrong or if the market is being overly pessimistic and so now could be a good time to buy more at a cheaper price.

Monitoring your portfolio doesn't need to be a daily task, although don't be too relaxed in your approach and only check in once a year.

TWO DIFFERENT VIEWS

Strategies behind cashing out of investments cropped up in two fund manager meetings I've had over the past week. Although there were similarities with regards to buying cheap and selling once a stock has re-rated, each fund manager had a difference approach in terms of how long to wait before hitting the 'sell' button.

I remarked to fund manager Chris Bailey of **Daniel Stewart Dynamic Opportunities Fund (LU1603418408)** that I was surprised to see him recently taking profits on numerous stocks despite the fund only having launched a few months ago.

Many investors would expect a fund to be a long-term investor, yet the Daniel Stewart product expects to have an average holding period of between three and 12 months for a stock and typically make 10%+ on a trade.

'We look for anomalies and catalysts to revert a stock back to its normal valuation,' says Bailey. 'For example, we bought **Kingfisher (KGF)** as we thought its French business was undervalued. We sold half the position when the shares jumped up on a Goldman Sachs research note.'

Bailey argues that he's been investing in companies during moments of relative weakness. His approach is fine as long as stocks don't stay depressed for ages.

Investors suffer from short-termism

Don't assume this fund will always be able to crystallise gains in short periods as there is a real risk that markets stay irrational for a long time. In this scenario investors would still need to be patient when investing in this fund.

ANOTHER TAKE ON THE SUBJECT

In contrast, Orbis director Daniel Brocklebank says his team of fund managers hold stocks for an average of 3.5 years, even though they are also looking for under-priced stocks with potential to re-rate.

He says investors suffer from short-termism. 'If you can act in a way to take long-term decisions, you have a competitive advantage. Few other people are thinking this way. If you also take fewer decisions, you take high quality ones.' (DC)

Contents

23 NOVEMBER 2017

INTERACTIVE PAGES
CLICK ON PAGE NUMBERS TO JUMP TO THE RELEVANT STORY

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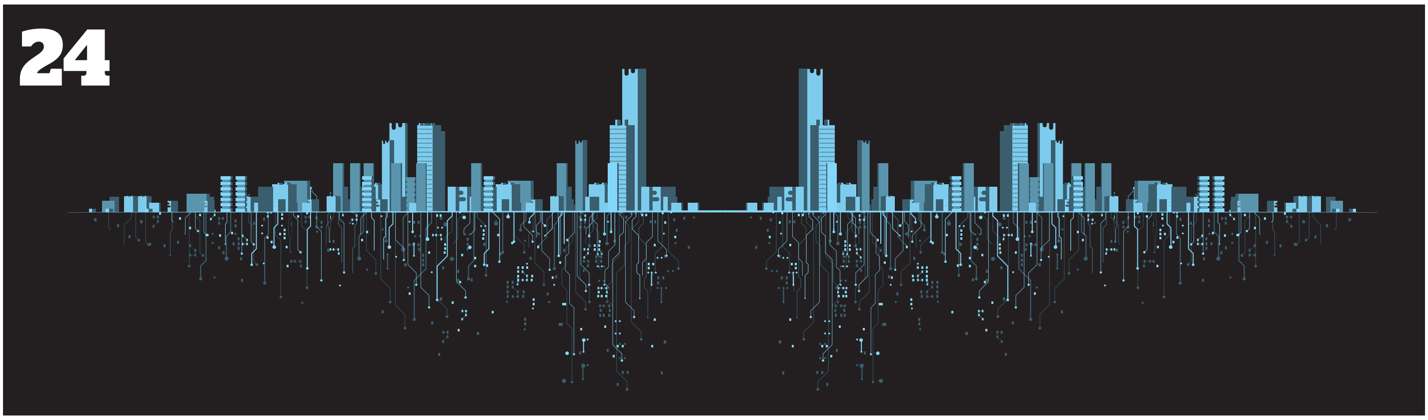
Contents



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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.

Lower living costs and higher wages centre stage at this year's Budget

But it's hard to ignore the gloomier economic outlook

Chancellor Philip Hammond was very upbeat in his Budget statement despite downgraded OBR forecasts for the UK economy. Productivity growth and business investment estimates were also revised down.

UK GDP is now expected to grow by 1.5% in 2017 (previously estimated at 2%), 1.4% in 2018 and 1.3% in both 2019 and 2020 – before picking up to 1.5% in 2021 and 1.6% in 2022.

From a personal finance perspective, positive news includes a prediction that the annual rate of CPI inflation would peak at 3% in the current quarter and progressively fall to the Bank of England's 2% target over the next year.

The National Living Wage will increase by 4.4% to £7.83 from April 2018. That is good for workers but bad news for companies with large staff numbers including retailers who are already under pressure from difficult trading conditions.

The Government says its Budget will reduce costs of living as well as boost wages. From April 2018, it will increase the personal allowance to £11,850 from £11,500 which is the amount you can earn before paying income tax. The Government had already pledged to lift the personal allowance to £12,500 by 2020/21.

The threshold at which the 40% higher rate of tax is applicable will increase in April 2018 to £46,350 from £45,001. The Government says this change will result in a typical taxpayer paying at least £1,075 less tax than in 2010/11.

The headline annual ISA contribution limit will stay the same at £20,000. However, anyone saving into a Junior ISA will benefit from a higher annual subscription limit of £4,260 versus the current £4,128 level.

Stamp duty has been immediately abolished for anyone buying their first home worth up to £300,000. In higher price locations such as London first time buyers won't pay stamp duty on the first £300,000 for properties worth up to £500,000. The Government says 80% of first-time buyers will pay no stamp duty at all as a result of this rule change.

Enterprise Investment Scheme (EIS) investment limits will be doubled for technology and other 'knowledge intensive' sectors, while ensuring that EIS is not used as a shelter for low-risk capital preservation schemes.

Finally, a freeze on short-haul air passenger duty is welcome to people who like to holiday abroad. Long-haul duty will also be frozen for economy passengers.

Yet it isn't good news for anyone who flies premium economy, business or first class as duty will increase by £16 or an extra £47 for anyone travelling by private jet. Yet let's face it, if you can afford a private jet the extra duty charge is hardly going to break the bank. (DC)

The winners and losers on the stock market from Hammond's Budget

Housebuilders see biggest fall amid good and bad news for the sector

Shares in housebuilders fell after the Budget announcement which failed to deliver the kind of radical changes to planning or extended financial support desired by the market.

Although Chancellor Philip Hammond pledged £44bn to help build 300,000 homes a year by 2020, a lack of detail has gone down poorly with investors.

In particular, there was no comment on extending Help to Buy. There was also vagueness in terms of planning changes and an investigation into why housing starts are lagging planning permissions (potentially implying housebuilders may be hoarding land).

The latter could have an impact on **MJ Gleeson (GLE)** which, as well as building low-cost homes in the North of England, also buys and sells land in the South.

Following the Budget announcement, housebuilders **Barratt Developments (BDEV)** led the sector lower with a fall of 2.9% to 615p with **Persimmon (PSN)** also down by 2.2% to £26.15.

WHAT WAS ANNOUNCED ON HOUSING?

There were some brighter spots for the sector, including investment in delivering a skilled construction workforce and no stamp duty for first time buyers on homes worth £300,000 or less.

The changes to stamp duty could also be good for estate agents if they encourage more prospective buyers to go ahead with purchases. The UK's leading agent **Countrywide (CWD)** saw its shares rise 3.4% to 114.75p following the Budget announcement.

Pumping £1.1bn into a scheme to support private developers in progressing strategic sites including regeneration projects could benefit civil engineering firms like **Keller (KLR)** and **Kier (KIE)**.

Staying on the housing theme, Hammond's pledge to ensure councils have the resources to make buildings fire safe – a response to the

Grenfell tragedy – could be beneficial to **Marlowe's (MRL:AIM)** fire testing business and sprinklers specialist **Premier Technical Services (PTSG:AIM)**.

CRUDE AND CIDER

A change to allow tax losses associated with oil and gas fields to be transferred when those assets are bought and sold was welcomed by North Sea operator **EnQuest (ENQ)**.

'If drafted in the right way, these measures will be another positive step by Government in increasing the investability of the UKCS (UK Continental Shelf),' says chief executive Amjad Bseisu.

The leisure sector will welcome the freeze in alcohol duties for 2018; however the Chancellor did indicate a plan to increase duty on 'cheap, high strength, low quality products' from 2019, namechecking 'white ciders' in particular.

Brewer **C&C's (CCR)** *White Ace* product falls into this category and any duty hike could also impact customer habits at **Conviviality's (CVR)** *Bargain Booze* franchise. (TS)

Worldwide dividends surge in record high third quarter

New figures from Janus Henderson reveal how companies are being increasingly generous with shareholder rewards

DIVIDENDS PAID by listed companies across the globe hit their highest third quarter level on record in 2017, according to the latest report from asset manager Janus Henderson.

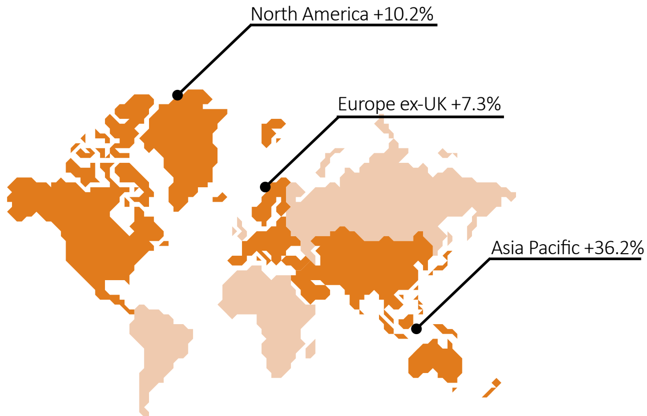
There was growth almost across the board, adding up to a year-on-year increase of 14.5% in the period to $328.1bn.

UK dividends made a comeback despite some of the uncertainty caused by Brexit. Underlying growth, stripping out the impact of currency and special dividends, came in at 17.5%, the fastest in the world.

Ben Lofthouse, global equity income fund manager at Janus Henderson says: 'In recent years it has been rare to see dividends growing in every region of the world at the same time.

'As the global economy continues its long-awaited post-crisis normalisation, confidence is improving, and company profits are rising. Income investors are enjoying the benefits of this growth, as it feeds through into higher dividends.'

Investors looking to play the global income theme can choose from a large selection of funds. Examples include **M&G Global Dividend (GB00B39R2R32)** and **Henderson International Income Trust (HINT)**. (TS)



Ocado growth story turning sour?

Sales growth is slowing and margins could come under pressure, warns UBS

UBS HAS slashed its price target for online supermarket **Ocado (OCDO)** from 200p to 190p and reduced earnings estimates amid evidence of slowing sales growth.

According to Kantar Worldpanel's latest grocery industry figures (14 Nov), Ocado's sales growth slowed to 6.8% for the 12 weeks to 5 November, down from 12.6% in the 12 weeks to 13 August. That's a concern going into Christmas trading.

Analyst Daniel Ekstein believes the UK online grocery market 'is shifting to maturity more quickly than might be perceived', his bear case supported by the halving of Ocado's sales growth seen this quarter at a time when Ocado is investing to boost capacity.

Ekstein warns: 'With online grocery addressable market growth slowing to modest levels (+ circa 3.5% year-on-year in volume), we see it struggling to deliver the top-line growth the market expects, without aggressive (i.e. expensive) customer acquisition from other retailers.'

The UBS number cruncher thinks the Amazon-Whole Foods merger 'points to a world where stores (not standalone warehouses) act as mini-distribution and click-and-collect hubs for online grocery.'

While Ocado has best-in-class technology and offers SaaS (Software-as-a-service) and store-pick modules as part of the Ocado Smart Platform offered to other retailers, Ekstein says 'such deals signed so far, with **Morrisons (MRW)** and an unnamed international retailer, haven't crystallised material value.' (JC)

BROKER SAYS: 8 3 5

Black Friday to bring further retail woe

Profit margins could be hurt if retailers cut prices to shift goods

Deep discounts across the retail sector in the run-up to Black Friday (24 Nov) look set to trigger a further flurry of profit warnings in January, if not before Christmas.

The nation's shopkeepers are slashing prices to drive custom at a time when consumer incomes are being squeezed. **Marks & Spencer (MKS)** CEO Steve Rowe is on record as believing the recent interest rate rise 'might have more of a psychological impact than people think' on consumer spending.

The likes of **Debenhams (DEB)**, **Mothercare (MTC)**, **Morrisons (MRW)**, **Dixons Carphone (DC.)** and the aforementioned Marks & Spencer all languish on share price lows, showing investors are pricing in the risk of a slew of post-Christmas earnings alerts.

The Office for National Statistics (ONS) reports (16 Nov) a 0.3% fall in retail sales figures for October – while impacted by unseasonal weather and a tough prior year comparative, the data confirm the squeeze on household incomes continues.

> YET ANOTHER COST HEADACHE THE SECTOR COULD DO WITHOUT

As has been the case in recent years, the forthcoming cyber weekend and broader festive period should boost the takings of structurally-advantaged online players, although online industry body IMRG predicts the expected £7bn that will be spent over the seven days of Black Friday week will also require a record level of product returns to be processed, yet another cost headache the sector could do without. (JC)

Boku hopes to make its mark

MOBILE PAYMENTS specialist **Boku (BOKU:AIM)** hopes AIM can provide the support needed to help the business advance towards a maiden profit. It has raised £45m with £30m of this sum going to selling shareholders.

The US-based business provides direct carrier billing to content providers and major mobile networks.

For the six months to 30 June 2017 the company made a \$2.8m loss before interest, tax, depreciation and amortisation on \$10.2m revenue. (SF)

Accrol: back and kicking up a stink

TOILET ROLLS-to-industrial wipes manufacturer **Accrol (ACRL:AIM)** has returned from suspension on AIM (20 Nov) and announced a £18m placing to shore up its balance sheet.

Accrol was suspended in October due to a short-term funding crunch, having been beset by higher costs and a health and safety fine.

Besides the heavily discounted placing, Accrol now warns it is on course for break even or a marginal loss this year at the EBITDA level and has shelved this year's final dividend. (JC)

EasyJet takes advantage of rivals' struggles

BUDGET AIRLINE **EasyJet (EZJ)** is benefiting from extra capacity after Air Berlin declared insolvency and Monarch Airlines entered administration earlier this year.

Revenue per seat growth is anticipated to be positive by 'low to mid-single digits' in the six months to 31 March 2018 – better than previously expected.

The good news overshadowed a drop in pre-tax profit in the year to 30 September as lower ticket prices, currency headwinds and higher costs dragged on profitability. (LMJ)

New clean energy fund heading to the market with 4.5% yield

It will consider investments in areas such as battery technology and energy storage

A new income fund will launch on 1 December giving investors the chance to earn regular dividends from the boom in clean energy projects.

VT Gravis Clean Energy Income Fund plans to mainly invest in specialist closed-end funds and companies with clean energy operational assets.

It will also consider taking small stakes in investments linked to the wider clean energy theme, such as new battery technology, energy storage and pollution cutting measures, for example.

SUPPORTIVE BACKCLOTH

'Supported by government initiatives, improved technology and a shift in social awareness of climate change and sustainability, clean energy has evolved to become a huge, reliable and dependable industry since the turn of the decade and now forms an important component of the global energy generation mix today,' says William Argent of Gravis, an adviser to the fund.

Among the potential attractions to investors is the targeted 4.5% income yield and charges capped at 0.8%. Dividends will be paid quarterly.

'Our aim is to deliver dependable returns for our investors, and this fund is a perfect marriage of our expertise and the requirements of our investors,' says Stephen Ellis, also of Gravis. (SF)

What's going on with Royal Mail?

Talks with unions to continue as company reports better-than-expected interim results

AN IMPROVEMENT in **Royal Mail's (RMG)** financial performance risks being overshadowed by the continuing threat of labour strikes.

On 16 November the company reported operating profit of £260m after transformation costs in the half year to 24 September which was ahead of consensus forecasts for £238m.

Its overseas division GLS continues to perform strongly as sales were up 9% to £1.2bn over the period, driven by volume growth in markets such as Germany, Italy and France.

The UK business remains a sore spot though. Addressed letter volumes were down 5% excluding election mailings during the snap general election earlier this year, which is within the full year forecast of a 4% to 6% decline.

Investors have also been concerned about potential strikes over Christmas. This period plays a significant role in full year performance as people generally send more letters and cards.

In October the company won a legal ruling to block strikes until further talks had taken place. This seven-week mediation process has at least reduced the chances of the festive period being disrupted.

However, analysts at Liberum says there are risks 'from either higher costs to settle the dispute or the threat of disruption encouraging customers to seek alternatives'.

At the current 400p the shares trade on a March 2018 price-to-earnings ratio of 9.9 times. (LMJ/TS)

ADVERTORIAL

SENECA
INVESTMENT MANAGERS

RESILIENT INCOME FROM THE SENECA GLOBAL INCOME & GROWTH TRUST PLC

KEY POINTS

- A VALUE DRIVEN, MULTI-ASSET APPROACH: 'MULTI-ASSET VALUE INVESTING'
- OBJECTIVE OF CPI +6% AND DIVIDEND GROWTH AHEAD OF INFLATION OVER A TYPICAL CYCLE[1]
- STRONG FIVE YEAR PERFORMANCE WITH LOW VOLATILITY[2]
- QUARTERLY DIVIDENDS, CURRENT YIELD CIRCA 3.6%[3]
- DIVIDENDS INCREASED EACH YEAR AHEAD OF CPI SINCE 2014
- DIVERSE SOURCES OF INCOME

AS VALUE INVESTORS, INCOME AND YIELD ARE AT THE HEART OF WHAT WE DO. THE SENECA GLOBAL INCOME & GROWTH TRUST USES DIVERSE SOURCES OF INCOME TO UNDERPIN RETURNS AND DELIVER QUARTERLY, GROWING DIVIDENDS.

DIVIDEND GROWTH...

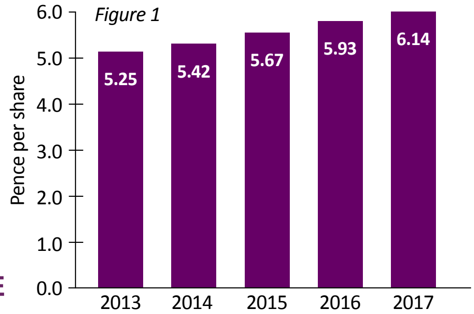
The trust has increased dividends every year since 2014 as shown in figure 1.

...AHEAD OF CPI...

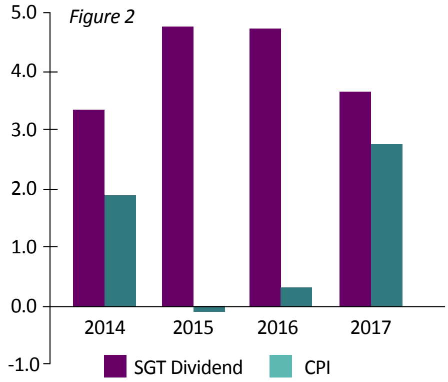
Dividend growth has been ahead of CPI every year since 2014 as shown in figure 2.

...FROM A DIVERSE RANGE OF ASSETS

Figure 3 shows how the Trust sources its income from a wide range of assets, underpinning the resilience of the dividend. After costs, the Trust currently offers an income yield of circa 3.6%[3].



Source: Seneca Investment Managers, Bloomberg



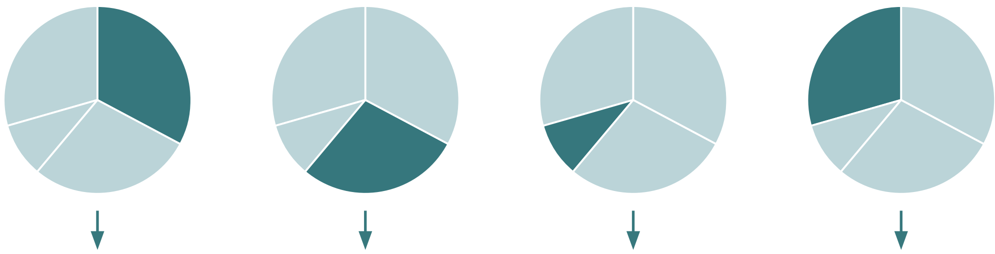
Source: Seneca Global Income & Growth Trust plc, Report & Accounts 30.04.2017

Figures 1 and 2 to April 30th year ends.

There is no guarantee that dividends will continue to increase or grow ahead of CPI.

Figure 3

PORTFOLIO PORTFOLIO DISTRIBUTION OF INCOME BY ASSET CLASS



33.7	25.1	12.8	28.4	% of total assets
29.1	21.3	13.0	36.6	% of total income
3.9	3.8	4.6	5.8	Yield (%)

The income and yield figures are based on estimates of the future 12 months of income. The actual income received may be higher or lower than estimated.

Cumulative performance (%)	3 months	6 months	1 year	3 years	5 years
Trust share price	2.6	6.7	16.5	42.0	102.4
Trust NAV	3.7	7.1	16.0	38.9	73.3
Benchmark	2.2	3.1	4.8	12.5	20.6

Discrete annual performance (%)	30.09.2017	30.09.2016	30.09.2015	30.09.2014	30.09.2013
Trust share price	16.5	16.2	5.0	12.5	26.7
Trust NAV	16.0	15.4	3.8	3.9	20.0
Benchmark	4.8	3.6	3.6	3.5	3.5

Things you should be aware of

[1]Seneca IM defines a typical investment cycle as one which spans 5-10 years, and in which returns from various asset classes are generally in line with their very long term averages. There is no guarantee that a positive return will be achieved over this or any other period.

[2]Annualised volatility of returns over five years versus FTSE World ex-UK, FTSE UK Private Investor Balanced, AIC Flexible Investment Sector, FTSE All Share and Investment Association Mixed 40-85% shares.

[3]Current yield: the yield calculation is based on the latest quarterly dividend, annualised, compared against the month end share price as at 30.09.17.

Performance and dividend data sources: Seneca Investment Managers Ltd (SIML), Bloomberg & Morningstar. Share prices calculated on a total return basis with net dividends reinvested. NAV returns based on NAVs excluding income and with debt valued at par. Returns do not include current year revenue. Benchmark: LIBOR GBP 3 Months +3% to 06.07.17 thereafter CPI +6% after costs. Past performance should not be seen as an indication of future performance. The information in this article is as at 30.09.2017 unless otherwise stated. The value of investments and any income from them will fluctuate, and investors may not get back the full amount invested.

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FROM £1.7BN TO £0.1BN IN SIX YEARS

BELEAGUERED SUPPORT SERVICES company **Carillion (CLLN)** continues to struggle. Last week its share price crashed by over 30% to 28p on yet another profit setback and a warning about breaching its debt convenants.

Going back to mid-May 2011, the company was worth a whooping £1.7bn compared to today's £120m market cap.

This equates to the company losing 93% of its value in the space of six years. Ouch.

Can Premier Oil deal with its debt?

OIL AND GAS producer **Premier Oil (PMO)** is coming to the end of a mixed 2017. The year has encompassed a financial restructuring and an unexpected exploration success offshore Mexico.

The company headed into the final quarter of the year with net debt of $2.8bn, up slightly from the half year total of $2.7bn.

The share price performance in 2018 is likely to depend on the extent to which rising production and a higher oil price can help the company reduce its borrowings.

82% SENTIMENT CHANGING TOWARDS BOND VALUATIONS

THE NUMBER OF investors who think corporate bonds are overvalued has dropped for the first time in six quarters, according to a new study by the CFA, an association of investment professionals.

However the figure for the third quarter period is still very high at 82% (versus 84% in the second quarter).

The study also recorded a slight reduction in the proportion of investors who think government bonds are overvalued, down to 79% from 82% in the previous quarter.

Back NCC's cyber security recovery

Scale of growth potential may not be reflected in forecasts

Manchester-based **NCC (NCC)** is showing genuine signs of stability and recovery after a difficult period in late 2016 and early 2017.

Investor sentiment is starting to improve towards the company and its prospects, and we believe there could be at least 20% upside to the share price over the next year.

NCC is a cyber-security consultant and provider of software escrow services, which basically means it keeps safe vital code for enterprise software and applications.

The two sides of the business complement each other. While escrow is slower growth, it supplies the bulk of the company's profit and cash generation from a globally dominant position.

The 'assurance' side of its business brings a high value cyber advice arm, plus web site and software performance and security testing, sometimes called ethical hacking (although these latter bits are up for sale).

Cyber security consulting should represent the faster growth engine in the future given that organisations and individuals are increasingly under threat from various hacking attacks.

NCC ↗ BUY
(NCC) 226p
Stop loss: 165p

Market value: £613m

A PAINFUL YEAR

A combination of acquisition indigestion and contract delays sparked a profit warning just over a year ago. Over-optimistic management then extended the bad news in January 2017 after revealing a lacklustre third-quarter performance, triggering more earnings downgrades.

Those issues now seem to have gone away. With a (relatively) new chairman and chief executive, NCC has been steadied, streamlined and readied for a return to real growth.

The signs are encouraging. In its most recent trading update (for the three months to 31 August) the company hinted at a return to double-digit organic growth, if you strip away various one-offs.

The company also gave a clear signal to the market that it is confident of meeting full year expectations.

WHAT THE MARKET EXPECTS

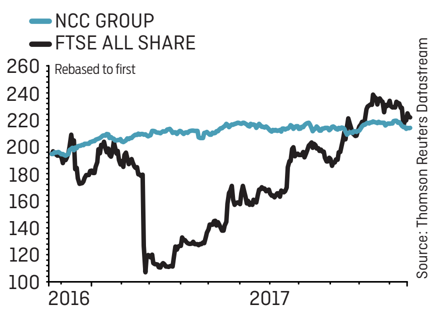
Current forecasts for the 12 months to 31 May 2018 anticipate mid-teens growth in earnings before interest, tax, depreciation and amortisation (EBITDA) and about a 12% improvement in pre-tax profit to £30.3m.

At first glance that leaves the shares looking fairly expensive on a price to earnings multiple of about 30. But we believe that the cyber security demand drivers are in place for NCC to perform beyond the realm of current expectations.

Part of that will come from strengthening profit margins as NCC moves away from reselling third party products and develops more tools of its own.

Some analysts believe a share price of 265p is feasible in the next year. But having traded beyond 300p prior to last year's warning, we think a return to those levels is quite possible. (SF)

BROKER SAYS: 3 2 1



Alpha Financial Markets Consulting looks like a winner

This is a great way to play outsourcing growth in the asset management industry

Many investors are wary about recent stock market floats as they want to see how a company performs as a listed business before investing.

We can understand why many people are nervous about new market entrants, given several recent examples of companies issuing profit warnings soon after IPO (initial public offering).

However, there occasionally comes along a newly-floated business which has a solid track record and looks like it is worth backing before the wider market cottons on to its existence and earnings potential. **Alpha Financial Markets Consulting (AFM:AIM)** is one such company, in our opinion.

ALPHA FINANCIAL MARKETS CONSULTING
BUY
(AFM:AIM) 166.5p
Stop loss: 133.2p

Market value: £172m

WHAT DOES ALPHA DO?

Alpha provides support services to almost every aspect of asset management; namely what is called the front, middle and back offices.

The front office is the revenue generator of a firm and its staff will be fee generators. Middle office handles risks and strategy while the back office looks after regulatory compliance and data reporting.

Alpha's clients include 75% of the world's largest asset managers by assets under management.

The company seems to have made hay as the large managers outsource more and more of their work to specialists like Alpha. This is definitely a growth industry and Alpha only has an estimated 8% to 10% share of addressable markets, according to estimates by investment bank Berenberg, so still plenty of opportunities to chase.

EARNINGS PROFILE

Alpha has increased revenues at a compound annual growth rate (CAGR) of 37% between 2011 and 2017, indicating the growing need for the company's services.

With European regulations such as the updated Markets in Financial Instruments Directive (MiFID II) coming in early next year, there will certainly be a lot of work to keep the company busy.

Earning before interest, tax, depreciation and amortisation (EBITDA) jumped from £2.2m in 2013 to £8.6m in the year to March 2017 with a 19% margin.

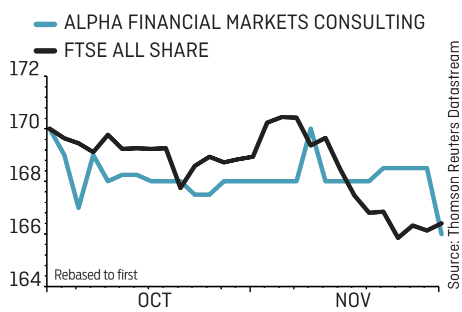
Berenberg analyst Sam England says: 'We believe these strong EBITDA margins can be maintained at current levels, and consequently we estimate that a 10% CAGR in EBITDA 2018-20 is possible. These strong margins should help contribute to robust cash generation in the coming years as well.'

The company is seeking to move into other markets, potentially via acquisitions.

Alpha is currently trading on 17.2 times forecast earnings for the year to March 2019 with a 2.9% prospective dividend yield. We're comfortable with this rating given that pre-tax profit is expected to increase by just under 10% in both the March 2019 and 2020 financial years.

Add in the appeal of net debt having this year been reduced to zero and the presence of high margins and you've got a nice little business. (DS)

BROKER SAYS: 1 0 0



VODAFONE
(VOD) 229.3p

Gain to date: 8.5%

Original entry point:

Buy at 211.4p, 12 October 2017

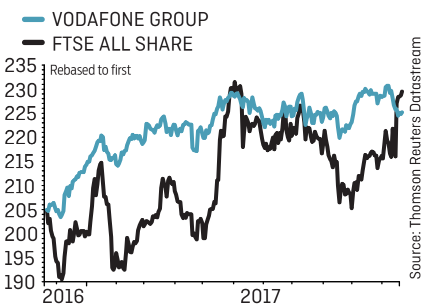
WE SAID THE market was being too gloomy on **Vodafone (VOD)** and half year results illustrate the point. Investors were caught on the hop by the mobile network giant's upbeat message, with continued organic revenue growth in most markets.

Full year guidance for earnings before interest, tax, depreciation and amortisation (EBITDA) has been raised from the previous 4% to 8% growth range to 'around 10%'.

That's helped by having properly converged communications – mobile data, broadband, enterprise, cloud etc. There's also the push for cost reductions, while even problem child India is showing signs of improvement.

The UK remains an issue, although service revenue declines here are slowing. The agreement with dark fibre network builder **CityFibre Infrastructure (CITY:AIM)** will make a massive difference in time, bringing the converged communications opportunity that should bolster margins.

For example, UK EBITDA margins are 18.9%, barely half the Germany and Italy levels.



There's also more confidence in the dividend, with the shares yielding a generous 5.8%.

SHARES SAYS: ↗

Shareholders should expect better returns as a period of heavy investment comes to an end. (SF)

BROKER SAYS: 18 8 2

JAYWING
(JWNG:AIM) 24.5p

Loss to date: 29%

Original entry point:

Buy at 34.5p, 9 February 2017

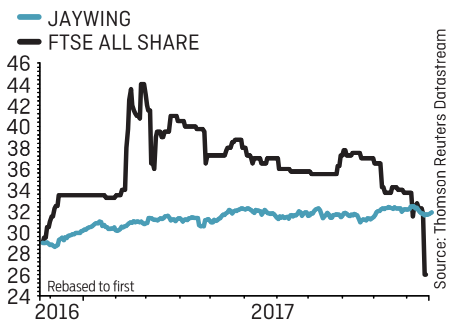
A PROFIT WARNING has put our trade on marketing services group **Jaywing (JWNG:AIM)** in the red. The Sheffield-based business says clients with consumer-facing operations have cut their marketing spend as a result of more difficult trading conditions.

One third of Jaywing's profit is normally generated in the fourth quarter of the year, so there is a lot riding on the current period in terms of winning back the market's favour.

We're naturally disappointed by the company's news and believe investors should stay patient with the business. We're confident this will be a short-term setback and that it will be business as usual at some point next year.

Jaywing is a data specialist and helps companies to understand what people are saying about them online as well as monitoring competitor activity. These services will continue to be in demand longer term, hence we remain positive on the stock.

And don't forget that it also helps lenders comply with accounting standards in terms of how much capital they should hold – so this isn't a pure-play marketing business.



SHARES SAYS: ↗

It's always frustrating to experience a profit warning yet we remain bullish on the company from an investment perspective. Buy amid share price weakness at 24.5p. (DC)

BROKER SAYS: 1 0 0

HARWOOD WEALTH MANAGEMENT

(HW.:AIM) 180p

Gain to date: 16.1%

Original entry point:

Buy at 155p, 8 November 2017

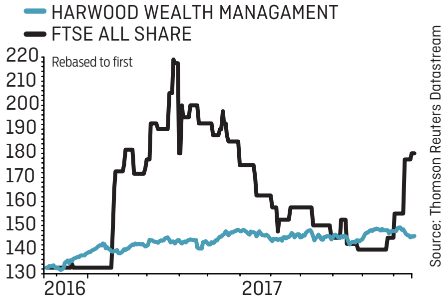
THE HIGHLY ACQUISITIVE **Harwood Wealth Management (HW.:AIM)** released a trading a statement on 16 November saying it expects revenue and adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) performance for the full year to be ahead of market expectations.

The company says its outperformance has been achieved by a mix of organic and acquired growth, although it did make seven acquisitions in its financial year so perhaps not an even mix.

Achieving over a 16% return on our *Great Ideas* trade in just over two weeks is a great start and we see more to come from the share price.

The upbeat statement led stockbroker N+1 Singer to upgrade its full year 2017 EBITDA forecasts by 11% to £4m.

Harwood has a lot of capacity for more deals following a £10m equity fundraising at the mid-year point and its balance sheet is healthy with £19m in cash.



N+1 Singer says that if the company keeps acquiring it could hit a £10m EBITDA run rate 'in due course'.

SHARES SAYS:

Keep buying at 180p. (DS)

FRIDAY 24 NOVEMBER

FINALS	
Future	FUTR
INTERIMS	
Babcock International	BAB
Fuller Smith & Turner	FSTA
AGMS	
Coal of Africa	CZA
JP Morgan Emerging Markets Investment Trust	JMG
K&C REIT	KCR
Origin Enterprises	OGN
Petra Diamonds	PDL
Severstal	SVST

MONDAY 27 NOVEMBER

FINALS	
Patisserie Holdings	CAKE
INTERIMS	
Kainos	KNOS
Ramsdens	RFX
Trakm8	TRAK
AGMS	
JP Morgan Global Emerging Markets Investment Trust	JEMI
Manchester & London Investment Trust	MNL
TR European Growth Trust	TRG

TUESDAY 28 NOVEMBER

FINALS	
Gooch & Housego	GHH
Greencore	GNC
ITE	ITE
Shaftesbury	SHB
Sanderson	SND
Treatt	TET
Topps Tiles	TPT
Urban & Civic	UANC
UDG Healthcare	UDG
INTERIMS	
Acal	ACL
Alpha Financial Markets Consulting	AFM
BCA Marketplace	BCA
Cranswick	CWK
GB Group	GBG
IG Design	IGR
KCOM	KCOM
Pets at Home	PETS
Park Group	PKG
Scholium	SCHO
ULS Technology	ULS
AGMS	
Berkeley Energia	BKY
Blancco Technology	BLTG
Clinigen	CLIN
Ferguson	FERG
JP Morgan Smaller Companies Investment Trust	JMI
Ncondezi Energy	NCCL
Surface Transforms	SCE
Scotgold Resources	SGZ
Wilmcote	WCH
Wolf Minerals	WLFE

WEDNESDAY 29 NOVEMBER

FINALS	
Brewin Dolphin	BRW
Britvic	BVIC
Impax Asset Management	IPX
INTERIMS	
Findel	FDL
LondonMetric Property	LMP
Motorpoint	MOTR
Pennon	PNN
RPC	RPC
Telford Homes	TEF
Versarien	VRS
TRADING STATEMENTS	
Panther Securities	PNS
Softcat	SCT
AGMS	
Bluefield Solar Income Fund	BSIF
Ironridge Resources	IRR
Oilex	OEX
Oncimmune	ONC
Thor Mining	THR
Target Healthcare	THRL

THURSDAY 30 NOVEMBER

FINALS		
Daily Mail and General Trust	DMGT	
Grainger	GRI	
Marston's	MARS	
On The Beach	OTB	
Premier Asset Management	PAM	
INTERIMS		
BTG	TBG	
Greene King	GNK	
OPG Power Ventures	OPG	
PayPoint	PAY	
Torotrak	TRK	
TRADING STATEMENTS		
Go-Ahead	GOG	
AGMS		
ASOS	ASC	
Baillie Gifford Japan Trust	BGFS	
CVS	CVSG	
Dukemount Capital	DKE	
European Metals	EMH	
Ferrum Crescent	FCR	
Greatland Gold	GGP	
Revolution Bars	RBG	
St Ives	SIV	
EX-DIVIDEND		
Albion Technology & General VCT	AATG	2p
Aviva	AV.A	4.38p
Bellway	BWY	84.5p
Headlam	HEAD	7.55p
Hill & Smith	HILS	9.4p
International Consolidated Airlines	IAG	€0.13
JD Sports Fashion	JD.	0.26p
James Halstead	JHDA	2.75p
Lok'n Store	LOK	7p
Octagonal	OCT	0.1p
Origin Enterprises	OGN	€0.18
REA Holdings	RE.B	4.5p
Renewi	RWI	0.95p
Tate & Lyle	TATE	8.4p
Tarsus	TRS	3p
Volta Finance	VTA	€0.16
YouGov	YOU	2p

INVESTORS WILL BE looking for further signs of stability in the retail business and progress from its fast-growing veterinary business when UK pet specialist **Pets at Home (PETS)** posts half year results on 28 November.

Sentiment towards Pets at Home has been hit by worries over competition and faltering UK consumer confidence.

At the first quarter update (8 Aug), Pets at Home pleased with news of 2.7% like-for-like revenue growth, buoyed by services revenues including joint venture vet practice income and continued recovery in merchandise trading.

THE PRESSURE on **Trakm8's (TRAK:AIM)** profit should lift now that a spell of heavy investment in new products and marketing is coming to an end.

Investors will be looking for evidence of this shift in circumstances when the company reports half year results on 27 November.

The telematics markets in which the company operates certainly have exciting potential, yet unpredictable insurance demand remains an area to watch with Trakm8.

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

Four things to look for in a truly different investment manager

Every investment firm claims it is different from its competitors, yet many produce results that are anything but different.

At its heart, an active fund manager's proposition should be simple – to provide you with performance that is sustainably better than average. But how can you identify managers who can deliver this sort of performance?

There's no one answer, but we think there are four key principles to 'investing differently'.

1 INSIST ON AN ALIGNMENT OF INTERESTS

Investment managers are human, and self-interest is a natural part of human behaviour. If a manager's interests (keeping their job) conflict with yours (long-term performance), they may place their interests above yours. This makes an alignment of interests essential. Signs of good alignment include:

› OWNERSHIP STRUCTURE

Investing differently requires patience, and if your investment manager has external shareholders, patience may be in short supply. Pressure for short-term profits could conflict with a focus on your long-term results.

At Orbis, we are a privately owned company with no external pressure for short-term profits. We only focus on your long-term performance.

› CO-INVESTMENT

Fund managers should eat their own cooking. If their own fund isn't good enough for them, why should it be good enough for you?

At Orbis, our people put their own money in the same funds you do, and pay the same fees. Collectively, our employees are one of the largest investors in the Orbis Funds.

› SYMMETRICAL PERFORMANCE FEES

The bigger a manager's portfolio, the harder it is for them to invest differently from market benchmarks.

We think a manager should be paid for the *returns* of their portfolios, not the *size* of their portfolios. At Orbis, you get a fee refund if our funds don't beat their benchmarks, so our success is tied to yours.

2 THINK LIKE A LONG-TERM BUSINESS OWNER

Shares represent ownership in companies. Company fundamentals do not change constantly throughout the day. That's a simple concept, but an easy one to forget amid all the noise of financial markets.

At Orbis we look at long-term potential, not short-term buzz. Successful owners don't give up when challenges arise, and neither do we.

3 AVOID OVERCONFIDENCE AND ACCEPT UNCERTAINTY

Commonly held beliefs and intuitive assumptions often lead to overconfidence and an underestimation of the level of uncertainty. Such behaviour can be difficult to avoid, as it 'feels right'. It also leads to opportunity for those investors able to embrace uncertainty.

At Orbis we are comfortable feeling uncomfortable, and we embrace the opportunities that uncertainty provides. We don't make macro-economic bets or try to time the market. Rather, we are all about 'bottom-up stock-picking' and finding opportunities that aren't obvious.

4 OPPOSE CONSENSUS

To stand-alone is to feel vulnerable. Opposing consensus can be psychologically challenging and feels uncomfortable to many investors – but we believe it is necessary for above average long-term returns.

At Orbis we invest confidently in unpopular or ignored areas. Our funds deviate significantly from their benchmarks. We believe the best long-term investment ideas are often found in areas of the market which are out of favour with most investors.

Investing differently can be rewarding, but it isn't for everyone.

Where do you stand?

Five big questions raised by ZPG's 'opportunistic' takeover approach for GoCompare

We take a look at why the proposals were made, rejected and whether a higher price will be offered

Price comparison site **GoCompare (GOCO)** has rejected two takeover proposals from Zoopla-owner **ZPG (ZPG)**. The suitor is now said to be considering its options ahead of a 12 December 'put up or shut up' deadline.

Both proposals (one in May and another in November) valued the business at £460m or 110p per share; the first was structured as an all-share deal and the second was a mixture of cash and shares. GoCompare says 110p per share undervalues its business.

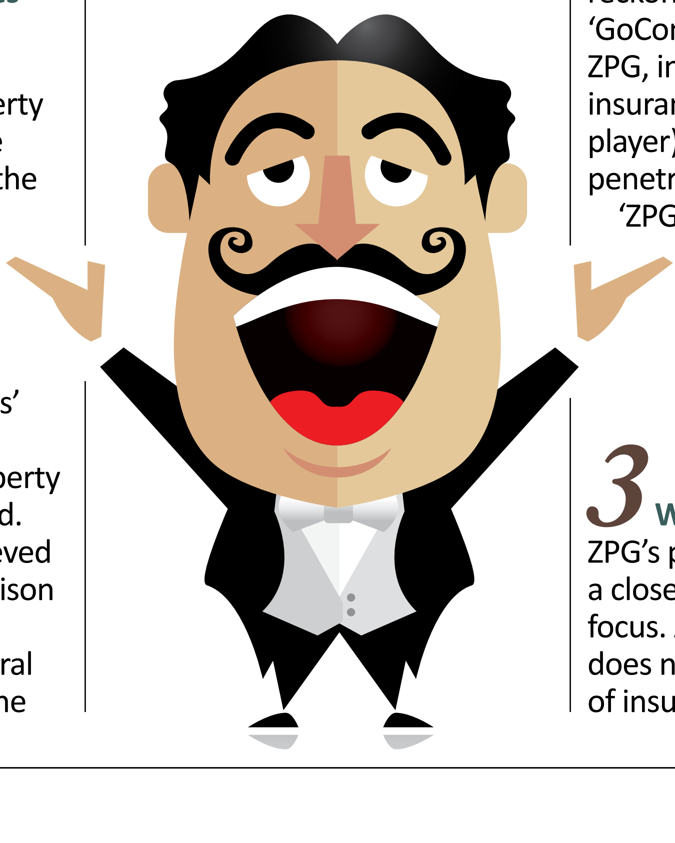
1 Who are the two parties involved?

Daily Mail & General Trust (DMGT) floated online property site Zoopla in June 2014. The founder and current CEO of the group, Alex Chesterman has since pursued an ambitious plan to create a one-stop-shop for consumers to 'research, find and manage their homes' at the front end and offer an 'end-to-end solution for property professionals' at the back end.

This has largely been achieved by the acquisition of comparison sites such as uSwitch and Money.co.uk, as well as several other ancillary businesses. The transformation was marked by a change of group name to ZPG in February 2017.

Like ZPG, GoCompare started life as a spin-off from another company. It was siphoned off from insurer **Esure (ESUR)** in 2016.

GoCompare's brand is probably best known for the irritating but enduring adverts featuring fictional opera singer Gio Compario. Since being listed as a standalone business at 76p per share, GoCompare's shares initially went through a rocky patch before racing ahead thanks to solid financial results.



Comparison sites tend to operate across several 'verticals' like insurance, utilities and financial products and GoCompare derives 92% of its revenue from a competitive insurance market.

2 Why is ZPG interested in GoCompare?

ZPG has not gone on the record to explain its rationale for the deal but presumably Chesterman sees it as a means of rounding out its price comparison offering.

Investec analyst Steve Liechti reckons the deal has merit. 'GoCompare makes sense for ZPG, in our view, for its £143m of insurance switching sales (no.2 player) – a competitive and well penetrated but growing market.

'ZPG already owns uSwitch and Money.co.uk with strength in utilities/financial services switching, but insurance capability is sub-scale.'

3 What are the risks for ZPG?

ZPG's previous acquisitions had a closer fit to its property market focus. Although GoCompare does not strip out different types of insurance in terms of their revenue contribution, motor insurance is believed to account for the majority.

Shore Capital analyst Roddy Davidson has concerns about a tie-up. 'We are uneasy that ZPG's strategy in the price comparison space appears to have moved on rapidly from building on the strength of uSwitch's position in the home services space, developing complementary financial services switching revenues (following the recent acquisition of Money.co.uk), and cross selling with its digital property brands (an approach that we believe offers potentially significant incremental revenue potential), to adopting a less focused and more generic model,' he says.

Davidson adds that recent M&A has already made the business more complex and the process of integrating GoCompare has material execution risks and could strain the resources of management.

He also comments that GoCompare is 'behind the curve in terms of its software and technology infrastructure, and the depth of its offering to consumers when compared to other comparison players'.

4 Why was the proposal turned down and does it undervalue GoCompare?

According to GoCompare chairman Peter Wood the takeover proposal 'is highly opportunistic and fundamentally undervalues the company and its prospects'.

While the deal represented a relatively modest premium of 16% to the 95p closing price on the day prior to the receipt of the latest proposal, it was priced at a discount to a close of 110.5p less than a month earlier on 11 October.

> ZPG HAS UNTIL 12 DECEMBER TO 'PUT UP OR SHUT UP' ON GOCOMPARE

Investec's Liechti, perhaps unsurprisingly given he has a 'sell' recommendation and 99p price target on GoCompare, says the price is 'not generous, but arguably realistic given our fundamental view'.

It is difficult to see shareholders warming to ZPG's interest unless there is more money on the table. Investment bank Berenberg, which is more positive on GoCompare, thinks a bid of at least 130p would be required.

5 Could the deal be revived?

It seems odd that ZPG didn't raise its proposed price second time around for GoCompare given that its first proposal was turned down.

Liechti believes the suitor 'does not wish to pay up', so one could assume the ground is being prepared for another approach and an attempt is being made to flush out shareholders who would be amenable to an improved offer.

Reuters reports that an unnamed major shareholder at GoCompare believes the firm should 'react positively' to a bid in the region of 125p. (TS)

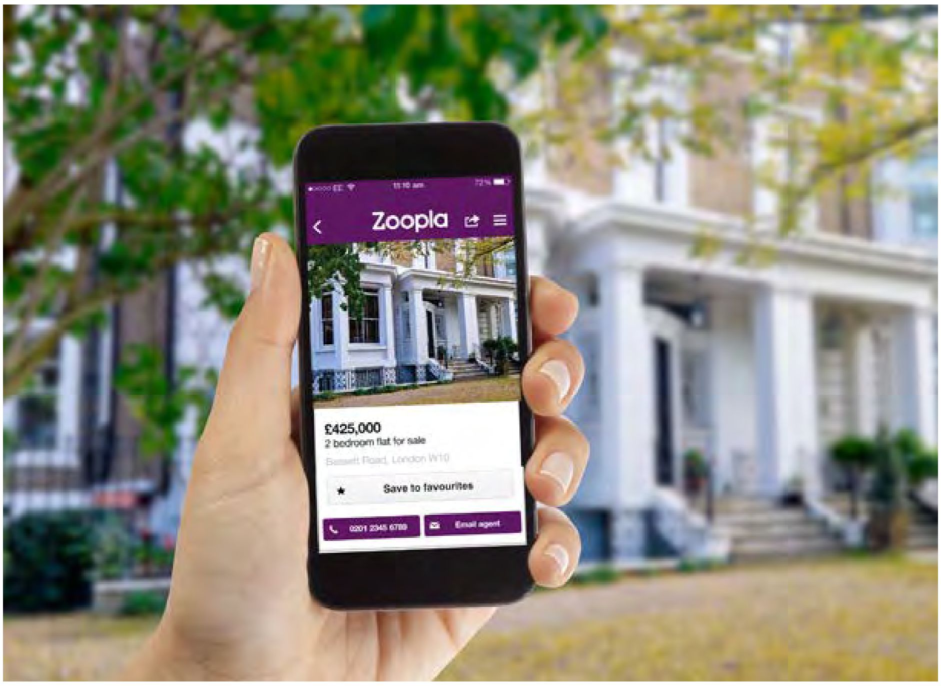


Image courtesy of Zoopla.co.uk

DIGITAL DISRUPTION

CHALLENGES AND INVESTMENT OPPORTUNITIES ARE EMERGING AS TECHNOLOGY SHAKES UP ALMOST EVERY PART OF LIFE

Disruption is everywhere. Changes to established industries and employment dynamics are shaking to their foundations almost every aspect of life.

Customers are constantly looking for cheaper, faster and better services, and providers like Amazon, Netflix, WhatsApp, Uber, Airbnb, and many others, are among the companies with a solution.

The transition is happening in so many places; from transport to energy, communications to healthcare, manufacturing, entertainment, education and even government.

'This can be challenging, yet it can also bring significant opportunities,' states Melissa Gallagher, head of investment trusts at Allianz Global Investors.

DISRUPTION IMPLICATIONS

When Walter Price, fund manager at **Allianz Technology Trust (ATT)**, first met the Airbnb team he was so impressed that he dumped his stakes in online competitors Expedia and Priceline.

'Airbnb is an experience more than just a room, so we thought it was a disruptive model, quite a strong model,' he says.

Even something as simple as the ice cream industry is being disrupted. US-based Eden Creamery makes healthy and natural foods and owns the Halo Top ice cream brand. It has taken around taken around 5% market share, according to Simon Gergel, fund manager of **Merchants Trust (MRCH)**.

'You can now go through the internet direct to consumers with products that aren't necessarily in (US supermarket giant) Walmart, allowing disruption of an industry that's traditionally been very stable and quite highly rated,' Gergel says.

For example, Harry's Razors is among the brands taking on the virtual duopoly of men's shaving held by Gillette and Wilkinson Sword, using the online-only sales channel.

DIGITAL DIVIDE

Many experts now think digital disruption has become a binary issue for organisations; adapt or die.

'Companies are seeing a digital divide, where their fortunes are increasingly determined by the extent to which they succeed or fail to embrace digitisation,' says Allianz.

'Those companies that adapt are likely to prove more productive, command higher margins and deliver out-sized growth compared to those that cannot.'

TRANSFORMATION LEADERS

There's no doubt that, when it comes to disruption, Facebook, Amazon, Apple, Netflix and Google (owned by Alphabet) – otherwise known as the FAANG stocks – will have the biggest implications for the majority of investors.

THE FAANGS

That's reflected by their vast market values and massive influence on wider stock markets. If we switch the much smaller Netflix for Microsoft, also a highly disruptive enabler ($84.6bn market cap versus $641.9bn respectively), the group represents the five biggest companies on the S&P 500, worth a combined $3.31trn.

Put another way, they represent 13.6% of the index's value. Considering the S&P 500 makes up something like 70% to 80% of the value of all US stocks, it means these five companies alone are worth between 9.5% and 10.9% of all US stock market value.

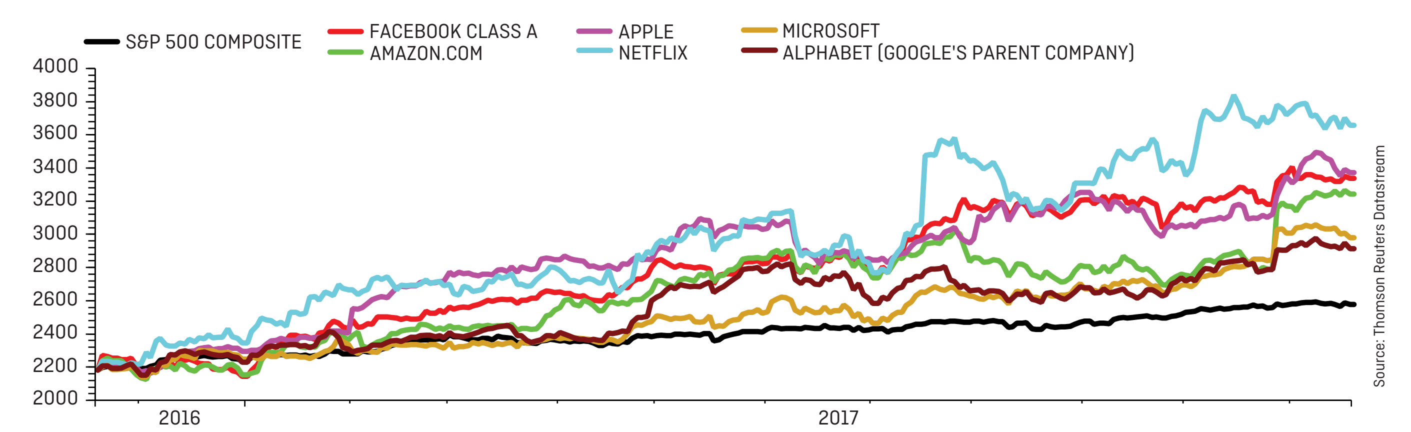
Most experts see the US and China leading digital disruption across the globe.

China's Alibaba is already an online retailer of phenomenal scale, while Tencent's *WeChat* platform is taking users far beyond social media.

'It allows users to talk to their mates, order a taxi, buy a cinema ticket, music or clothes all without the need to visit a third party website,' explains Chris Sanderson, co-founder of the Future Laboratory, a consultancy that helps organisations prepare for 21st Century demands.

BUBBLE, WHAT BUBBLE?

This all sound very exciting but many investors are increasingly concerned about runaway valuations. This year the share prices of Facebook, Amazon, Microsoft and Alphabet have each made 30% to 50% gains.



More generally, technology companies recently helped power the S&P 500 index to a record close of 2,594.38 (8 November 2017), fuelling talk of a new tech bubble.

'Investors always revert back to the dotcom crash,' says Allianz's Walter Price.

Yet Price and other fund managers, such as **Polar Capital Technology Trust's (PCT)** Ben Rogoff and **Herald Investment Trust's (HRI)** Katie Potts, dismiss any notion that we are heading for tech collapse 2.0, in other words a repeat of the massive crash of 2000 to 2003.

EARNINGS-BACKED RALLY

There is a major difference between current ambitious investment multiples versus those of the late 1990s – real earnings.

'In the technology bubble of the late 1990s, there were no earnings and stock market valuations were based on clicks or eyeballs, or any variety of unusual valuation metrics,' Price says. This time round technology share prices are rising with earnings upgrades that are outstripping an otherwise low growth environment.

'While valuations have trended higher, the

investment backdrop remains favourable and the prevailing inflation rate remains broadly supportive of current equity valuations,' says Polar Capital's Ben Rogoff.

'Fortunately, the US is experiencing its fastest pace of earnings growth in five years with S&P 500 earnings forecast to increase 10% this year, with potentially more to come in 2018 if the new administration delivers on its tax reform pledge.'

It's all a far cry from the euphoric ratings of 18 years ago, when Microsoft was valued at nearly 50-times earnings, and Intel and Oracle sported three-digit PEs (price to earnings ratios).

Today Microsoft trades on 23.5 times forecast earnings for its current financial year, according to Reuters data; Alphabet and Facebook trade on 25.8 and 27.0 PE ratios respectively.

The forward PE of the S&P 500 even after its record run stands at 18.2, hardly eye-popping. Even the Information Technology sector part of that index is on a PE of only 19.2.

FOURTH INDUSTRIAL REVOLUTION

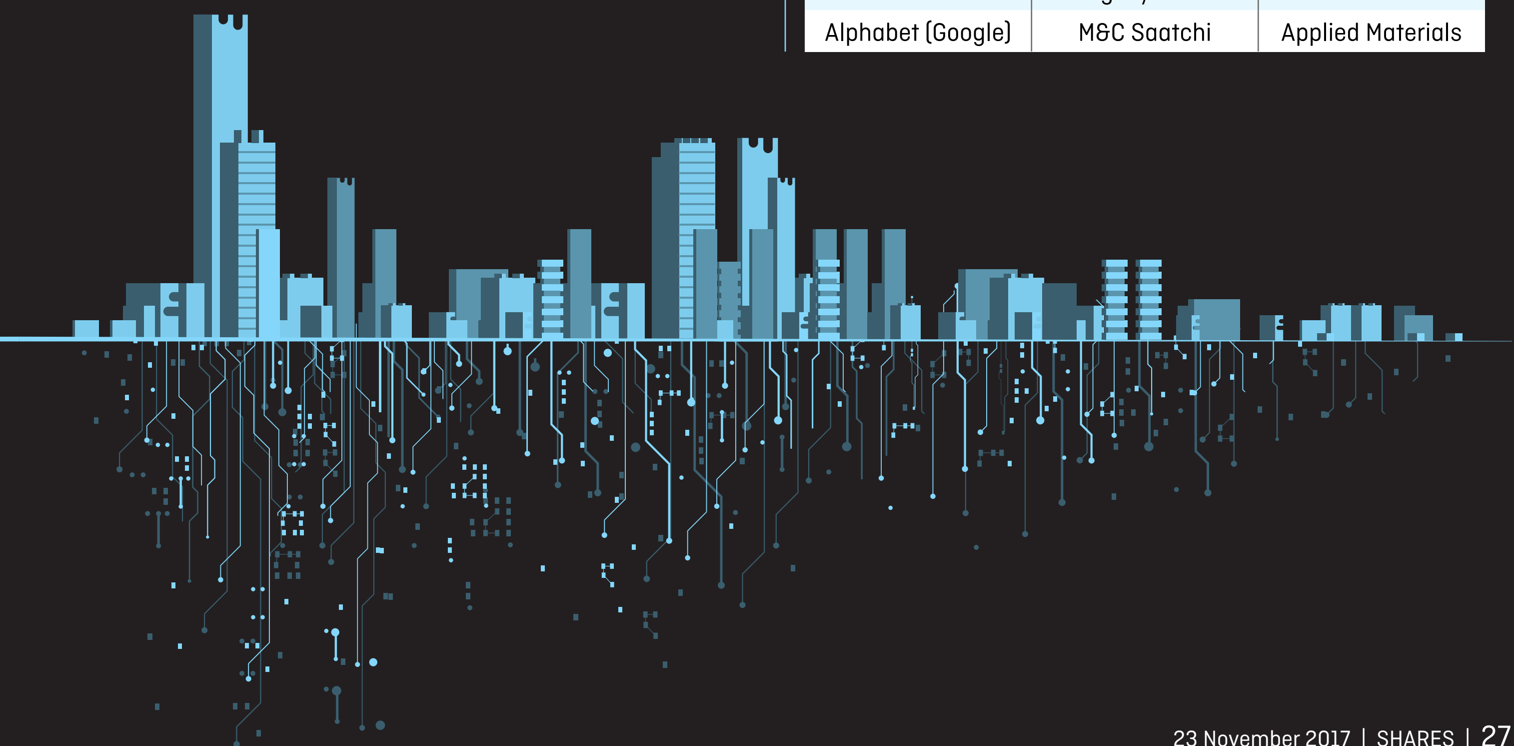
'We are at the beginning of something, not the end,' says Walter Price at Allianz Technology Trust.

Topics including cloud computing, artificial intelligence (AI), robotics and automation, cyber

> THE NEW TECHNOLOGY CYCLE APPEARS TO HAVE ENTERED A MORE PERNICIOUS PHASE. THIS IS LIKELY TO PROVE THE BEGINNING OF THE END OF TRADITIONAL IT

INVESTMENT TRUSTS TO PLAY THE DIGITAL DISRUPTION THEME

ALLIANZ TECHNOLOGY TRUST	HERALD INVESTMENT TRUST	POLAR CAPITAL TECHNOLOGY TRUST
TOP HOLDINGS	**TOP HOLDINGS**	**TOP HOLDINGS**
Apple	IQE	Apple
Micron Technology	GB Group	Alphabet (Google)
Amazon	Diploma	Microsoft
Microsoft	IDOX	Facebook
Square	BE Semiconductor Industries	Samsung Electronics
Facebook	Bango	Tencent
Samsung Electronics	Next Fifteen Communications	Alibaba
DXC Technology	Silicon Motion	Amazon
Palo Alto Networks	Pegasystems	TSMC
Alphabet (Google)	M&C Saatchi	Applied Materials



security and auto technology are some of his pet themes.

'We are embarking on a revolution,' he says, 'the digital revolution' after steam, electricity and computers.

Concepts such as cloud computing and AI have been around for several years but what's changed is cheap and plentiful processing power, points out Ben Rogoff. Driving down hardware costs – such as PCs, servers and network infrastructure – has also helped.

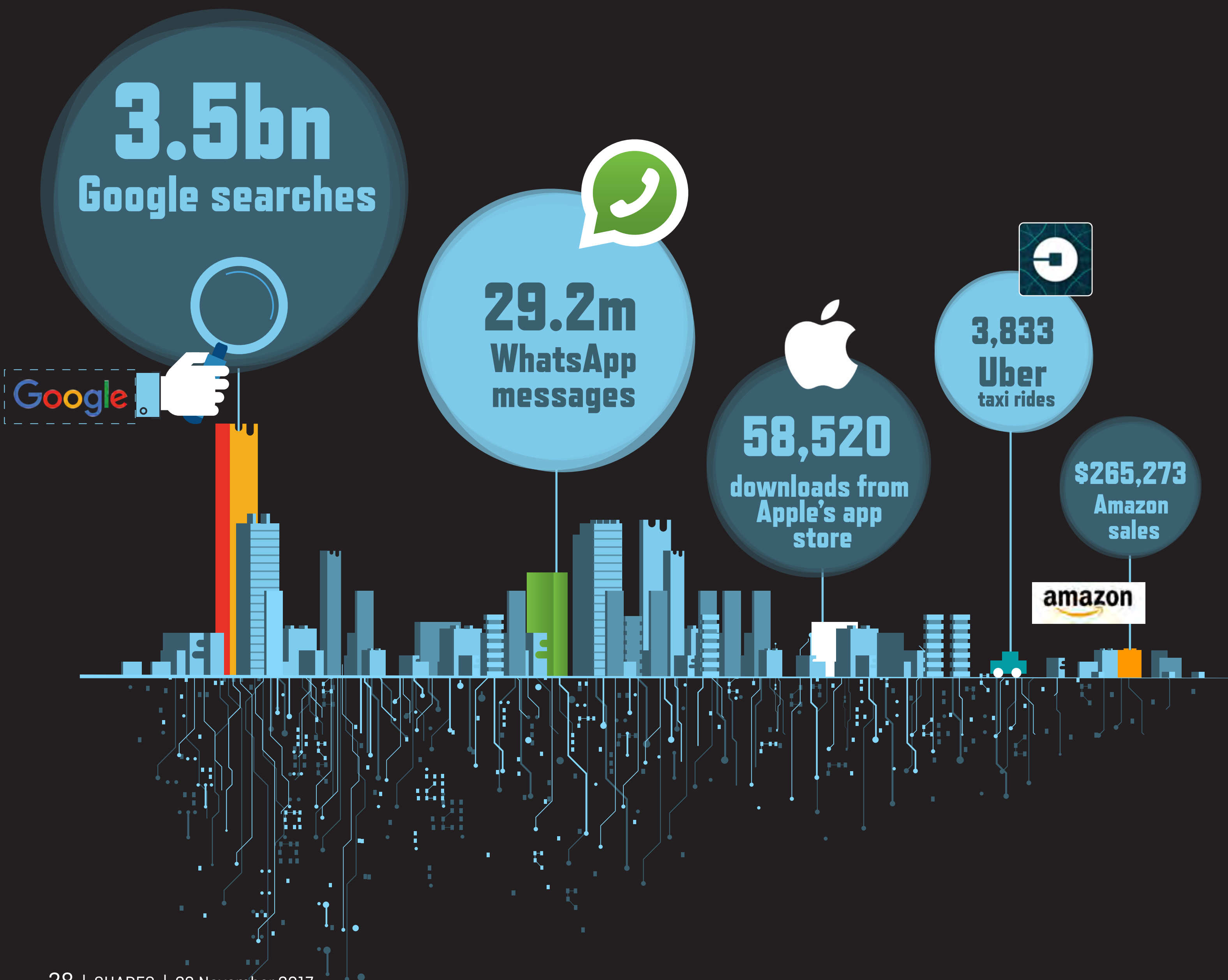
'The new technology cycle appears to have entered a more pernicious phase,' says the Polar Capital Trust manager. 'This is likely to prove the beginning of the end of traditional IT with disruption likely to prove significantly greater than witnessed thus far.'

CLOSER TO HOME

For investors, the disruption investment opportunity raises questions. What will it mean for individual companies, industries and nations? What are the implied risks, rewards and valuations; and how should you position your portfolio?

It is arguably a mistake to think the UK is going to create a technology giant to compare against

EVERY MINUTE THERE ARE AN ESTIMATED



Google or Facebook – most experts believe it highly unlikely or impossible. But there are plenty of good disruptive businesses listed in the UK; the secret is to hunt for niches.

That doesn't mean putting money into a crowdfunding initiative involving a Silicon Roundabout start-up. You already have lots of innovative companies listed on the London Stock Exchange.

Just look at the way **ASOS (ASC:AIM)**, **Moneysupermarket (MONY)** and **Rightmove (RMV)** have harnessed the internet to shake-up commonplace tasks like buying clothes, an insurance policy or finding a new home.

Industry disruption is 'majorly important to what we do,' says Paul Jourdan, one of the founders of Amati Global Investors, a small cap fund manager.

'I don't think we should be chasing the next FAANG,' he says, preferring to seek out UK companies that are 'changing the way we work, changing our lives'.

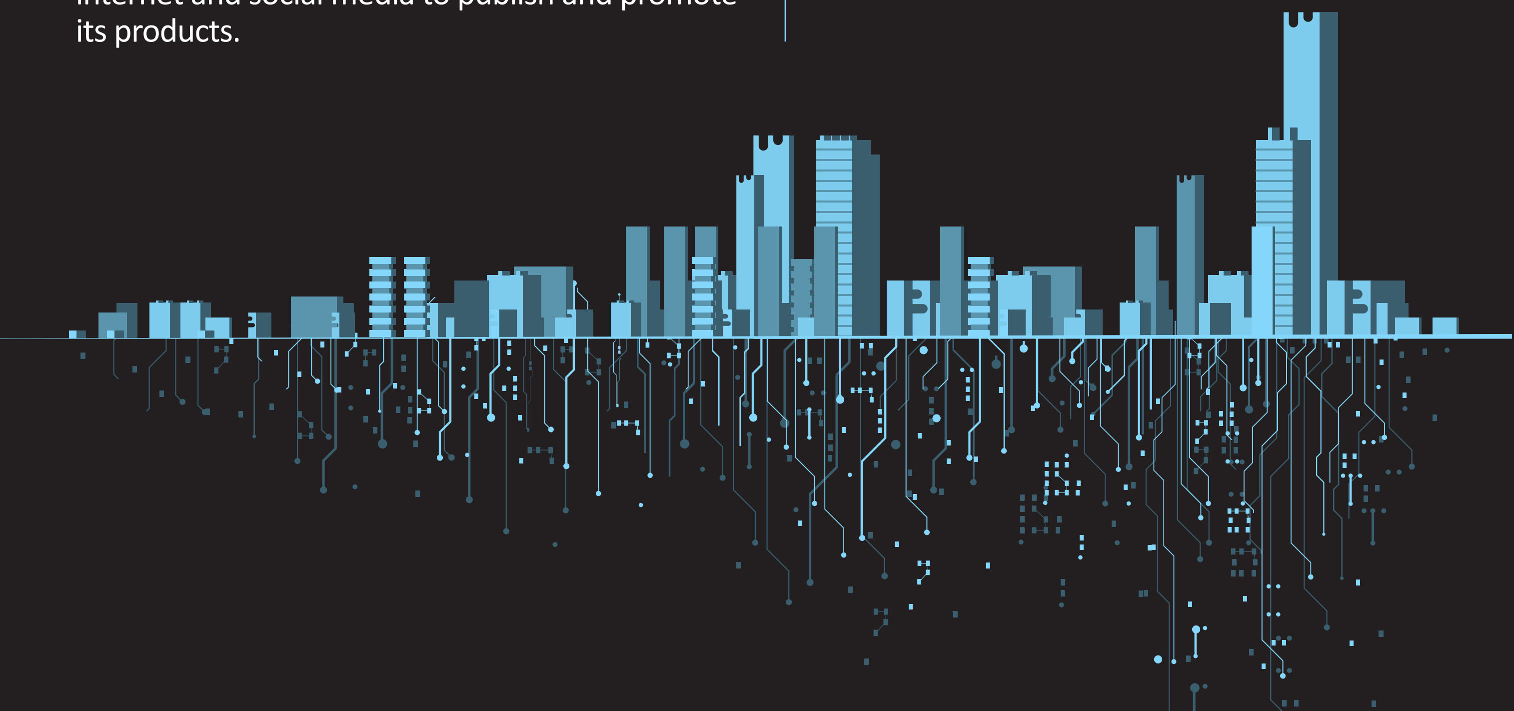
He typically looks for opportunities where a company has deep domain expertise within a niche, high growth potential, decent market advantage and has the right kind of financing.

Jourdan's favourites include virtual queuing specialist **Accesso Technology (ACSO:AIM)** and gaming services group **Keywords Studios (KWS:AIM)**.

TAKE AIM AT DISRUPTION

Jourdan is also a fan of **Frontier Developments (FDEV:AIM)**, the online games designer using the internet and social media to publish and promote its products.

> "ARTIFICIAL INTELLIGENCE TECHNOLOGIES WILL BE THE MOST DISRUPTIVE CLASS OF TECHNOLOGIES OVER THE NEXT 190 YEARS DUE TO RADICAL COMPUTATIONAL POWER, NEAR-ENDLESS AMOUNTS OF DATA, AND UNPRECEDENTED ADVANCES IN DEEP NEURAL NETWORKS.
>
> THESE WILL ENABLE ORGANISATIONS WITH AI TECHNOLOGIES TO HARNESS DATA IN ORDER TO ADAPT TO NEW SITUATIONS AND SOLVE PROBLEMS THAT NO ONE HAS EVER ENCOUNTERED PREVIOUSLY"
>
> **SOURCE: GARTNER, JULY 2017**



Frontier is among the stocks that feature in Herald Investment Trust's portfolio. 'In the UK, AIM continues to be dynamic in the micro-cap space,' says Herald's fund manager Katie Potts.

Jourdan at Amati also believes AIM offers plenty of opportunities for UK investors to tap into disruptive themes. 'They are becoming less rare,' he says, 'there are more of them.'

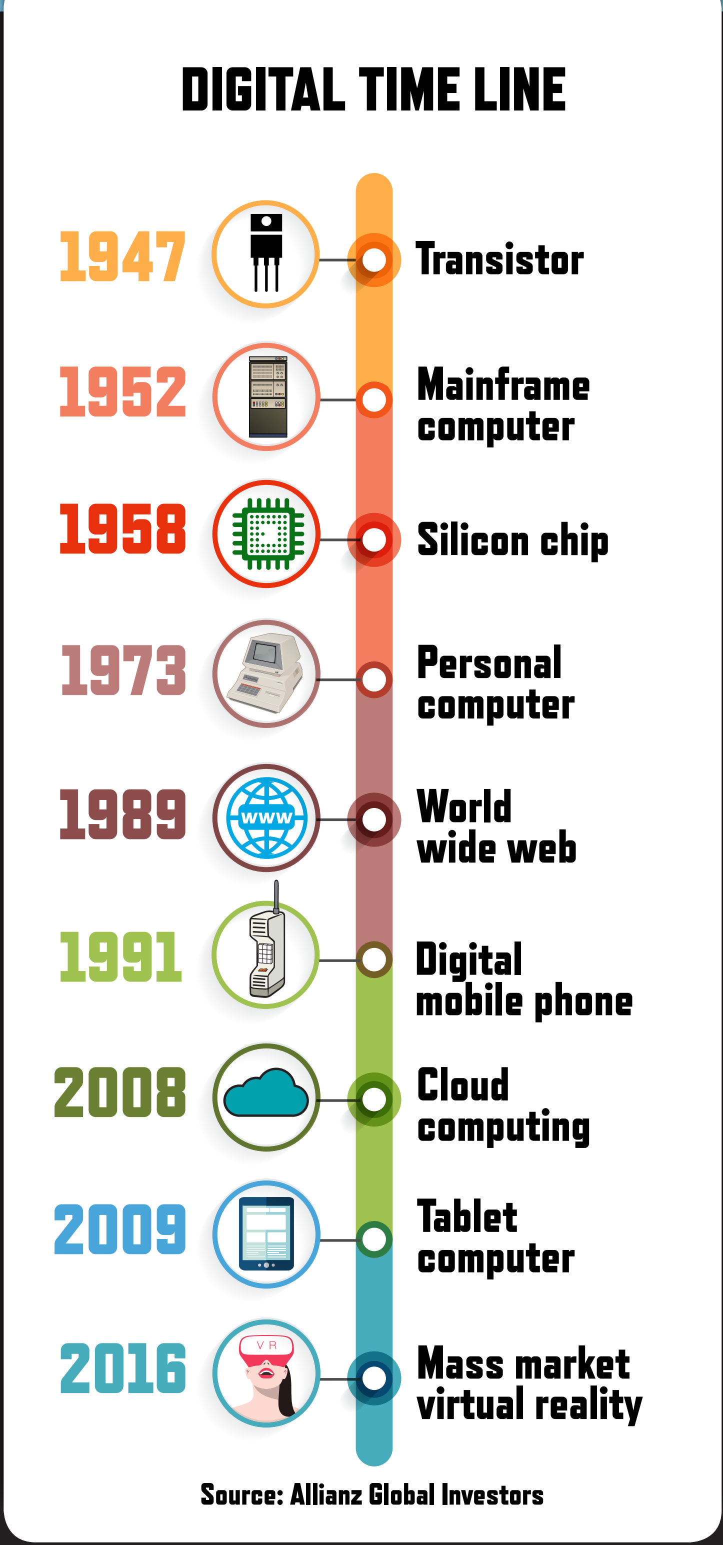
Robotic process automation is one emerging area to shake up how organisations do simple administration, freeing up more time for staff to add value elsewhere.

It's a theme that has rapidly turned **Blue Prism (PRSM:AIM)** into an AIM sensation, with its share price soaring by more than 1,000% since joining the stock market at 78p in March 2016. Katie Potts has a stake in Blue Prism, so too does Allianz's Walter Price.

Polar Capital's Rogoff admits to holding a modest stake in advanced driver assistance systems designer **Seeing Machines (SEE:AIM)**. It has gradually adapted its original kit for big mining trucks and now has consumer cars, trains and planes in its sights.

Price at Allianz says the growth in technology is coming from the creation of new markets, rather than simply GDP growth.

Investors need to find companies generating organic growth by creating new markets or stimulating significant change in old markets. (SF)



Can I use my home to fund my retirement?

House prices have soared but a pension still offers the best chance of a comfortable retirement

The importance of getting on the housing ladder is so engrained in British society that many of us are putting it at the expense of other long-term savings needs.

Surveys suggest a quarter of people over the age of 50 will rely on downsizing when they stop working and nearly half of 35 to 54 year-olds plan to use property to fund their retirement.

The Financial Conduct Authority warned last year that taking the view 'my house is my pension' is extremely risky. The regulator's chief executive urged people not to put all their eggs in one basket, pointing out that returns can decline over time.

WHY IS RELYING ON PROPERTY RISKY?

There's no doubt property can be a sound investment. Over the past decade, average house prices in London have soared by an impressive 69%.

Unfortunately this is not the case across the UK. There are 17 major towns and cities in England and Wales where houses are worth less (allowing for inflation) than their 2007 levels.

The worst affected are Blackpool and Sunderland, where average house prices remain more than 10% below their pre-financial crash highs, according to HouseSimple.com.

Tom Selby, senior analyst at AJ Bell, warns that property, like every other asset, can go down in value as well as up.

'Someone who chooses to rely on this single asset to pay for their retirement needs to understand that, by having all their eggs in one basket, they are totally exposed to the housing market,' he explains.

'If, when they come to sell, there is a sudden shortage of buyers, a seller relying on releasing equity to fund their day-to-day living will be left in a very difficult position – particularly if they have no other income sources.'

THE DIFFICULTY OF DOWNSIZING

When you're young it can be easy to formulate a retirement strategy which involves selling your home.

But Steve Eggleton, wealth management consultant at

Mattioli Woods, says this can be a lot harder to do when the time comes. Many people have a strong emotional attachment to their home, having built up a lifetime of memories in the property.

Instead of selling, one option is to take money out of your home via an equity release mortgage. But Eggleton says these typically restrict the loan amount to 35% of the property value.

'Whilst there is no need to repay capital or interest until death, this route will have wider financial planning implications, particularly around inheritance,' he adds.

Imagine you released £105,000 secured against a home worth £300,000 and the loan ran for 20 years. Assuming a fixed-interest rate of 4.5% a year, the debt will build to £253,000, putting a hefty dent in your children's inheritance. There will hopefully be house price growth over the same period, but this isn't guaranteed.

PENSIONS ARE MORE FLEXIBLE

Generating income from property is much less flexible than generating income from a pension.

Fraser Kerr, a financial planner at financial advice firm 1825, says a modern pension lets you start, stop, increase and decrease your withdrawals after the age of 55.

'You don't have the same options with a fixed monthly rent. And if you're looking at property as an investment that's going to increase in value, remember that you have to sell to realise that value. This can be time-consuming and may mean you can't access your money when you need it,' he adds.

Property is also less tax-efficient than a pension. Your home plus any buy-to-let properties will form part of your estate for inheritance tax (IHT) purposes, which could mean 40% tax is due when you die.

In contrast, a pension is usually held in trust and free from IHT. If you die before age 75, your children can take your pension as a lump sum or as income without paying any tax whatsoever. If you die on or after age 75, the lump sum or income will be taxed at the beneficiary's rate of income tax.

IF YOU'RE LOOKING AT PROPERTY AS AN INVESTMENT THAT'S GOING TO INCREASE IN VALUE, REMEMBER THAT YOU HAVE TO SELL TO REALISE THAT VALUE

THE POWER OF PENSIONS

Pensions enable you to invest in a huge range of assets across lots of sectors and geographical regions. This diversification can protect you if one particular asset or region experiences a downturn.

Pension contributions benefit from tax relief at your marginal rate – that's 20% for basic rate taxpayers and 40% for higher-rate taxpayers. When you come to take the money out 25% is tax-free, with the rest taxed in the same way as income.

'There is not a more cost-effective method to build a retirement pot than by using tax-relieved funds to invest in a wrapper which benefits from tax-exempt growth. Whether it is a standalone personal pension, or a group arrangement provided by an employer, it is possible to invest in a wide range of well-diversified funds capable of meeting all risk profiles,' says Eggleton.

COMBINING THE TWO

Most experts think a sensible approach would be to use a combination of property and pensions in retirement.

'Given that huge amounts of value could well be locked in someone's home it would be silly not to consider this when planning for retirement,' says Selby.

'However, to rely on that solely is a huge risk and could leave you in a sticky situation if the property market takes a turn for the worse just when you need to sell.' (EP)

What does the rise of 'unretiring' mean for pension planning?

We look at why individuals are no longer conforming to traditional retirement patterns

Retirement in the UK has traditionally involved stopping working at a set point in time – usually 60 or 65 – with a set amount of guaranteed income. This income would normally be in the form of a defined benefit (DB) pension or an annuity, perhaps with a smaller personal pension, such as a SIPP, sat alongside it.

The state pension system has also been designed based on this clean break between working and not working. The state pension ages of men and women will equalise at 65 in 2018 – the women's state pension age is being gradually increased from 60 at the moment – before rising to 66 in 2020 and 67 in 2028.

The Government plans to bring in a further increase to 68 by 2039 and has explicitly stated it will 'aim for up to 32%...as the right proportion of adult life to spend in receipt of the state pension'.

WHY THINGS ARE CHANGING

Throughout the pensions system the idea that retirement means stopping working altogether has become deeply ingrained.

For many people this is starting to change. As defined benefit pensions have all but died off in the private sector, defined contribution (DC) plans – where you build up your own pot of money in order to generate an income in retirement – have become the main retirement savings vehicle for most people.

And rules introduced in April 2015 mean that savers in DC plans can spend and invest their money how they want from age 55. This creates a new dynamic where people are more likely to continue working while drawing from their retirement fund.

> MEN ARE MORE LIKELY TO UNRETIRE THAN WOMEN

THE CONCEPT OF UNRETIREMENT

Research published by Manchester University and King's College London on the phenomenon of 'unretirement' emphasises this shifting dynamic.

The study reveals around one in four retirees in the UK return to work within five years of retiring. Men are more likely to unretire than women, as are people who are in good health, those who are better educated and those still paying off a mortgage.

If you're thinking about returning to work having already accessed your DC pension, there are a few things you need to consider.

Firstly, do you have 'protection' on a large pension worth £1m+? If you do and don't want to lose it – and pay a potentially hefty tax charge – you need to make sure you don't accidentally make a contribution and void the protection. This is a particular danger as automatic enrolment means all companies are required to put you in a pension scheme unless you opt-out.

Secondly, if you have taken any taxable income from your pension – that is over and above the 25% tax-free lump sum – your ability to continue saving in a pension will be severely restricted.

While the annual allowance for tax-advantaged pension saving is usually £40,000, those who have accessed their pension flexibly see this slashed to just £4,000.

Tom Selby,
Senior Analyst, AJ Bell

Why RELX is one of the best companies in the FTSE 100

The professional information and events business is a superb long-term investment

It may be one of the 20 biggest London-listed companies by market cap but unlike other names on this list such as **BP (BP.)**, **HSBC (HSBA)** or **Vodafone (VOD)**, Anglo-Dutch professional information and events company **RELX (REL)** has a very limited public profile.

In our view this should not obscure an impressive track record of delivering dividend growth and capital gains to shareholders and the group's capacity to maintain this performance going forward.

Until July 2015 it was called Reed Elsevier, formed in 1992 by the merger of UK trade book and magazine publisher Reed International and Netherlands-based scientific publisher Elsevier.

A TRULY GLOBAL BUSINESS

Today RELX is a truly global business offering information and analytics for professional and business customers across several different industries in more than 180 countries.

As the accompanying table shows it is a leading player across its four market segments. The scale of the business is reflected in the fact its events division, despite representing just 15% of group revenue, is the global leader in this industry.

WHAT IS ANALYTICS?

Identifying, interpreting and communicating meaningful patterns in data. Organisations use this to forecast and improve performance

REASSURINGLY PREDICTABLE

Recent trading has been reassuringly predictable. Underlying revenue growth of 4% for the first nine months of 2017 was the same as that reported for the first half and there was no change to guidance on full year numbers, which should be reported in late February 2018. Revenue growth also came in at 4% in 2016 after five consecutive years of 3% growth.

This predictability comes at a price. Based on consensus forecast, the shares trade on 19.9 times 2018 earnings and offer a forward dividend yield of 2.5%.

More than a third of the analysts who follow RELX have

RELX - DIVISIONAL SNAPSHOT

SEGMENT	GLOBAL MARKET POSITION	% OF 2016 REVENUE
SCIENTIFIC, TECHNICAL & MEDICAL Provides information and analytics to help institutions and professionals progress science, advance healthcare and improve performance	1	33.6
RISKS & BUSINESS ANALYTICS Helps companies assess risk and improve operational efficiency - its biggest customer is the insurance industry	1 (in key markets)	27.6
LEGAL Provides information and analytics for the legal profession	2 in US, outside US 1 or 2	23.5
EXHIBITIONS Encompasses more than 500 events in more than 30 countries	1	15.3

Source: Company reports

a 'hold' recommendation on the stock but this fence sitting has historically been exposed by strong share price performance.

For example, investment bank UBS had a 'neutral' rating on the stock four years ago and the share price has subsequently more than doubled.

Over the last 10 years the share price has advanced more than 150%. Recent gains have been supported in part by currency movements. The 85% of revenue derived from outside the UK has been flattered when converted back into weakened sterling.

The stellar share price performance is also backed by financial performance. The company doubled its annual dividend to 36p for 2016 from 18p a decade earlier and has not cut the payout at any point through this period. This generosity has been backed by steadily growing earnings and cash flow.

BIG DATA EXPERTISE

RELX is aligned with the big data trend which is seeing companies in most sectors being bombarded with a dizzying amount of information on a daily basis. As far back as 2004 the business created a platform to deal with its own vast collection of public records data.

The FTSE 100 constituent can now take in large data sets and funnel out irrelevant and unreliable data and deliver focused information to its clients.

For example, this could help a car insurance firm calculate the right level of premium for a customer or help a pharmacist ensure a prescription is legitimate.

The group has been led by Swede Erik Engstrom since November 2009 and he joined back in 2004 when he headed up the Elsevier part of the business.

He has delivered on a consistent strategy, moving steadily from print to digital, increasing the sophistication of its analytics tools and shifting to faster growing geographies to improve the quality of earnings.

In 2016 more than half its revenues came from subscriptions which tend to have a recurring element.

As RELX notes the solutions it offers 'often account for just 1% of customers' total cost base but can have a significant and positive impact on the economics of the remaining 99%'.

This relatively low-cost high value offering could make its business more resilient to any future economic downturn.

THE INVESTMENT CASE IS NOT WITHOUT RISK

The single biggest risk for the company is a material data breach which could undermine client confidence. The threat of open access – the principle of giving away publicly-funded peer-reviewed research for free – continues to bubble away in the background but so far the policies adopted by most governments worldwide have been friendly to large subscription publishers like RELX.

SHARES SAYS:
This is one of the highest quality businesses on the UK stock market and worth paying a premium price. (TS)

BROKER SAYS: 11 7 2

WHY DO COMPANIES BUY BACK SHARES?

Dividends or buybacks: *examining the ways in which a company can spend its excess cash*

Listed companies with strong competitive positions typically have pricing power, which in turn enables them to generate healthy margins and crucially, strong cash flow. This cash can be returned to shareholders through two mechanisms, dividends and share buybacks.

Such capital allocation decisions are amongst the most important decisions management teams make on behalf of shareholders. Yet rather worryingly, share buybacks are often not sufficiently understood by investors.

WHICH FIRMS ARE BUYING BACK SHARES?

A large number of public companies are engaged in major share buybacks, among them consumer goods giant **Unilever (ULVR)**, retiring €5bn of equity, and DIY outfit **Kingfisher (KGF)**, which has returned more than £400m to shareholders under a £600m repurchasing buyback splurge, above and beyond regular dividends.

Others include heating and plumbing products distributor **Ferguson (FERG)**, which has launched (3 Oct) a £500m share buyback reflecting management's confidence in the company's prospects and cash generation. Also noteworthy is plastics packaging provider **RPC (RPC)**, which has delivered 24 consecutive years of dividend growth and is returning up to £100m to shareholders via a buyback.

WHY DO COMPANIES REPURCHASE STOCK?

There are four strong arguments in favour of buybacks, which have played a part in the elongated bull markets on both sides of the Atlantic. The first posits that if a company is generating surplus cash, it can return it to shareholders and let them decide what to do with it, rather than squander funds on a risky acquisition or capacity increases or run an inefficient balance sheet with any cash balance earning scant return at low interest rates.

Secondly, buybacks can work for investors depending on their tax situation, and whether they prefer to be taxed on a capital gain (buyback) or dividend (income). The third 'pro' is that investors who choose to retain their shares during a buyback programme will have an enhanced stake in the company and thus be entitled to a bigger share of future dividends, assuming the payout is maintained.

Fourthly, buybacks imply a management team feels a company's shares are undervalued. Buyback announcements often act as a positive share price catalyst, as they are viewed as a vote of confidence in a company's near and long-term trading prospects.

UNDERVALUED VERTU?

In the smaller companies arena, one noteworthy example is car dealer **Vertu Motors (VTU:AIM)**, whose share price has fallen on fears over increasingly challenging market conditions. During the half to August, the industry consolidator steadfastly refused to overpay for acquisitions, instead buying back £1.6m of its own shares. This was the first occasion on which Vertu had bought back shares since 2008.

Vertu has a formidably strong balance sheet and believes it is positioned to consolidate the market over the next few years as weaker competition flounders. Alongside the interims (11 Oct), Vertu's disciplined board extended its buyback programme by up to a further £3m, share repurchases to be effected 'within certain pre-set parameters'.

WHY BUYBACKS IRK INVESTORS

There are numerous reasons why investors give the thumbs down to share buybacks. Buybacks can be used to massage earnings per share (EPS) by reducing the share count at limited cost, which could be used to trigger management bonuses or stock options.

These transactions have the mechanical effect of increasing EPS, but not the overall profitability of the business, since the number of shares in issue reduces. There is also a risk that companies buy back shares using debt, potentially weakening their balance sheets and competitive position in the long term.

History shows companies have a habit of buying stock back during bull markets (when their stock tends to be more expensive) and not doing so during bear ones (when their stock tends to be much cheaper). Buybacks in the US peaked in 2007 and collapsed in 2008 and 2009 only to accelerate again in 2011 and 2012. Last but not least, buybacks do not always work.

Investors should heed the words of legendary investor Warren Buffett from his 2012 letter to Berkshire Hathaway shareholders. 'Charlie [Munger] and I favour repurchases when two conditions are met: first, a company has ample funds to take care of the operational liquidity and needs of its business; second, its stock is selling at a material discount to the company's intrinsic business value, conservatively calculated.'

Well-followed UK fund manager Terry Smith has previously argued that management should be required to justify share buybacks by reference to the price paid and the implied return and compare this with alternative uses for the cash.

Smith has stressed investors should analyse share buybacks on exactly the same basis as they would if the company bought shares in another company. Moreover, the pugnacious East Londoner argues investors should use return on equity to analyse the effect of share buybacks, rather than EPS fluctuations.

Interestingly in the summer, global premium automotive distributor **Inchcape (INCH)**, famed for its strong free cash flow generation, dividends and stock repurchases, decided (27 July) not to extend its share buyback programme.

Perhaps mindful of the wisdom of master investor Buffett, Inchcape explained that it had deployed cash on acquisitions, while management also recognised the need to invest to accelerate Inchcape's organic growth.

NEXT'S BUYBACK NOUS

Having weighed up the arguments carefully, those investors keen to harness the benefits of buybacks can do so through dedicated ETFs. They include US-listed PowerShares Buyback Achievers Portfolio, which selects stocks based on short-term repurchasing activity, and UK-listed **iShares US Equity Buyback Achievers UCITS ETF (BACS)**.

Buybacks *can* help to create shareholder value through the efficient deployment of cash and one company with a good track record here is clothing retailer **Next (NXT)**.

Alongside half year results (14 Sep), Next restarted its share buyback, the operational cash flow of the business remaining robust despite the myriad challenges facing the weather sensitive apparel retail sector and importantly, with the share price weak relative to history.

As confirmed with its recent third quarter update (1 Nov), on top of ordinary dividends and four special dividends of 45p this year, Next will have bought back £50m worth of shares by the end of this financial year. Evidently, chief executive Simon Wolfson and finance director Amanda James view the shares as undervalued.

IN HINDSIGHT, WE WERE WRONG TO NOT BUY BACK SHARES IN 2008 AND WE HOPE THAT HINDSIGHT WILL PROVE US WRONG, ON THIS PARTICULAR DECISION, ONCE AGAIN!

The important point to note – in line with Buffett's guidance – is that Next is generating more cash than it needs to invest in capital expenditure, so key to maintaining competitive advantage, even after shelling out these special distributions.

Investors keen to understand the balance management needs to strike between special dividends and buybacks should refer back to Next's full year results statement from March. At the time, the share price was trading at a relatively low multiple of future earnings, leaving some to question whether the company would be better off buying back shares, rather than paying special dividends.

As Simon Wolfson explained: 'The last time the company was in a similar situation was in 2008. At that time we were suffering from a combination of tough economic conditions, weakening currency rates and some internal product range issues.

'Profits were forecast to decline in the year ahead and there was much uncertainty in the wider economy as the credit crunch took hold. We took the decision at that time to halt our buyback programme.

'In hindsight, we were wrong to not buy back shares in 2008 and we hope that hindsight will prove us wrong, on this particular decision, once again! But at this time of significant uncertainty, we feel that the decision to buy back shares is best left to shareholders themselves.

'And of course, shareholders can always use their special dividends to buy shares for themselves. Perhaps we have been overly cautious but companies rarely fail for being prudent with their shareholders' money and in uncertain times such prudence is all the more important.

'In the long term share buybacks remain our preferred route for returning capital to shareholders and we intend to return to them when market and trading conditions make it appropriate.' (JC)

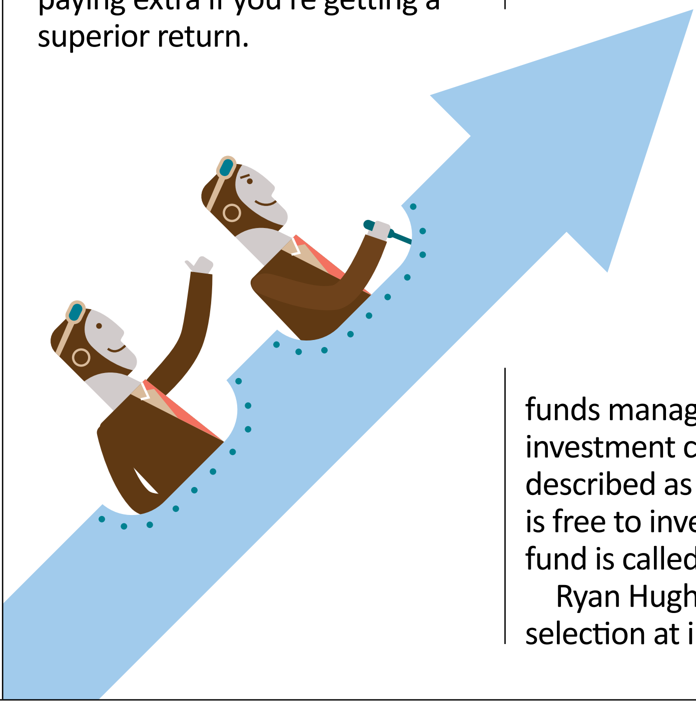
The pros and cons of multi-manager funds

Would you pay extra to access an army of fund managers through a single product?

Multi-manager funds are investment products which contain other funds as their main holdings rather than individual stocks, bonds or other assets. A multi-manager fund is also known as a fund of funds.

The advantage of using one of these types of investments is that it provides an investor with access to a greater number of brains. Many people like the concept of buying a single product which provides access to an army of fund managers looking for the best ideas, each a specialist in a certain field.

The downside is that these types of funds tend to be more expensive as you are paying for the services of multiple underlying fund managers. However, it is clearly worth paying extra if you're getting a superior return.



HOW ARE THEY CONSTRUCTED?

A multi-manager fund won't tend to just be a hodgepodge of various funds contained in a single wrapper. Instead, the fund manager will have an idea of what type of portfolio they want to have and pick funds that will attempt to achieve a certain goal with specific funds added for downside protection, for example.

By choosing a multi-manager fund, an investor is basically leaving the day-to-day handling of a fund to a professional. Therefore it's a great tool for the inexperienced investor, or one with a limited amount of investible money.

It is important to note that some multi-manager funds are only allowed to invest in funds managed by the same investment company, which is described as 'fettered'. One that is free to invest in any third party fund is called 'unfettered'.

Ryan Hughes, head of fund selection at investment platform AJ Bell says: 'Cost is the best consideration for using a fettered fund. I work on a best of breed approach. One investment house might be great with one asset class such as UK equities but not good at fixed income. It might be a bit cheaper but you may be sacrificing returns opportunity to save a few fractions of a percentage point'.

Unfettered funds

An example of a multi-manager fund free to choose from any provider is **Schroders MM Diversity Balanced Fund (GB00B5T87K87)**. It invests globally using a wide variety of external funds overseen by its managers Marcus Brookes and Robin MacDonald. The fund has returned 50.21% in five years and its fee is 1.33% per year.

For Japanese equities, the fund holds **Man GLG Japan CoreAlpha Equity Fund (IE00B64XDT64)** and its relative the **CoreAlpha Professional Income Fund (GB00B0119B50)**.

For UK equities the Schroders fund uses a few different asset managers including Investec and Majedie.

Fettered fund

Old Mutual Managed Fund (GB00B1XG7V15) only invests in Old Mutual's products. The fund has returned 62.7% in five years with an annual fee of 0.99%.

One benefit to using these

products is that they tend to be cheaper although the range of funds to consider for the portfolio is limited.

Another benefit to using fettered funds is the product provider should have better access to the individual fund managers (and therefore more information) given they all work for the same company.

Choosing external managers

John Chatfeild-Roberts is head of asset manager **Jupiter's (JUP)** Merlin range of funds that invest in other funds.

When it comes to choosing external fund managers, Chatfeild-Roberts wants certain qualities. 'A good fund manager needs to have a clear head and, importantly, an ability to think for her or himself. The best managers come to their own conclusions about what to do next and don't follow the herd,' he comments.

Nick Watson, fund manager of **Janus Henderson Multi Manager Active Fund (GB0031413593)**, says using fund managers with very different views of economic outlooks can be complementary for the fund.

Watson has invested in both **Invesco Perpetual European Income Fund (GB00B28J0T16)** and **BlackRock Continental European Income Fund (BG00B3Y7MQ71)**.

Talking about the respective fund managers of these products, Watson says Stephanie Butcher at Invesco has a more constructive outlook on Europe and is finding attractively valued opportunities in more cyclical industries such as financials.

> USING FUND MANAGERS WITH VERY DIFFERENT VIEWS OF ECONOMIC OUTLOOKS CAN BE COMPLEMENTARY FOR THE FUND

He says Alice Gaskell and Andreas Zoellinger at BlackRock are more cautious and hence have a more defensive growth stance through overweight allocations to consumer goods and healthcare.

'Both funds have outperformed their index since we invested, however their positive relative performance is very complementary and enables our clients to experience a more stable journey towards competitive performance,' he enthuses.

Witan Investment Trust (WTAN) is among the select few investment trusts with a multi-manager approach. Its chief executive Andrew Bell says he looks for 'a high quality thought process, with both imaginative and analytical strengths'.

When to call time on a manager

External managers are not likely to outperform indefinitely. Witan's Bell has certain 'warning flags' which he uses to tell him when a manager might be out of favour; this includes managers who start behaving very differently from their historical approach.

Bell is wary of key staff departing and says it's a trigger for his team to meet with the respective organisation.

Watson at Janus Henderson wants to ensure his fund selection gives clients the best opportunity to outperform in a range of market conditions. This is done by identifying the right balance of regions and flavour of styles to invest in.

'This can only be achieved if managers stick to their established investment approach,' says Watson.

Alliance Trust (ATST) at the start of 2017 shifted to a multi-manager approach in order to boost shareholder returns after previously underperforming for a long period. (DS)

GKN payout faces axe

New leadership looks likely to reset bar after spares fiasco

Engineering group **GKN (GKN)** is unearthing further asset black holes in its aerospace division, putting its dividend under serious threat.

The FTSE 100 company has been a consistent income payer for investors since the financial crisis of 2007. In that 10 year period GKN has paid out around £1.1bn to shareholders through dividends, with payouts increasing every year during that spell.

'It numbers among one of the most reliable dividend payers in the UK market, ranking 81st in the list of top payers for its £152m distribution on last year's earnings,' says Justin Cooper, chief executive of Link Market Services, which monitors UK dividend trends.

AXE HANGS OVER PAYOUT

This full year to 31 December 2017 GKN had been forecast to hand around £160m to shareholders as dividends. The company announced a 5% increase in its interim payout to 3.1p in July.

'We expected a final dividend of close to £106m to be paid in May next year,' explains Cooper. 'But its recent profit warning and rocketing losses in its US aerospace division mean that payout now looks under threat.

'A new CEO may well choose to reset the clock,' the Link Market Services boss says.

He is not alone in anticipating a dividend cut. In a note entitled 'CEO designate has gone, dividend will be next,' Panmure Gordon analyst Sanjay Jha predicted that the second half payout would be axed entirely.

OVER-OPTIMISM

GKN provides engineering expertise and products to the automotive and the aerospace industries. Its US aerospace divisional management have significantly over-egged demand for spares on several long-running programmes.

The issues first came to light last month, but further internal investigation has revealed much bigger problems than originally thought. GKN is estimated to hold around £1.5bn worth of aerospace inventory across its global operations, but some of that kit may now not be sold.

The company thinks it will have to write off between £80m and £130m of inventory assets, as one analyst puts it, 'a magnitude greater than the £15m announced with the earlier warning.'

GKN shares have sunk from 352.8p to 301.8p since mid-October 2017.

These issues have led to the immediate exit of GKN's aerospace chief Kevin Cummings. This is a major shock as Cummings had been the company's CEO in-waiting following September's retirement announcement by current CEO Nigel Stein. He's due to stand down at the end of this year.

In the meantime, non-executive director Anne Stevens will act as interim CEO until a successor to Stein is appointed.

An opportunity to reset expectations looks likely but investors should watch from the sidelines for now. (SF)

Major cash injection to boost Science in Sport

Online growth, overseas gains and outside bid possibilities among reasons to pocket sports nutrition specialist

Follow both new and existing institutional investors and invest in endurance sports nutrition specialist **Science in Sport (SIS:AIM).**

An oversubscribed £14m placing (14 Nov) has raised a handy £15m for 'SiS', an increasingly strong brand among elite athletes, whose high gross margins and rapid gains in a growing global sports nutrition market could soon attract a predator.

Existing shareholders also have the chance to buy shares at 70p in an open offer, potentially raising another £1m for the company.

Broker Cenkos Securities says 'this potentially represents the final funding round before SiS is cash flow positive'.

The new cash will be used to accelerate SiS' online and overseas sales growth, with a focus on supporting online distribution in the vast US sports nutrition and significant Italian sports nutrition markets.

Excitingly, the funds will build further brand awareness in football, where SiS' energy powders and isotonic gels have quickly become firm favourites with elite-level players.

In a conversation with *Shares*, chief executive Stephen Moon stressed the core UK and EU business broke even in the first half of the year, on sales up 28% to £8.3m, and is on track to be profitable at the EBITDA (earnings before interest, tax, depreciation and amortisation) level for the full year.

For calendar 2017, Cenkos forecasts £15.2m revenue (2016: £12.2m), rising to £25.8m two years later in 2019.

SHARES SAYS: ↗

We're increasingly excited by Science in Sport's competitive advantages and global growth potential. Buy at 75p. (JC)

BROKER SAYS: 1 0 0

Keystone to become third UK-quoted law firm

It operates in a different way to traditional legal businesses

Keystone Law is set to be the UK's third listed law firm following **Gateley (GTLY:AIM)** in June 2015 and **Gordon Dadds (GOR:AIM)** in August 2017.

Keystone's model has been described as disruptive compared to more traditional law firms in the UK, although it is hardly revolutionary.

The company is dubbed a 'virtual law firm'; it uses a bespoke IT system called 'Keyed-in' which provides lawyers with remote access to document assembly tools so they are not tied to an office.

It also offers a performance-based remuneration structure rather than paying conventional salaries. Lawyers receive support from a central London office providing meeting rooms and support staff performing administrative functions.

The model means fee-earners are freed up from running a legal practice and cost savings can be passed on to clients. The firm has been successful in winning clients, acting for top names including FIFA, Bosch, Siemens, **RSA Insurance (RSA)**, **Glencore (GLEN)** and **Hiscox (HSX)**.

The firm is gearing up for an AIM float on 27 November, having raised £15m with a placing price of 160p valuing it at £50m which is £10m more than Gordon Dadds' market cap on admission.

Of the cash raised at IPO (initial public offering) after expenses, £5m will go to existing shareholders who are selling down their holdings and £7.4m will be used to redeem loan notes and leave the company debt-free.

> THE COMPANY IS DUBBED A 'VIRTUAL LAW FIRM'; IT USES A BESPOKE IT SYSTEM CALLED 'KEYED-IN' WHICH PROVIDES LAWYERS WITH REMOTE ACCESS TO DOCUMENT ASSEMBLY TOOLS SO THEY ARE NOT TIED TO AN OFFICE

A NEW SECTOR ARISES

The legal sector is relatively new to investors given that only two law firms have so far listed in the UK, so there is still an element of education to be done in order for the market to understand how law firms work.

It's still a tad early to judge the success of Gordon Dadds as a listed company and we note that it took Gateley almost a year to gain any traction with its share price.

Keystone has grown its revenue by around 20% per year since receiving a cash injection from private equity house Root Capital in 2014.

A quick look at the results for Keystone's 2016 year show £26m turnover. In comparison, Gateley made £77.6m revenue with pre-tax profit up 19% to £13.1m.

Keystone has attracted lawyers from big name firms in the past including Berwin Leighton Paisner and West End firm Davenport Lyons (now part of Gordon Dadds).

It has more than 250 lawyers (all self-employed with no fixed or minimum remuneration) and 40 support staff, according to the company's website.

A large part of its overheads are fixed and so Keystone believes it could enjoy higher operating margins as the business increases in size. We also note that Keystone's lawyers only get paid once it does. (DS)

KEY

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