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***CYBER SECURITY:** THE BIG RISK TO THE POPULAR TECH INVESTMENT THEME*

Cash pressures weigh on Harvester owner

Mitchells & Butlers is facing a multitude of problems and its shares are lagging the peer group

Pubs and bars operator **Mitchells & Butlers (MAB)** must have very patient investors given it has lagged its rivals for many years. It's a great example of a business with decent scale in the UK but which seems stuck in the mud.

Investors have lost 10.3% over the past five years by owning shares in Mitchells & Butlers, even when factoring in dividends. In comparison, you would have enjoyed 20.4% total return from sector peer **Marston's (MARS)** and 8.7% from **Greene King (GNK)**.

And the news remains poor from Mitchells & Butlers which just announced a dividend cut despite delivering results in line with expectation.

The *Harvester* and *O'Neill's* operator has also warned investors they are unlikely to get any dividend at all in the first half of the new financial year due to cash constraints.

That's a real shame given it started 2017 on a stronger footing thanks to an impressive 2016 Christmas trading update. At the time chief executive Phil Urban said Mitchells & Butlers was starting to benefit from the 'many initiatives' it had put in place.

VERY LARGE DEBT POSITION

Mitchells & Butlers' net debt now stands at £1.75bn, equal to 4.2 times net debt to EBITDA (earnings before interest, tax, depreciation and amortisation), which is a very uncomfortable position. It also has a £451m pension deficit.

In May, analysts at HSBC applauded actions to convert pubs to new brands, as well as livening up old sites, as that gave a boost to sales.

Two months later the pub company reached an agreement where it wouldn't have to raise its annual cash payments to its pension beyond the current £46m per year level. That was a step in the right direction, but perhaps not enough for everyone.

Following a trading update in September, investment bank Liberum commented that a large part of the capital expenditure on Mitchells & Butlers' estate should only be considered as 'catch-up' maintenance. It said the company should have produced much better sales figures given the significant investment over the previous two years.

Fast forward to the present day and some analysts are worried the company won't be able to grow like-for-like sales by enough to offset cost pressures. That's not good news for a company with a stretched balance sheet.

TIME FOR A RIGHTS ISSUE?

A cash injection might put Mitchells & Butlers in a stronger position to cope in a more difficult trading climate, but who would want to back the company unless it offered a heavily discounted rights issue?

Well, several of its largest shareholders have held the stock for a long time so they may have a greater appetite to support the business than you might initially think.

Veteran currency trader Joe Lewis owns 26% of the company and a further 22.6% is owned by horseracing tycoons John Magnier and JP McManus. Lewis made a 230p offer for the business in 2011 – not too far off the current 265p price.

Mitchells & Butlers seems insistent on maintaining capital expenditure to avoid losing market share, so getting rid of the dividend is the obvious first step – and the easy bit.

Most listed companies wait until they are in the danger zone before contemplating a rights issue. For this pub company, perhaps it should be more proactive and get the cap ready in its hand? (DC)

Contents

07 DECEMBER 2017

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

EDITOR'S VIEW
03 Cash pressures weigh on Harvester owner

BIG NEWS
06 Brexit deal on... then off again

BIG NEWS
06 East Coast franchise relief triggers rally in Stagecoach shares

BIG NEWS
07 Trump tax puts a rocket under US assets

BIG NEWS
07 We spot a catalyst to revive interest in Gamma Communications

BIG NEWS
08 Sales growth slowdown triggers CVS share slump

STORY IN NUMBERS
10 Living for longer and other stories in numbers

GREAT IDEAS
11 Redcentric is back on the path to growth

GREAT IDEAS
12 Pounce on this chrome miner's shares while they are dirt cheap

GREAT IDEAS UPDATE
14 We update on Cineworld, Allied Irish Banks and Impax Asset Management

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Contents

WEEK AHEAD
16 Financial results and ex-dividends over the coming week

TALKING POINT
18 Why has Just Eat earned a place in the FTSE 100?

MAIN FEATURE
20 Best of both worlds: how to blend long and short-term investing

FEATURE
26 Small cap cyber security stocks are riskier than you think

UNDER THE BONNET
28 Mears goes where others fear to tread

INVESTMENT TRUSTS
30 Using investment trusts to access smaller companies in the US

MONEY MATTERS
33 Weighing up the risks of P2P lending

MONEY MATTERS
38 How to avoid running out of money in retirement

LARGER COMPANIES
40 Market loses patience with Daily Mail's owner

SMALLER COMPANIES
42 Walker Greenbank looks oversold after warning

SMALLER COMPANIES
43 Ten Lifestyle is a fascinating new AIM addition

INDEX
45 Index of companies and funds in this issue

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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.

Brexit deal on... then off again

Irish border issue stands in the way of divorce agreement

Sterling is enduring considerable volatility as the UK Government desperately tries to get closer to meeting the conditions required to begin trade talks with the European Union (EU).

The pound surged on 4 December amid speculation a divorce settlement was about to be delivered but opposition from the Democratic Unionist Party (DUP) to a settlement of the Irish border issue put paid to any deal.

Now the race is on to secure a compromise ahead of a crunch Euro Summit on 14 and 15 December. With all 27 EU countries participating this is a critical opportunity to secure the transition deal which can deliver the level of certainty and visibility craved by business.

Three key issues need to be resolved; while progress has been made on citizens' rights and the Brexit bill, the sticking point is avoiding a hard border between Northern Ireland and the Republic of Ireland.

The DUP sees wording on 'regulatory alignment' between the countries as incompatible with leaving the EU on the same terms as the rest of the UK.

There appear two likely scenarios at this stage:

AN AGREEMENT IS REACHED AHEAD OF THE SUMMIT:
This would likely see the pound surge higher still. It could put pressure on stocks with big overseas earnings (and hence the FTSE 100 index) and exporters but would likely be a net positive for the market given the implied greater certainty on European trade.

NO AGREEMENT IS REACHED AHEAD OF THE SUMMIT:
Sterling could slump as market traders price in the increased likelihood of a 'hard Brexit' without any trade deal.

This would likely boost export-led plays and firms with plenty of international business but domestic-facing firms and companies deriving substantial revenue from the European Union would be hard hit.

Shares in housebuilders, banks and retailers could struggle. (TS)

East Coast franchise relief triggers rally in Stagecoach shares

Department for Transport to end troubled franchise three years earlier than planned and replace with partnership model

SHARES IN transport operator **Stagecoach (SGC)** jumped by 13% on 29 November after the Department for Transport said it would end the group's underperforming East Coast rail franchise in 2020, three years ahead of plan, and replace it with a partnership model.

Stagecoach operates the rail franchise in a joint venture with Virgin. The East Coast rail franchise has been problematic with Stagecoach saying in June that the profit outlook for 2018 and 2019 was worse than previously expected.

Ending the partnership early theoretically reduces significant losses for Stagecoach, hence why its shares shot up on the news.

The company in June took an £84.1m onerous contract provision to cover losses forecast for the next two years. (LMJ)

Trump tax puts a rocket under US assets

Investors applaud passage of tax reform but does market momentum have legs?

US stock indices and UK firms with exposure across the pond are in buoyant mood after the Senate passed a bill offering corporate tax cuts aimed at boosting economic growth (3 Dec).

Companies including equipment hire business **Ashtead (AHT)**, building materials play **CRH (CRH)**, plumbing and heating products specialist **Ferguson (FERG)**, which all derive a significant chunk of their revenue in the US, moved higher on the news while the Dow Jones Industrial Average closed at a new record high above 24,000.

AJ Bell investment director Russ Mould says there are three key underlying measures which can help judge if the US market rally is on borrowed time, being the performance of the Dow Jones Transportation index, the SOX semiconductor index and the Russell 2000 small cap stock index.

Encouragingly, he notes the performance of the Russell 2000 remains strong. However, the Dow Jones Transportation index covering airlines, trucking and rail firms, which should benefit in a buoyant economy as more goods are shipped, was lagging the market before a big gain in late November.

Finally, the SOX index, covering manufacturers of the tiny semiconductors used in a growing variety of different products, has taken a recent tumble.

'Whilst none of these indicators are yet a screaming sell signal there is enough uncertainty here to suggest investors in the US market should be watching their portfolios carefully and considering when might be the right time to bank some of the handsome profit they could have made over recent months,' Mould says.

We spot a catalyst to revive interest in Gamma Communications

New converged suite could spark fresh demand for the shares

AIM-QUOTED **Gamma Communications (GAMA:AIM)** is close to launching its fully integrated fixed line and mobile for business platform called *Connect*.

This could reignite investor demand for the shares after a slow run. The consensus target price stands at 700p, versus the 601.5p at which the stock trades on the open market. One analyst calculates the stock to be worth 733p, implying more than 20% upside.

Gamma is a technology-based supplier of communications solutions exclusively to enterprise customers in the UK. Its cloud-based products allow businesses to manage increasingly complex voice, data and communications on-the-go requirements. It also provides best-in-class broadband and ethernet services.

Out-competing both large and small rivals for years, Gamma is a rare telecoms technology business as it is growing much faster than its peer group.

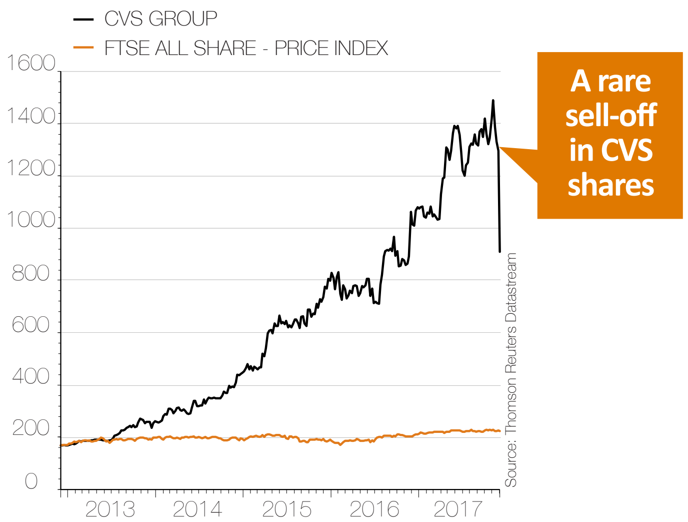
Connect is likely to be targeted initially at an estimated 9.5m mobile users, 'but this could expand into the 17m fixed line users,' believe analysts at broker Peel Hunt.

With a strong track record for developing communications solutions we would expect the company to continue developing its suite, creating an increasingly compelling value and service-based proposition.

SHARES SAYS:
Gamma has a track record for under-promising and over-delivering, and we remain supportive of the investment case. Buy at 601.5p. (SF)

Sales growth slowdown triggers CVS share slump

Staffing issues and consumer uncertainty blamed for weak trading update



One of AIM's most successful stocks has experienced a rare moment of share price weakness. Veterinary services provider **CVS (CVSG:AIM)** has fallen by 30% in value to 900p in the past week after a slowdown in sales growth, blamed on uncertain economic conditions troubling consumers and a shortage of clinicians in the UK.

It says salaries will now be increased by more than inflation, plus more flexible working hours, in order to attract more veterinary surgeons to work for the company. It will fund these extra costs by putting up its prices.

CVS achieved 4.3% like-for-like sales growth for the four months to 31 October, a slowdown from the levels seen in financial years 2016 and 2017.

Stripping out high growth but lower margin online drugs arm Animed Direct, CVS's like-for-like growth was a muted 1.5%.

This news has soured CVS's long run of making money for its shareholders. It had generated 680% total return (share price appreciation plus dividends) in the five years to the eve of its troublesome trading update on 30 November.

The business has historically generated strong cash flows and rising dividends thanks to operating in an industry more resilient than most, since UK animal lovers prioritise spending on the wellbeing of their pets.

While the near-term outlook is less certain, Berenberg reiterates its 'buy' rating and £14.50 price target, implying 60% upside over the next 12 months.

The investment bank flags easier year-on-year comparative figures across the rest of the financial year to June 2018, meaning 'like-for-like growth should accelerate in the second half'. It still forecasts robust 4.8% like-for-like growth this year.

CVS itself says customer loyalty remains high with its healthy pet scheme memberships exhibiting 'excellent growth' and providing earnings with some backbone.

> **CUSTOMER LOYALTY REMAINS HIGH**

Berenberg notes CVS is making strong progress on acquisitions in the UK and Netherlands with its pipeline of deals remaining strong.

It adds: 'CVS has made further acquisitions in the equine market, where it envisages significant medium-term opportunities given the lack of consolidation and less competition for assets from its main competitors for acquisitions like Independent Vetcare.'

Among the risks to its bullish investment thesis is competition for practices; any increased competition for assets would raise the multiples CVS has to pay on M&A, 'decreasing the earnings accretion it currently enjoys on acquisitions'.

For the year to June 2018, Berenberg forecasts £315m revenue (2017: £272m) and £38m pre-tax profit, ahead of £335m and £42m respectively in 2019.

On forecast earnings of 46.6p, rising to 51.2p in 2019, CVS's sharp de-rating leaves the shares selling for less than 20 times forward earnings. (JC)

LIVE LONGER AND WEALTHIER

NOT ONLY WILL you probably live longer than your parents, but your children and grandchildren will likely live longer lives still.

That's according to data published by the Office for National Statistics. The cold, hard estimates show that the number of Brits reaching the age of 100 has quadrupled in the past 30 years. What's more, it could do so again by 2035.

What this means for all of us is that proper planning for retirement is all the more important, especially if you want to live comfortably in your later years.

It's not always been this way. The vast majority of people used defined contribution pension schemes to buy an annuity, giving them a guaranteed income for the rest of their lives.

'The pension reforms that took effect in April 2015 changed all of that,' says investment manager Baillie Gifford. 'They gave investors far greater choice and flexibility at retirement, leaving annuity purchasers in a minority.'

Individuals could be retired for more than 30 years. This means decisions need to be made in order to strike the right balance between income and capital preservation.

70

IS THE NUMBER of years Geoffrey Halstead has grafted for family-run commercial flooring company **James Halstead (JHD:AIM)**, including 55 years as a group director and the last 17 years as chairman.

At the annual general meeting (1 Dec), Mr. Halstead stood down as chairman, handing over the baton to Anthony Wild.

Geoffrey Halstead has been handed the honorary title of president. Under his leadership, Manchester-headquartered James Halstead, now run by dynasty member and CEO Mark, morphed from a largely textile-based business to a global supplier of mainly UK manufactured product that has consistently delivered market leading returns and forged a formidable dividend growth record.

OPEC'S SHALE CONUNDRUM

ACCORDING TO THE US Energy Information Administration US shale production is set to increase for the 12th consecutive month to 6.17m barrels of oil per day in December as producers respond to a stronger oil price.

This underlines the challenge facing producers' cartel OPEC and fellow oil producing nations following their widely-expected decision (30 Nov) to extend production cuts from March 2018 through to the end of next year.

Their aim is to arrive at a Goldilocks oil price which is high enough to balance their budgets but low enough to prevent a revived shale boom. They look to be achieving the former but not the latter.

Redcentric is back on the path to growth

A new leadership team is working hard to re-energise the business

There could up to 45% share price upside from **Redcentric (RCN:AIM)** over the next year, according to analysts. We share their bullish view.

While the IT and communications outsourcer has had a few troubles over the years, we believe there remains a very decent business in Redcentric. A new management team is making reassuring noises on cash flow, debt control and revenue stability; and so the £127m business can concentrate on growth once again.

ACCOUNTING FIASCO

September 2016 saw black holes discovered in Redcentric's books. Once the initial shock subsided and the dust settled the company was left with £14.9m of over-stated assets and an extra £12.5m of debt. That left investor sentiment, and the share price, in tatters.

Since then a significant overhaul of various business functions has been completed and a new chief executive and finance director are now running the show.

REDCENTRIC ↗ BUY
(RCN:AIM) 85.25p
Stop loss: 68p

Market value: £127m

A Financial Conduct Authority investigation remains ongoing but we believe the decks have largely been cleared. And it is worth noting that Redcentric's lenders have remained supportive throughout.

CLOUD ENABLER

The overall strategy remains broadly the same. It helps small and mid-market enterprises free themselves from the complication and cost of running their own IT and communications teams by embracing cloud service platforms.

Redcentric is also expanding its customer base into the public sector with a focus on recurring, subscription-based revenues.

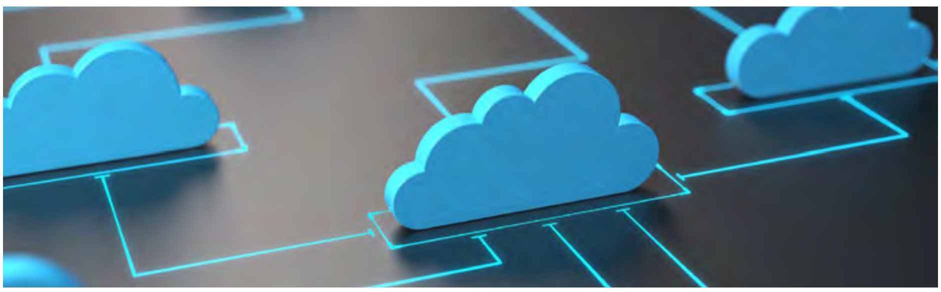
At the headline level, half year results to 30 September 2017 look lacklustre, with both earnings before interest, tax, depreciation and amortisation (EBITDA) and revenue pretty much flat at £9.1m and £51.4m respectively.

But on closer inspection there has been good progress. Net debt came in lighter than any forecast suggested (cut by £6.2m to £33.3m), EBITDA margins are back (17.7% versus 16.5% last year) and the operational cost base has been substantially streamlined, by about £2m a year going forward.

Stockbroker FinnCap estimates the company will earn an extra £1.4m pre-tax profit in the financial year to 31 March 2018, versus last year's £8.5m, despite a likely sales decline.

Proper growth should be back in the following financial year with a forecast £104.8m revenue and £12.5m pre-tax profit.

That implies 6.5p per share of earnings, for an inexpensive forward price-to-earnings multiple of 13.2. What's more, net debt is expected to be close to around one-times EBITDA, which could well mean the return of the dividend. (SF)



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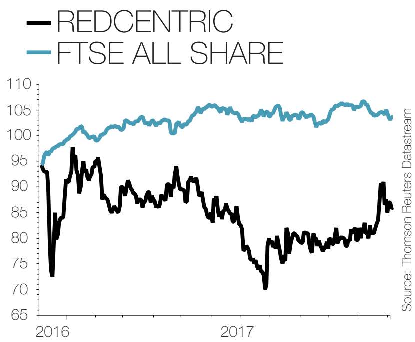


Pounce on this chrome miner's shares while they are dirt cheap

Tharisa is highly cash generative, pays a decent dividend and enjoys low costs

We're perplexed on why chrome and platinum group metals (PGMs) miner **Tharisa (THS)** is trading at such a cheap valuation. Snap up its shares now as we doubt it will stayed cheap permanently, given a rising stream of dividends, a new expansion plan and a potential acquisition broadening its product base.

Tharisa is a profitable South African mining business with low operating costs and a mere $4.5m net debt. It is trading on roughly 2.0 times EV (enterprise value) to forecast EBITDA (earnings before interest, tax, depreciation and amortisation) for 2018.

It generated $46.6m free cash flow in the past financial year, representing a very attractive 14% free cash flow yield.

Admittedly the market is right to price in some discount for Tharisa only being a single asset business plus the risks of operating in South Africa, but not to the level at which the shares currently trade.

Chrome price volatility is another risk to consider, although chief executive officer Phoevos Pouroulis believes the current $165-175 per tonne levels are unsustainable. He reckons $185-200 is a more realistic price to expect near-term.

THARISA BUY
(RCN:AIM) 100.5p
Stop loss: 75p

Market value: £264m

Operating profit in the year to 30 September 2017 nearly tripled to $95.9m (2016: $32.1m). It has proposed 5c per share dividend (2016: 1c) which equates to 19.2% of its consolidated net profit after tax.

The company has boosted its dividend policy in the current financial year to a minimum of 15% of consolidated net profit after tax (previously 10%), and will start paying dividends twice a year. That sends a positive signal on its financial strength.

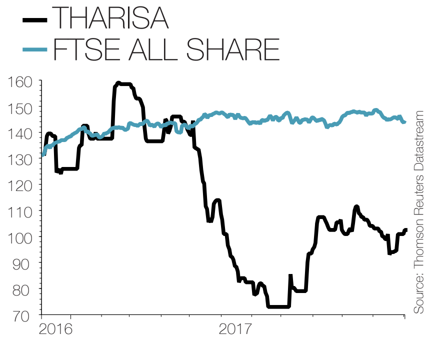
The company is guiding for 150,000 ounces of PGMs and 1.4m tonnes of chrome concentrate in the 2018 financial year, of which 350,000 with be specialty grade chrome concentrates. Its goal is to produce 200,000 ounces of PGMs and 2m tonnes of chrome concentrate in 2020.

There is some market concern about a potential long term decline in platinum and palladium demand as the automotive industry shifts towards electric vehicles which don't need metal-rich catalytic converters to reduce harmful gasses.

Pouroulis says Tharisa could be one of the last ones standing in the South African platinum mining industry due to its low costs. Most PGM mines are located deep underground; Tharisa mines from above surface. 'Industrial vehicles still need diesel as the preferred drivetrain,' he adds, 'we don't see platinum disappearing.'

Tharisa is actually looking to capitalise on the rise of the electric vehicle industry by diversifying into new commodities. Acquisitions are being considered including a 'multi-commodity, multi-jurisdiction' target. 'We like manganese, copper, lithium, graphite, cobalt,' says Pouroulis, who adds that Tharisa is looking at exploration assets, former producing projects and ones already in production. (DC)

BROKER SAYS: 3 0 0



CINEWORLD
(CINE) 531p

Loss to date: 16%
Original entry point:
Buy at 632p, 16 March 2017

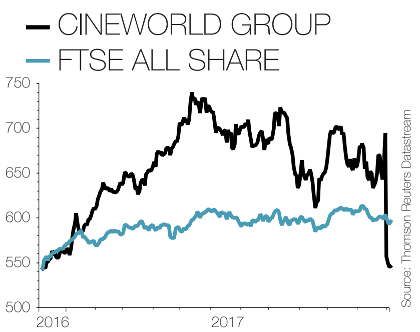
CINEMA OPERATOR **CINEWORLD (CINE)** has confirmed plans for a £1.7bn rights issue to help finance its £2.7bn acquisition of US rival Regal Entertainment. The rights issue price is expected to be revealed in January 2018.

The company believes it can achieve $100m of pre-tax synergies a year. Speaking to *Shares*, chief executive Moshe Greidinger says examples of cost savings including paying less for screens, projectors and sound equipment, plus reduced corporate and advisory costs as Regal will no longer be listed on the New York Stock Exchange.

The shares have been weak since Cineworld first announced its interest in Regal (29 Nov) amid expectation that the rights issue would be priced at a large discount to the market price before the news came out. That has put our *Great Idea* into negative territory.

There remains some concern in the market that the company is taking on too much debt in buying Regal. Its ratio of net debt to EBITDA (earnings before interest, tax, depreciation and amortisation) will go from 1.0 times to 4.0 times which is very high.

Greidinger says it will take two years until the ratio is reduced below 3.0, a more comfortable level. The deal is expected to boost earnings in the first full year following completion (2019 financial year).



SHARES SAYS: ↗
Although the acquisition price looks high, we see merit in combining the two businesses and recommend shareholders take part in the rights issue. (DC)

BROKER SAYS: 10 2 1

ALLIED IRISH BANKS
(ALBK) €5.64

Gain to date: 12.8%
Original entry point:
Buy at €5.00, 26 October 2017

ALLIED IRISH BANKS (ALBK) has emerged from the Irish banking collapse of 2008 and looks set to be one of most enduring turnaround stories from that period.

The bank's third quarter to 30 September update makes for pleasant reading. It has increased its common equity tier one (CET1) ratio to 17.6%, up 2.3% from its position in December 2016. This increases the bank's ability to withstand economic shocks.

Allied Irish reports that economic conditions in Ireland remain positive, with GDP growth in 2017 standing at around 4.5%.

SHARES SAYS: ↗
Keep buying the shares. (DS)

BROKER SAYS: 5 7 0

IMPAX ASSET MANAGEMENT
(IPX:AIM) 166.5p

Gain to date: 31.5%
Original entry point:
Buy at 126.6p, 21 September 2017

Fund provider **Impax Asset Management (IPX:AIM)** has been having a great year, as reflected in a soaring share price.

First it struck a deal to buy Pax World Management which is expected to complete in the first quarter of 2018. That will expand its fund range in both the equities and fixed income space.

Then full year results on 29 November (which exclude any contribution from Pax) beat expectations with 6.24p earnings per share versus 5.1p forecast by broker Peel Hunt. Its assets under management increased by 61% over the year to £7.3bn, again beating Peel Hunt's forecast of £6.8bn.

SHARES SAYS: ↗
Keep buying at 166.5p. (DS)

BROKER SAYS: 1 0 0

BLACKROCK®

UK SMALLER COMPANIES

AN ALTERNATIVE TO THE INCOME DILEMMA?

Over the past few years the need for investors to invest for income has been a hot topic. As a nation we are living longer, therefore we need to make our savings and investments work harder for us in order to fund a longer retirement. Interest rates are at historically low levels and have been for almost a decade[1] and therefore returns on cash savings are almost non-existent, and let's not forget the impact of inflation eroding savings held in cash. Meanwhile wages are struggling to keep pace with inflation, further impacting the amount of money that people have at their disposal to put away to fund their future retirements.

Equity Income funds, which have an objective to deliver income to investors, have to some extent been presented as a solution to the income problem facing investors in the current environment. With the average income fund in the UK Equity income sector yielding 4% this seems like a sensible solution. However, many of the largest holdings within equity income funds tend to be 'bond proxy' type companies, characterised as companies that have delivered consistent but moderate earnings growth, which are often larger more defensive companies. Given these typical characteristics, it might seem a little odd to be discussing a UK small-cap trust and the need for income in the same breath, as smaller companies are more often associated with the potential to generate capital growth rather than income.

Smaller companies are often thought of as young, immature business models that may be entering new markets, adapting to changing market dynamics or leading technological change, trying to establish themselves among the competition and take market share. Therefore, and rightly so, the priority for many of these companies is investing for growth, and it is assumed that returning cash to shareholders is not high on the list of priorities for a smaller company. While many of these statements are true and are in part many of the attractions of investing in the smaller companies' universe, we would also argue that UK small- and mid-caps can offer a differentiated source of income.

We do not specifically target high yielding shares, instead our focus has always been on finding high-quality, cash-generative businesses that are run by exceptional management teams, that are therefore able to invest for continued growth and in many cases deliver a growing dividend to shareholders over the long term. This is an output of our investing process, but one that has been very successful in enabling the Trust to generate not only strong capital returns since inception, but also increase our dividend every year for the past 14 years[2]. It is this ability to grow our dividend that we feel has, and will be, a valuable component to funding people's retirement since it has the potential not just to maintain but grow disposable income.

The BlackRock Smaller Companies Trust plc has a progressive dividend policy, meaning that we are committed to growing the dividend in each

	Year ended 28 Feb 2017	Year ended 29 Feb 2016	Year ended 28 Feb 2015	Year ended 28 Feb 2014	Year ended 28 Feb 2013
Total dividends paid (per ordinary share)	21.00p	17.50p	14.50p	12.00p	10.00p

Source: BlackRock, September 2017. **The figures shown relate to past performance. Past Performance is not a reliable indicator of future results and should not be the sole factor of consideration when selecting a product or strategy.**

financial year. However, at times of economic stress or recession, some companies may be unable to grow their dividends and in fact may have to suspend the dividend. The closed-end structure of the BlackRock Smaller Companies Trust enables it to keep a proportion of the dividend income received in a revenue reserve, currently the reserve on the Trust is around 1.5 years. The benefit of having a revenue reserve is that even in times when companies may be holding back on the cash that they return to shareholders, the Trust will be able to continue with our progressive dividend policy. To date, the Trust has not needed to use any revenue reserves, and even in the financial crisis of 2008, the Trust was able to grow the dividend through income generated from our holdings.

TRUST-SPECIFIC RISKS:

Capital at Risk. All investments involve an element of risk to both income and capital.

Gearing Risk. Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.

Liquidity Risk. The Trust's investments may have low liquidity which often causes the value of these investments to be less predictable. In extreme cases, the Trusts may not be able to realise the investment at the latest market price or at a price considered fair. Smaller company investments are often associated with greater investment risk than those of larger company shares.

So while the quest for sustainable sources of income is something that looks to be here to stay, we believe that smaller companies could be an answer. The ability to invest in what we believe are great companies, that are able to compound over time and potentially deliver consistent dividend growth, coupled with a progressive dividend policy, makes the BlackRock Smaller Companies Trust plc a reliable and differentiated solution to the income dilemma.

To find out more and see how smaller companies can help deliver income growth **visit here**.

The opinions expressed are as of 27 October 2017 and are subject to change at any time due to changes in market or economic conditions. The above descriptions are meant to be illustrative. There is no guarantee that any forecasts made will come to pass.

[1] Trading Economics, September 2017 (https://tradingeconomics.com/united-kingdom/interest-rate)

[2] The BlackRock Smaller Companies Trust plc Annual Report, 28 February 2017 (https://www.blackrock.com/uk/individual/literature/annual-report/blackrock-smaller-companies-trust-plc-annual-report.pdf)

WEEK AHEAD

FRIDAY 8 DECEMBER

AGMS	
DX	DX.
Quadrise Fuels International	QFI
River and Mercantile	RIV
Softcat	SCT

MONDAY 11 DECEMBER

FINALS	
Hollywood Bowl	BOWL
Hardide	HDD
INTERIMS	
Photo-Me International	PHTM
Polar Capital	POLR

TUESDAY 12 DECEMBER

FINALS	
Autins	AUTG
INTERIMS	
Abzena	ABZA
Ashtead	AHT
Begbies Traynor	BEG
Carpetright	CPR
Polar Capital Technology Trust	PCT
TRADING STATEMENTS	
Balfour Beatty	BBY
Joules	JOUL
AGMS	
GCM Resources	GCM
Tristel	TSTL
ECONOMICS	
UK	
BRC Retail Sales Monitor	
CPI	
PPI	
HPI	
RPI	

WEDNESDAY 13 DECEMBER

INTERIMS	
Dixons Carphone	DC.
Residential Secure Income	RESI
TRADING STATEMENTS	
Serco	SRP
Wood Group	WG.
AGMS	
Avanti Communications	AVN
Infrastructure India	IIP
ECONOMICS	
UK	
Unemployment Rate	

THURSDAY 14 DECEMBER

INTERIMS	
ReNeuron	RENE

Investors should expect leisure group **Hollywood Bowl (BOWL)** to declare a special dividend when it reports full year results on 11 December.

Hollywood Bowl said in October that its results would be marginally ahead of the board's previous expectations. It will report next week that full year revenue grew by 8.9%.

In the wake of a profit warning in August, expectations are subdued ahead of half year results from **Dixons Carphone (DC.)** on 13 December.

In its first quarter update, the retail behemoth bemoaned a tough UK mobile market.

Investors are also concerned over the impact of weakening UK big-ticket demand on the *Carphone Warehouse*-to-*Currys PC World* brand owner, which may well report on a muted Black Friday.

Sports Direct	SPD
Tungsten	TUNG
TRADING STATEMENTS	
Bunzl	BNZL
Ocado	OCDO
PZ Cussons	PZC
AGMS	
PipeHawk	PIP

When tour operator **TUI (TUI)** reports full year results on 13 December, investors should find out how it is coping with cost pressures and ongoing tough competition.

The market will be hoping for a better result than its rival **Thomas Cook (TCG)**, which recently reported a decline in gross margins in the year to 30 September.

Sareum	SAR	
Upland Resources	UPL	
VinaCapital Vietnam Opportunities Fund	VOF	
ECONOMICS		
UK		
Retail sales		
Interest rate decision		
EX-DIVIDEND		
3i	III	8p
Associated British Foods	ABF	29.65p
Aeorema Communications	AEO	0.5p
Assura	AGR	0.6p
Bonmarche	BON	2.5p
N Brown	BWNG	5.67p
Carrs	CARR	2.1p
Charles Stanley	CAY	2.5p
Henderson High Income Trust	HHI	2.38p
JPMorgan Chinese Investment Trust	JMC	1.6p
Mitchells & Butlers	MAB	5p
Michelmersh Brick	MBH	0.7p
Mucklow	MKLW	7.09p
Speedy Hire	SDY	0.5p
Severfield	SFR	0.9p
XP Power	XPP	18p

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

WINNING WITH INNOVATION: LOOK FOR VALUE & AVOID HYPE

Innovative companies can maintain a competitive edge which translates into superior financial and stock performance.
That's why we look for innovation as we assemble the universe of high-quality growth stocks for the Guinness Global Innovators strategy.

How do we assess innovation?
Innovation isn't just about small-cap 'tech' companies. While there are many definitions, we see innovation as the creative application of ideas – and this can be found in virtually any industry, as is shown by the diversity of stocks held in the Guinness Global Innovators Fund. Here, we look at how two very different companies have used innovation to stay ahead of their peers.

Boeing's continuous innovation

BOEING

Large companies sometimes struggle to stay nimble and innovate with the necessary speed to remain a market leader. With its culture of innovation, Boeing has a proven history of adapting and improving its business.

In the years after the First World War, for example, when military orders were dramatically reduced, Boeing sustained its business by expanding beyond aircraft manufacturing and using its skills to make boats and furniture.

Boeing's continuous innovation – and R&D spend of around $3bn a year – has seen it introduce a moving production line for its 737 aircraft, a method more commonly found in car production; increase production from 31 aircraft per month in 2005 to a targeted 52 in 2018; and use carbon fibre fuselages for their superior lightness, strength and capacity for higher cabin pressure, which leaves passengers less jet-lagged.

At the same time, Boeing is a well-run, quality company with a strong balance sheet. It has been generating returns above their cost of capital for many years, showing strong cash generation and the ability to create value.

Nvidia: the disruptive technologists

NVIDIA.

Nvidia began in 1993 as a computer graphics card designer. Its graphics cards became regarded as the best available for computer gaming. A major step was Nvidia's invention of the graphical processing unit (GPU) in 1999. This charted a growth path into some of the most innovative corners of a wide range of sectors, far beyond IT. Recently, the adoption of the GPU into the automotive industry and data centres has led to further revenue streams as a direct result of product innovation.

Nvidia's product upgrade life can be as short as four years, so continuous innovation is essential to avoid a product being superseded quickly. A good comparison is the mobile phone industry; for Nokia and Blackberry, missing the rise of the smartphone was their downfall. The product cycle is similar for chip designers, and the competition is unforgiving.

Today, Nvidia spans numerous innovative themes, such as self-driving cars, augmented reality, data centres and artificial intelligence. Nvidia's innovation lies in the way it has developed quality technology infrastructure which many of the world's future products and services may require.

Importantly, Nvidia has not forgotten to innovate within its core market, the computer gaming business, winning support for its new Pascal architecture chips. The company has regularly spent more than 20% of revenues on R&D and has spent $1.5bn over the last 12 months.

Nvidia's persistent innovation at all levels has helped it deliver double digit earnings growth every quarter in 2016, with further growth seen in 2017, and the market has rewarded the company. What began from a single ground-breaking invention has led to a culture of continual innovation and a disruptive company with strong and profitable growth.

Investing in innovative companies
When selecting stocks for the Global Innovators Fund, we are not looking for the most innovative companies on the market. Rather, we want the best growth stocks where innovation is a success factor. We use a quality screen – looking for return on capital above the cost of capital, and balance sheet strength – to ensure our universe contains companies which have translated innovation into financial success. We also employ a value discipline to ensure we are not overpaying for future growth, recognising that hype can drive up valuations.

By passing these tests, Boeing and Nvidia have shown that as well as being good, innovative companies, they are also good investments.

Learn how we invest in innovative companies at
guinnessfunds.com/global-innovators-fund

Why has Just Eat earned a place in the FTSE 100?

We explore how the online delivery platform has grown so quickly and what to expect next

Online delivery platform **Just Eat (JE.)** has been a superstar since joining the stock market in 2014. The value of its business has grown so much that it will join the FTSE 100 index on 18 December, putting the stock alongside some of the world's biggest and best known companies.

This feat is quite remarkable when you consider its business merely facilitates the ordering of takeaway food via your computer, tablet or mobile phone. It has minimal tangible assets apart from cash and doesn't even pay a dividend. Does that sound like a FTSE 100 company to you?

There's no denying its success with earnings having soared over the past few years such as 164% pre-tax profit growth in 2016 to £91.3m. Take a closer look and you'll realise this is not simply a fad business. In fact, we think it still has significant potential to grow earnings by being more sophisticated in how it operates.

TAKING ADVANTAGE OF GLOBAL APPETITE FOR TAKEAWAY FOOD

When the company first floated on the stock market, it charged restaurants 12% commission for orders placed via its platform. Since then, Just Eat has been able to been able to hike commission rates to 13% for existing restaurant clients and 14% for new ones.

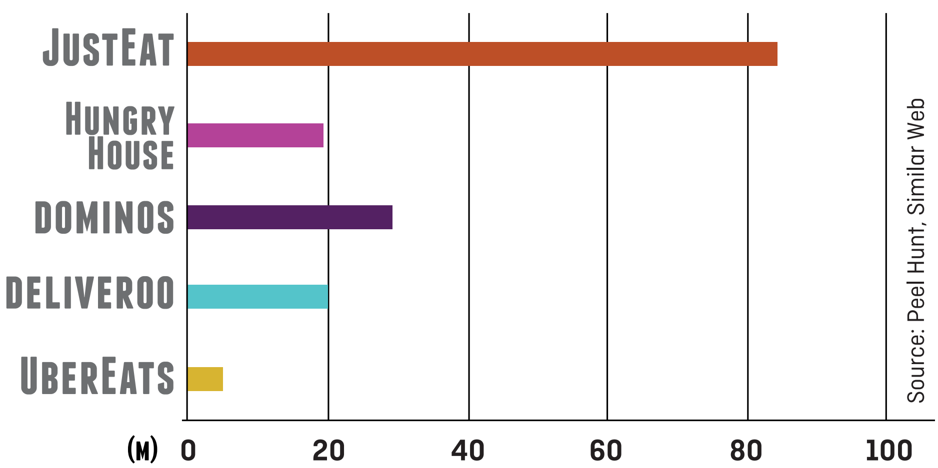
The online ordering platform is taking advantage of a global love of takeaway food as it is currently dominating the competition in some of its operating regions including the UK and Canada.

According to Just Eat, it targeted a total addressable market worth £23.1bn last year, and holds a strong position in the UK, the largest single market worth approximately £6.1bn.

Despite high inflation squeezing disposable income, UK consumers are still indulging in takeaway food as online ordering has grown faster than gross domestic product.

The company says strong order growth has been driven by its platform's ease of use, the range of food available, as well as the

UK MOBILE/DESKTOP VISITS IN SIX MONTHS TO 31 OCT 2017



desire for restaurants to connect with customers via digital channels.

THERE ARE COMPETITORS... ALBEIT WITH A DIFFERENCE

Over the last few years, the takeaway space has become increasingly crowded with competitors such as Deliveroo and Uber Eats, yet these have so far failed to stop Just Eat's strong momentum.

One of the key advantages for Just Eat is its low overheads since it does not hire any drivers to deliver food. By getting restaurants to deliver the food, Just Eat also avoids legal battles that its rivals have experienced.

One of the biggest public spats this year has been Deliveroo couriers trying to gain basic rights, including a minimum wage, which could have hiked costs if they succeeded in court.

VALUATION CONCERNS

One of the key concerns surrounding Just Eat has been its high valuation. The company currently trades on a forecast 32.9 times earnings per share in the year to 31 December, which is a high rating.

Investors should note that companies with rapid revenue growth can command high valuations, hence why we aren't overly worried about Just Eat's current rating.

Peel Hunt analyst James Lockyer highlights the company is cheap on certain metrics. For example, the stock trades on a mere 0.8 times price to earnings to growth (PEG) ratio; a figure below 1.0 is generally considered good value.

EXPANDING MARKET SHARE

While people are ordering more food online, the company has also grown through acquisitions. For example, last year it bought Canada's largest online food delivery marketplace SkipTheDishes for $110m.

Just Eat's international orders increased by 43% to £16.9m in the three months to 30

JUST EAT'S EARNINGS GROWTH

	Pre-tax profit	Revenue
2014	£28.7m	£157.0m
2015	£53.6m	£247.6m
2016	£106.2m	£375.7m
2017 (F)	£136.3m	£521.1m
2018 (F)	£195.6m	£649.0m

Source: Reuters. (F)= Forecast

September, which was helped by triple digit pro-forma order growth from SkipTheDishes.

Just Eat is also gobbling up competition in the UK. In November, the company received the green light from the Competition and Markets Authority for the takeover of its closest UK competitor Hungryhouse. The deal is expected to complete by 31 January 2018.

Investec analyst David Amiras is confident the deal will boost earnings before interest, tax, depreciation and amortisation (EBITDA) by 7% next year, with an expected EBITDA contribution of £15m from Hungryhouse.

Just Eat also uses its significant data insight to boost profitability. It has a database of information from 71,000 restaurant customers it can use to help businesses earn more, cut costs and hike prices.

Peel Hunt claims that Just Eat could identify the average price of specific dishes in a certain area and optimise a restaurant's menu by dropping the least popular dishes to reduce costs and wastage.

This could also allow restaurants to push up prices for the most popular items, meaning they can afford the additional money for Just Eat's data analysis service.

SHARES SAYS: ↗
We are upbeat on Just Eat as it has the potential to leverage its data for further growth and expand into new territories to gain more market share. Buy at 801.5p. (LMJ)

BROKER SAYS: 15 4 0

BEST OF BOTH WORLDS

HOW TO BLEND LONG AND SHORT-TERM INVESTING

Have you ever checked to see if your investment portfolio is too dependent on success from higher risk assets such as shares in the tech, mining, oil or drug sectors?

While these types of investments can often be very exciting and rewarding, having too much exposure can be problematic if these sectors go out of favour or the stocks do not live up to their hype.

A neat trick to retain the excitement of investing in this market AND provide some ballast to your portfolio is to split your assets into two camps.

First, make sure you have a diversified selection of solid assets (lower-risk, longer-term investments) to form the core of your portfolio. Then you can stick the fun stuff (short-term, higher-risk investments) on top as satellite holdings.

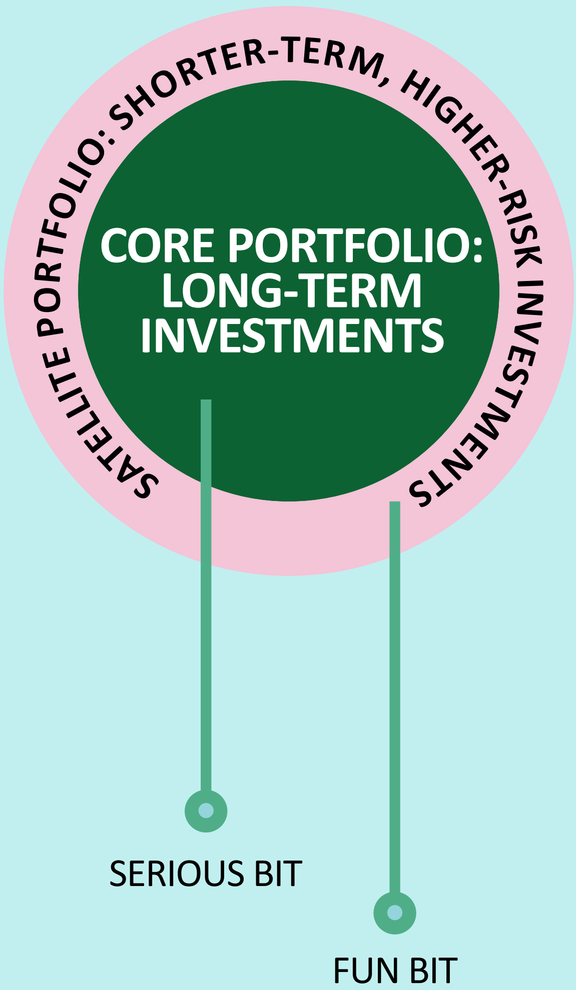
Read on and we'll tell you how to rejig your portfolio, or build one from scratch, in this manner.

WHAT IS CORE-SATELLITE INVESTING?

It is a way of splitting your portfolio into two; one part contains your longer-term investments and the more speculative or shorter-term investments sit in the other part.

Benefits include:

- Spreading risk between various assets
- More focus on different investment strategies
- Hopefully reduces the degree to which a portfolio experiences market ups and downs



One of the most common questions we're asked by readers is how to build a proper, robust investment portfolio.

Many individuals are eager to start investing by backing young, exciting growth stocks as they get lured by a rapid upwards share price chart. This is certainly one way to experience the world of investing, yet it perhaps isn't the best place to focus if you want to develop a serious, long-term investing habit.

Stock markets in many parts of the world have been in a general rising trend for approximately eight years, being the period since the global financial crisis.

Over that time it has arguably been quite easy to make money from the stock market as so many stocks have gone up in value. The real test for an investor is being able to survive a more volatile market, particularly periods of distress.

A lot of people whose only experience with investing has been since 2009 won't have had much experience with more volatile market conditions including large corrections, so not much thought may have been given to ensuring portfolios are sufficiently robust.

Having a core of long-term, solid ideas should provide a robust backbone to your portfolio and provide important diversification. Theoretically this should reduce the risks of serious wealth destruction if some of the assets in your portfolio fall in value.

Adding shorter-term satellite holdings with an element of higher risk can help to enhance returns and also provide a fun element to your investing strategy.

THE STRATEGY TO HELP YOU AVOID PANICKING

Ensuring the satellite component only accounts for a small part of your overall portfolio may also ensure you remain calm if markets start to turn. Many investors chasing the 'next big thing' on the stock market often panic if the share price is falling, causing irrational behaviour and widespread selling of assets.

Knowing the bulk of your money is tied up in investments that have the potential to produce steadier returns could ultimately help you to stay focused and not panic.

In this situation, a drop in some of your higher-risk satellite holdings may not be too devastating to the value of your whole portfolio, meaning you should still feel confident to keep making adventurous calls and not be soured by a dent in the value of your assets.

We aren't saying the core part of your portfolio is guaranteed to be safe. Investing always carries an element of risk. We're simply saying that picking lower-risk investments as the backbone of your portfolio, together with having lots of diversification, should help you keep a level head.

HOW TO WEIGHT A CORE/SATELLITE PORTFOLIO

Many investment experts believe a good strategy is to split your portfolio 80% in favour of the core component and 20% for the satellite component.

We've heard some suggestions of putting the core investments in a SIPP (self-invested personal pension) and the satellite ones in an ISA. Although that will provide a clear distinction between the two different strategies, there are downsides to consider.

Many people don't want to touch their pension in the early stages of retirement, preferring to draw upon assets from an ISA where all withdrawals will be tax-free. In comparison, only 25% of your pension can be withdrawn without paying tax.

Anyone fortunate enough to be able to invest more than £20,000 a year will find themselves restrained by how much they can add to their ISA annually due to the £20,000 subscription limit.

WHAT'S SUITABLE FOR THE CORE ELEMENT OF YOUR PORTFOLIO?

In general, we would suggest low-cost exchange traded funds with broad exposure to some of the biggest stock markets in the world, property and corporate/government bonds.

If you like the idea of a fund manager actively looking for the best ideas, you should consider funds or investment trusts which have some or all of the following: a global focus, a capital preservation strategy, a focus on higher quality firms or ones which enjoy slow but steady profit growth and which pay a regular and rising dividend.

WHAT'S SUITABLE FOR THE SATELLITE ELEMENT OF YOUR PORTFOLIO?

This is where you'd park any investments in individual company stocks such as a disruptive tech firm; a miner with a highly prospective project; or even a firm whom you think could see their share price recover following recent bad news.

We'd also use the satellite component to house investments in specific themes, sectors or niche areas of the market such as private equity funds or investment trusts which invest in infrastructure assets.

HOW SHOULD YOU ALLOCATE YOUR MONEY?

There is no one-size-fits-all asset allocation model for investors as it depends on a variety of factors. 'The right asset allocation for an individual will depend on their circumstances, financial objectives and attitude to risk,' says Patrick Connolly, a certified financial planner at independent financial adviser Chase de Vere.

'Younger investors are usually focused on capital growth, whereas older investors may still want capital growth but are likely to need some degree of capital protection and possibly income.

'A combination of equities, fixed interest and commercial property (with separate cash holdings) can work well for a "balanced" investor with perhaps 50% in shares, 35% in fixed interest and 15% in property,' comments Connolly.

Ryan Hughes, head of fund selection at stockbroker AJ Bell, suggests for someone building a core portfolio a 50:50 split between shares which he classifies as the higher risk component, and the

WHAT MISTAKES DO PEOPLE MAKE WHEN BUILDING A PORTFOLIO?

- Fear of missing out: loading up a portfolio with the best performing stocks without paying close attention to valuation, earnings or market position
- Trying to time the market
- Focusing on short-term historical returns of certain funds rather than looking at the fund manager's investment process and the level of risk being taken to generate returns
- Having too many holdings: while it is important to diversify, consider the risks of duplication or investing in too many assets to manage
- Having too high an allocation to higher risk satellite holdings: these can be volatile and incur large losses on bad news
- Getting emotionally attached to holdings and not selling when something's gone wrong.

rest in lower risk assets such as fixed interest and cash. 'This balanced approach should be able to smooth out the returns in volatile times,' he adds.

In the past you might have heard of the 60:40 portfolios concept which refers to the split between equities (shares) and bonds, respectively. The weighting towards equities decreases as you get older.

Longer life spans mean people in retirement may need to hold more equities for a longer period to ensure they don't outlive their savings or see their returns damaged by inflation.

Having a more dynamic approach to asset allocation may be more beneficial, perhaps allocating a greater percentage of equities if you're younger as you would have a longer investing time horizon and can tolerate market volatility.

It is also worth bearing in mind that adding equities or bonds to your satellite portfolio will change your overall percentage asset allocation; so don't simply do your sums based on the core component of your portfolio.

SUGGESTED PRODUCTS FOR A CORE PORTFOLIO

PASSIVE FUNDS (i.e. ones which track indices)

Hughes says AJ Bell's 'Passive Funds' range has been designed exactly for the purpose of being a core portfolio component. There are five different versions of the fund based on risk appetite, stretching from 'Cautious' to 'Adventurous'.

Each fund invests in a range of low-cost exchange-traded funds. For example, **VT AJ Bell Passive Moderately Adventurous Fund (GB00BYW8VL77)** is split 52% equities, 33.2% bonds, 10.4% property and 4.4% cash.

You'll get exposure to areas including large cap stocks listed in the UK, Europe and the US, various corporate and government bonds, real estate companies and some emerging markets stocks.

VT AJ BELL PASSIVE MODERATELY ADVENTUROUS

TOP HOLDINGS	WEIGHT
iShares Global High Yield UCITS ETF	15.60%
SPDR Barclays Sterling Corporate Bond UCITS ETF	13.20%
iShares Core S&P 500 ETF	10.44%
Source S&P 500 ETF	10.43%
iShares UK Equity Index Fund (UK)	10.40%
iShares Emerging Markets Equity Index Fund (UK)	10.40%
Vanguard FTSE Developed Europe ex UK Equity Fund	5.82%
iShares UK Property UCITS ETF	5.20%
iShares Global Property Securities Equity Index Fund (UK)	5.20%
Vanguard UK Government Bond Index	4.40%

A similar proposition is Vanguard's LifeStrategy fund range which contains different ratios of stocks to bonds, although it has a much greater exposure to US stocks than the equivalent AJ Bell product.

ACTIVE FUNDS (i.e. ones run by a fund manager who makes ongoing decisions about investments)

Fundsmith Equity (GB00B41YBW71) has been a big hit with investors and is one of the top picks for a core portfolio by Peter Banks, wealth and investments expert at financial advice provider Drewberry.

The fund has delivered 19.9% annualised return since it launched just over seven years ago. It invests in equities on a global basis with a strategy to have a portfolio of between 20 and 30 stocks.

Top holdings include payments giant Paypal and beverages group Dr Pepper Snapple. The fund says its portfolio features 'high quality, resilient, global growth companies that are good value and which we intend to hold for a long time'.

Rathbone Global Opportunities Fund (GB00B7FQLN12) is worthy of a place in a core portfolio, says Patrick Connolly at Chase de Vere. It achieved a 17.1% annualised return over the past five years and is heavily weighted towards equities with more than half in US stocks. Top holdings include medical devices firm Align Technology and video games specialist Activision Blizzard.

Morningstar analyst Peter Brunt is also bullish on the Rathbone product, saying: 'We continue to consider this fund a great option for investors seeking global equity funds with a high-growth, all-cap profile.

'(Fund manager James) Thomson seeks companies that benefit from endogenous growth, avoiding those whose future revenue streams are dependent on external factors. As a result, the fund has exhibited long-standing under-weight positions in materials, energy, telecoms and utilities, giving it a markedly different sector profile to the FTSE World reference benchmark.

'The search for superior earnings growth also tends to result in biases to companies with high growth profiles and those found in the middle of the cap scale.'

For the fixed income element of the portfolio, Paul Derrien, investment director at Canaccord Genuity Wealth Management, suggests **GAM Star Credit Opportunities (IE00B510J173)**. This fund has achieved 11.5% annualised returns over the past five years and invests in a range of bonds including ones issued by governments and major banks such as **Lloyds (LLOY)** and **HSBC (HSBA)**.

An alternative to consider is the Ian Spreadbury-managed **Fidelity Strategic Bond Fund**

WHAT ELSE MIGHT BE SUITABLE FOR A CORE PORTFOLIO?*
Fidelity Global Special Situations
Findlay Park American
HSBC American Index
Investec Cautious Managed
L&G UK Index
Legg Mason Western Macro
Lindsell Train Global Equity
Newton Global Income
Old Mutual Global Absolute
Rathbone Ethical
Stewart Investors Asia
Threadneedle Global Select
Threadneedle UK Equity Income

*As suggested by experts at AJ Bell, Canaccord Genuity Wealth Management, Chase de Vere and Drewberry

(GB00BCRWZS59), says AJ Bell's Ryan Hughes. It has delivered just below 4% annualised returns over the past five years.

Commenting on the Fidelity product, research group Square Mile says: 'Spreadbury is an extremely experienced manager who has built up a strong reputation for successfully managing fixed income funds over a number of market cycles, generating good long-term returns for his investors.

'He has established a prudent and well-considered investment approach that looks to ensure the fund is well diversified and should meet its income objective in a broad range of economic scenarios.'

If you're looking for a multi-asset fund which contains a wide range of different holdings, Connolly at Chase de Vere recommends **CF Miton Cautious Multi Asset Fund (GB00B0W1V856)**. It is currently split 47% in equities, 39% in corporate bonds, 9% in cash, 4% in government bonds and 0.4% in property. The fund has generated 6.3% annualised return over the past five years, according to Morningstar.

SUGGESTED PRODUCTS FOR A SATELLITE PORTFOLIO

Satellite holdings are a good way to encapsulate shorter term and potentially higher risk opportunities to complement the core portfolio.

'Having a strong core to a portfolio enables some additional risk to be taken with the satellite approach that can be a useful way of potentially adding value and diversification to a portfolio,' says Hughes at AJ Bell.

'Often, thematic ideas such as commodities, technology, health care are used as satellite holdings while country specific exposure such as China or India can also be used here.' Relevant ideas to consider, according to Hughes, include **First State Global Resources Fund (GB0033737767)**, **Polar Capital Global Technology Fund (IE00B42W4J83)** or **Worldwide Healthcare Trust (WWH)**.

WHERE TO FIND MORE IDEAS

With regards to individual stocks, we suggest you read *Shares* every week as we present lots of investment ideas and company analysis.

A good starting point is our *Great Ideas* section which each week features two solid 'buy' suggestions on UK-listed stocks.

Finally, we would point out that having a satellite component of your portfolio isn't suitable for everyone as many investors are happy to build a core selection and leave them to hopefully accumulate wealth while they go and enjoy life.

'For many investors there might not be the need for satellite holdings at all,' says Connolly at Chase de Vere. 'If they are looking for diversified exposure to asset classes, consistent performance and to manage risks effectively, this can be achieved through a range of core investment holdings.' (DC)

DISCLAIMER: The author has a personal investment in Fundsmith Equity referenced in this article

WHAT ELSE MIGHT BE SUITABLE FOR A SATELLITE PORTFOLIO?*
AXA Global Inflation Short Duration
Harbourvest Global Private Equity
iShares $ Tips
Jupiter India
Polar Capital Global Healthcare Trust
RIT Capital Partners
Source Markets European Banks
The Renewables Infrastructure Group

*As suggested by experts at AJ Bell and Canaccord Genuity Wealth Management

HACKING

SMALL CAP CYBER SECURITY STOCKS ARE RISKIER THAN YOU THINK

THE JUNIOR MARKET HAS BECOME HOME TO SEVERAL SMALL CYBER SPECIALISTS BUT ARE INVESTORS OVERLOOKING SOME MAJOR ISSUES?

The cyber security space is one of the most in-demand UK technology investment themes. Market appetite has been encouraged by a combination of high profile hacking attacks (**TalkTalk (TALK)**, the NHS, Sony, eBay, Uber; it's a long list) plus tightening regulations on organisations.

For example, European general data protection rules (GDPR) are set to come into force from May 2018.

In tandem with the growing risks associated with personal and corporate data, the size of the UK stock market cyber sub-sector has roughly doubled in the past three years.

Abingdon-based **Sophos (SOPH)**, the FTSE 250 end-user and networks defender, joined the London Stock Exchange in June 2015, valued at approximately £1bn. Today the company is worth more than £2.6bn thanks to a succession of robust growth updates.

Identity verification technology specialist **GB Group (GBG:AIM)** and cyber security consultancy **NCC (NCC)** have been on the stock market for longer and both have grown substantially in recent years. More recently NCC has endured a difficult time with several profit warnings.

INVESTORS NEED TO PICK CYBER STOCKS CAREFULLY

Sadly, not all cyber security specialists are equal. We believe there is a growing army of smaller companies that remain sub-scale and are struggling to juggle the demands of customers and investors thanks to a concentration on early-stage niche markets and often long sales cycles.

Since the end of 2015 the cyber security small cap ranks have grown including the stock market flotation of mobile phones and PCs back-up and protection tools designer **Defenx (DFX:AIM)**.

It was followed on to AIM in April 2016 by

Osirium Technologies (OSI:AIM), which provides privileged person access controls (in other words, administrator access permissions). **ECSC (ECSC:AIM)**, a mini IT security consultancy, floated in December 2016.

Each has had its own challenges. For example, ECSC said in June: 'Whilst the board is pleased with new sales pipeline generation, the conversion of sales pipeline into reported revenue is taking longer than anticipated.'

In other words, lower sales and bigger losses this year to 31 December, news that saw the share price collapse 31% on the day. The stock has more than halved again despite trading appearing to stabilise since.

On 25 October Defenx said: 'The conversion of opportunities into firm orders is taking longer and requiring more investment than was initially anticipated.'

This means Defenx's 2017 financial results will be materially below previous market forecasts and the company is expected to report a loss for the full year.

Unlike ECSC or Osirium, which are relatively young start-up type businesses, Defenx had a record for posting pre-tax profit that stretched back over the past five years.

BEHOLDED TO BIG CUSTOMERS

The Defenx update spells out why some of these smaller specialist cyber defenders are not entirely in control of their own destinies.

'Full year revenue outcome is particularly dependent on when a small number of high value contracts start,' the company said in October.

This follows a very similar pattern to other small cap cyber security companies on the stock market, most obviously **Intercede (IGP:AIM)**.

The AIM-quoted digital identity management and access company floated in 2001 and has a highly regarded *MyID* product line, yet it has always been hostage to large organisation implementations and possible delays.

The company issued its umpteenth profit warning on 7 November this year, and that's unlikely to be its last given the lack of contract visibility, in our opinion.

It's an issue that distributed denial of service (DDoS) attacks platform supplier **Corero Network Security (CNS:AIM)** has worked hard to address itself, making the painful shift from multi-year licences to a cloud-based software as a service model.

But progress has been slow and there is still little sign of the £25m market cap business making its long awaited break into profit.

PATIENCE IS REQUIRED

Cyber security is defined by its evolving nature, with both the threats and the defenders having to constantly innovate. That's partly why there are so many security vendors with so many products – there's a lot of ground to cover and new threats appear every day.

Some of these small stock market cyber specialists will prosper in the long-run, but most will not.

Trying to separate the winners from the losers is unnecessarily risky for most investors. The safer options are cyber security companies with decent scale, or a fund, investment trust or exchange-traded fund that will cover a lot of bases on your behalf.

In our view that means investing in the likes of NCC, Sophos and GB Group rather than trying to pick a tiddler which has the potential for fast growth, but also the potential for damaging shocks to its share price. (SF)

Mears goes where others fear to tread

The services company is involved in some of the hottest political topics

Gloucester-headquartered **Mears (MER)** operates in some of the most politically sensitive parts of the market: housing and social care.

The recent Budget was dominated by measures aimed at addressing the UK's housing crisis and June's Grenfell Tower tragedy put the spotlight on the standard and upkeep of social housing.

Mears undertakes rapid response and planned maintenance services for local authorities and registered social landlords. To put that into some perspective, it delivers more than 6,000 repairs every day to a portfolio of more than 1m homes nationwide.

The company is the market leader in providing maintenance to the sector and is expanding into the larger private rented area.

THE CARE CHALLENGE

Another part of its business involves the provision of care for older and disabled people who want to avoid nursing homes and would like to continue living in their own homes.

Unfortunately local authorities have reduced spending on social care over the last five years, making the immediate outlook challenging, says investment bank Liberum.

However, it notes that state funded care is increasingly being outsourced to the private sector. It also believes higher pay rates may increase the use of outcome-based contracts and 'favour quality providers like Mears which already seeks to pay above the market rate'.

The care business has been a problem child for Mears but is beginning to improve after a restructuring process.

Chief executive David Miles says: 'The biggest risk in care is reputational. The cheapness of smart phones with cameras and people secretly recording doesn't go unnoticed; the risk is huge.'

He is quite scathing on the lack of regulation for care workers. He says that cab drivers and bouncers are scrutinised more than care workers who should be legislated. This could potentially reduce the cost of carers as supervision charges may not be so high if the sector was properly regulated.

Miles says he had to turn down some contracts as some of the rates offered were around the £13 per hour mark. When national insurance, training and induction are taken into account, 'you can see it's not enough' says the CEO.

Such modest rates and reputational risks have seen competition in this space ebb away. Miles says wryly 'either everyone left too early or they have better foresight than us'.

Peel Hunt analyst Andrew Nussey says that Mears' care division appears to have 'turned a corner' but notes it is only a small contributor to group profit. He expects it to represent 8% of 2018's group earnings.

MORE ABOUT THE HOUSING ARM

Mears' housing division stretches across a large number of areas, such as home improvement and installation of solar panels.

It has partnerships with more than 70 local authorities and undertakes work such as repairing gas boilers and even cleaning housing estates.

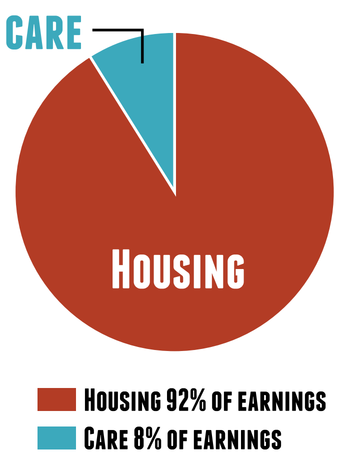
The Grenfell tragedy impacted may companies involved in the social housing sector. Some maintenance work was suspended at the time which has had a short-term impact on Mears and is likely to depress 2017 profit.

Miles argues this impact should be kept in perspective. 'I look after 100,000 homes in and around London and a million nationally. Less than 1,000 homes were decanted [vacated due to Grenfell]'.

Mears' move into housing management has been growing at a rapid pace. According to Miles, 18 months ago it contributed £20m to the company's revenue, now it stands at around £120m.

The housing division will represent 86% of 2018's forecast revenue according to Peel Hunt and 92% of earnings. This is underpinned by management guidance for 5% revenue growth and an improvement in margin performance.

HOUSING DOMINATES FOR MEARS



SOURCE: PEEL HUNT

WHAT MAKES MEARS STAND OUT?

Mears has several qualities which differentiate it from its rivals. For a start, the company is itself a registered social landlord (RSL) and currently has around 10,000 homes under management and more through joint ventures. Given the sensitivities involved in social housing, an RSL such as Mears is an attractive alternative to an unregulated private operator.

Management have also broadened the service offering to provide more of a 'one-stop-shop' for its clients. So-called 'placemaking partnerships' help reduce the risk of empty properties through active asset management and provide well established IT infrastructure and staff.

This benefits Mears as it can lead to longer contracts which arguably are more 'sticky' given how embedded its services are with clients.

Based on forecasts from Peel Hunt and a share price of 388.5p, the shares trade on a 2018 price-to-earnings ratio of 10.9 times which represents a discount to the wider support services sector on a multiple of 15.5 times, despite decent earnings visibility and growth opportunities. The broker has a price target of 550p.

SHARES SAYS: ↗

Mears is a company that operates within the optics of government and other regulatory scrutiny.

The move into housing management two years ago now seems a masterstroke as it is possibly the biggest issue facing the UK. Remaining in the care sector also looks sensible considering the ageing demographic.

We view Mears as a good long-term investment given its provision of essential services and solid track record. (DS)

BROKER SAYS: 2 2 0

Using investment trusts to access smaller companies in the US

We talk to JPMorgan, Jupiter and North Atlantic about the opportunities

Many investors will be familiar with the range of smaller companies on the UK stock market, but how well do you know small caps listed overseas? Using investment trusts is an easy way to access exciting companies lower down the market cap spectrum as the fund managers do the hard work finding the best opportunities.

We've spoken to fund managers at three investment trusts which specialise in finding small cap opportunities in the US. Read on to discover some of their favourite stocks and why they have a place in the respective portfolios.

POTENTIAL TAX REFORM SET TO BOOST SMALL CAPS

Smaller companies have historically been very good investments, offering the potential to deliver greater returns than their larger counterparts, albeit with higher risks.

JPMorgan US Smaller Companies Investment Trust (JMI) portfolio manager Don San Jose invests in well-run firms with 'attractive and sustainable profits' to provide capital growth. Jose aims to own equity stakes in businesses trading at a discount to their intrinsic value.


Equipment provides Toro features in JPMorgan's portfolio

He believes the backdrop for US small caps has changed throughout the year as potential tax reform and good economic growth could have a bigger impact for these firms compared to larger businesses.

'Both have an impact on small caps, given their higher effective tax rates and their domestic focus,' comments San Jose.

The fund manager says

landscape equipment business Toro is attractive as it derives over 30% of its current sales from new products. He is optimistic the company has a lot more to offer as it has the flexibility to make strategic acquisitions in a competitive space.

According to San Jose, Toro has a good track record of meeting long-term targets to generate consistent sales and earnings growth thanks to its experienced management team.

Medical delivery devices manufacturer West Pharmaceuticals Services is another of his top picks. 'The company has a high market share and is able to generate stable and growing operating cash flow,' says the fund manager.

LOOKING FOR LONG-TERM CAPITAL GROWTH

Jupiter US Smaller Companies (JUS) aims to achieve long-term capital growth through a diversified portfolio, including listed smaller and medium sized businesses in the US.

Fund manager Robert Siddles seeks out stocks unfairly punished by the market and keeps an eagle eye on those that have potential for at least 50% share price appreciation, should there be catalysts for a re-rating.

He is excited by The Chefs' Warehouse, a distributor of upmarket food to restaurants. 'Distribution businesses are good free cash flow generators because of their high proportion of fixed costs,' says Siddles, who highlights The Chef's Warehouse delivered $23m in free cash flow last year.

Metal working supplies distributor MSC Industrial Direct Holdings is another attractive prospect for the fund manager. MSC is the market leader with sales of $3bn in a crowded market of 150,000 distributors.

'Decades of investment and a large technical sales force give the company its edge and its "Big Book" is well known in the industry,' comments Siddles.

The shares have been suffering this year as investment put margins under pressure and pricing weakened due to the impact of the recession in the energy sector since 2014 on US manufacturing.

Despite the underperformance on the market, MSC is not expected to remain depressed for long, with Siddles expecting the distributor's margin to improve as investment winds down.

He is optimistic that US manufacturing will continue to improve thanks to a recovery in the energy sector, driven by better oil prices.

It is worth noting that MSC is worth $5.1bn which isn't exactly what you would call a 'smaller' business. Many small cap funds, including those in the UK, do invest in companies of such size. Anyone wanting the real tiddlers should look for funds which specialise in an area called 'micro caps'.

PERFORMANCE TRACK RECORD

INVESTMENT TRUST	5-YEAR ANNUALISED RETURN
JPMorgan US Smaller Companies	24.4%
North Atlantic Smaller Companies Investment Trust	16.9%
Jupiter US Smaller Companies	10.6%

Source: Morningstar. Data taken 1 December 2017

PROACTIVE INVESTMENT STYLE

North Atlantic Smaller Companies Investment Trust (NAS) focuses on capital appreciation though a portfolio of smaller firms based in countries that border the North Atlantic Ocean.

Fund manager Christopher Mills has a proactive investment style as he takes large stakes in the firms he invests in and gets involved.

A lot of his portfolio contains UK-listed stocks yet there are some US ones. Earlier this year the investment trust said it was significantly under-invested in the US due to valuations being very high by historical standards.

Of the US stocks that do sit in his portfolio, Mills is particularly excited by Ambac Financial which he says is currently trading at a 50% discount to its intrinsic value, as the impact of the firm's nearly $2bn insured exposure to Puerto Rico's debt weighs on sentiment. (LMJ)

Weighing up the risks of P2P lending

The honeymoon period is over but P2P can still offer extremely attractive returns

The peer-to-peer (P2P) lending sector is subject to a huge amount of criticism after the painfully slow roll-out of the Innovative Finance ISA (IFISA) was compounded by problems at some of the industry's biggest players.

With many lenders due to launch an IFISA in the coming months, we've analysed whether the criticisms are justified and what would-be investors should watch out for.

WHY HAS P2P LENDING FALLEN OUT OF FAVOUR?

The P2P lending sector has grown dramatically since the financial crisis, largely because many people are fed up with the poor returns offered by cash savings. Some P2P platforms have been advertising returns of around 10%, which many investors feel compensates for the higher risk nature of the investment.

Over the past few months many rates have been slashed and this hasn't gone down well with investors. Zopa is currently advertising annualised projected returns of 3.7% for Zopa Core and 4.5% for its higher-risk product Zopa Plus. These compare with rates of between 5% and 6% in the company's early years.

Another platform scaling back promised returns is Assetz Capital, which provides secured loans to small businesses. It recently warned annual returns of 9% would fall to about 6% or 7%.

In addition to lower rates, stories are emerging that highlight the risky nature of P2P lending. Some investors have lost money because they were unaware of the importance of spreading their risk.

RateSetter, one of the biggest platforms, had to write off £8.5m after a company to whom it made a wholesale loan three years ago went bust. RateSetter subsequently withdrew from the Peer-to-Peer Trade Association because it has breached its transparency rules.

Alongside this, the eagerly anticipated IFISA, which got the go-ahead in April 2016, has so far proved to be a bit of a flop.

Very few platforms have launched an IFISA and the £17m invested in IFISAs in 2016/17 pales in comparison to the £39.2bn invested in Cash ISAs, which offer dismal returns.

There are also growing concerns about how the P2P sector will fare if there is an economic downturn that results in borrowers defaulting on their loans.

ARE THE CRITICISMS JUSTIFIED?

Lower returns are disappointing for investors, but the reasons behind them seem valid.

Stuart Law, chief executive of Assetz Capital, says there were concerns among his platform's investors about the uncertainty of Brexit. In response, it is focusing on lending to higher-quality businesses, which are able to negotiate lower rates of borrowing.

Lower-risk borrowers pay lower interest rates, which means a fall in returns for people lending money through the site (i.e. investors).

'We're here for the long term and we want a sustainable business that grows safely by looking at high-quality but flexible secured business lending,' says Law.

Zopa also linked its cut in returns to the increasing proportion of lower-risk loans it was expecting to approve. Its accounts for 2016 contained warnings about the rise of consumer unsecured debt, which it said was particularly concerning in light of high inflation.

Some of the criticisms about risks are well-founded. Neil Faulkner, founder of peer-to-peer risk ratings agency 4thWay, suggests P2P platforms need to take greater responsibility in ensuring investors understand the importance of spreading their money across lots of different loans.

'There are also individual platforms that have caused concern about the risks. However, the inherent risk-reward balance in the UK remains attractive, with interest rates that offer the average investor a large cushion even in the event of a one-in-100-year recession,' Faulkner adds.

'I think most of the irritation about P2P lending comes from poor communication from some platforms about investing time frames or backlogs. Sometimes it has not been possible for lenders to withdraw their money as swiftly as they wanted and other times they haven't been able to lend all their money right away.'

WE'RE HERE FOR THE LONG TERM AND WE WANT A SUSTAINABLE BUSINESS THAT GROWS SAFELY BY LOOKING AT HIGH-QUALITY BUT FLEXIBLE SECURED BUSINESS LENDING

IS THE IFISA A FLOP?

The overall take-up of the IFISA has been extremely low, but Faulkner says this has been largely due to the Financial Conduct Authority's long approval process. At the start of April 2017 (the date the investment figures go up to) it was primarily just the very small platforms who had received authorisation to launch an IFISA.

Faulkner adds: 'I think slow take-up is partly being driven by the new personal savings allowance. That allowance makes both Cash ISAs and IFISAs unnecessary for a lot of people, so they have both seen low take up, while stocks and shares ISAs have bounced back.'

The next few weeks will see IFISAs being launched by Funding Circle and Assetz Capital. Zopa aims to re-open to new investors by the end of the year and it will also start allowing customers to transfer in existing ISAs from other providers.

Bruce Davis, co-founder of Abundance, which lets people lend money to projects providing a social or environmental benefit, claims the amount invested through the Abundance platform doubled overnight after it launched its IFISA.

'We will double it again next year,' he says. 'If bigger platforms like Zopa achieved what we did, we would see a huge increase in investments in the market.'

HOW ROBUST IS RISK MANAGEMENT?

Risk management is an important topic at the moment given the huge rise in unsecured consumer debt in the UK. Critics of the P2P lending sector warn that this, coupled with high inflation and poor wage growth, could result in lots of borrowers being unable to pay back loans.

Paul Riddell, spokesperson for Lendy, which provides loans secured on UK property, thinks the slight deceleration in overall P2P lending is a good thing because it gives platforms more time to originate interesting investment opportunities and further improve their risk management processes.

Most platforms have robust processes in place to protect investors. They stringently assess borrowers' creditworthiness and have a reserve fund that will pay out if borrowers default.

Zopa says it reduces risk by spreading investors' money across lots of borrowers – if you invest £1,000, no person would have more than 1% of your overall investment.

> ZOPA REDUCES RISK BY SPREADING INVESTORS' MONEY ACROSS LOTS OF BORROWERS – IF YOU INVEST £1,000, NO PERSON WOULD HAVE MORE THAN 1% OF YOUR OVERALL INVESTMENT

Landbay, which offers loans backed by British property, had an independent 'stress test' carried out on its business in 2015, which calculated that in a 'bad weather scenario' – where GDP drops 3.5%, unemployment rises to 9% and house prices fall 20% – the average expected loss rate would be 0.48%. Landbay's reserve fund is maintained at 0.60% of its loan book, which means it would absorb such losses.

HOW RISKY IS P2P LENDING?

The very nature of lending money to individuals or businesses is risky because there is always a chance that the borrower will default on their loan. P2P lending isn't covered by the Financial Services Compensation Scheme, so your capital and interest are at risk.

Although some platforms have reserve funds and others secure loans against property, problems would arise if a large number of borrowers couldn't repay their loans.

On the flipside, they offer very competitive rates to investors to compensate for the risk they're taking on.

Lendy's Paul Riddell says: 'If you look at the returns that some P2P platforms offer they are many times more generous in their net and gross yields than traditional products. Given those yields, some of the criticism has been a bit misdirected.

'Many of the loans on our platform offer lenders a 12% yield and an easy process to diversify that risk away – where else can you get that in the market?

'Even with building in an element of defaults that you might get from P2P or periods when interest might accrue and not be paid out monthly, the returns are still significantly higher than products that might compete with P2P.'

Neil Faulkner of 4thWay says there are a lot of attractive investment opportunities for people who take time to learn the basics. He warns that ill-informed investors are likely to panic and make mistakes.

'There are a lot of platforms that offer excellent risk-reward balances. You need to lend across lots of platforms and hundreds of loans, and you need to be patient, allowing time for any early bad debts to be recovered while you earn interest until the last loan is repaid,' he says.

WHERE ARE THE BEST OPPORTUNITIES?

Before you start investing it's a good idea to look at the platform's website to find out details of their defaulted and written off loans and late payments. There will also be information about how they assess the creditworthiness of borrowers.

P2P platforms vary considerably. Some invest your money across hundreds of loans, where others let you choose specific investments. Some offer secured lending (for example backed by property) whereas others provide unsecured loans. There are platforms that focus on business loans, platforms that concentrate on consumer loans, and platforms that offer a mix of the two.

RateSetter invests your money across thousands of consumer and business borrowers via unsecured loans. Its Everyday Account advertises rates of between 3.8% and 5.4%, depending on how long the loan terms are.

Landbay and Lendy both provide property-backed loans, but Landbay spreads your investment across lots of buy-to-let mortgages whereas Lendy lets you choose which development projects you want to back. Landbay offers a fixed rate of 3.45% and a tracker rate of 2.7% above LIBOR.

Assetz Capital's Stuart Law suggests investors diversify their portfolio across a handful of the well-established peer-to-peer lending platforms, as well as across many of the loans on each of the platforms.

HOW DOES P2P COMPARE WITH CORPORATE BONDS?

P2P lending and corporate bonds are similar in that they both involve investors lending money in return for a relatively reliable income stream. The yield on corporate bonds is typically lower than P2P investments, but corporate bonds are seen as the less risky option.

Neil Faulkner of 4thWay says it's trickier for individuals to choose individual corporate bonds so they generally opt for corporate bond funds. He says the profile of corporate bond funds is very different to P2P lending because the price of the fund fluctuates heavily. Most loans in P2P lending are bought at or around par.

In addition, bonds tend to have longer durations, whereas money lending is usually for up to five years. Many loans are repayment loans, so you can naturally withdraw roughly half of your money in 18 months at no cost and by simply turning off your auto re-lending options.

Faulkner adds: 'Despite bonds' longer durations, the best research on long-term global returns (from Credit Suisse Global Investment Yearbooks/Sourcebooks) shows that investors can go 30 to 40 years with no real gains, especially after costs.

'Money lending provides stable profits. Liberum Research has shown that credit cards in the US, as well as personal loans in both the US and UK, provided positive returns every single year over 16 years, with at least two downturns including the Great Recession.

'P2P lending also offers lending to completely different classes. Rather than large businesses, it is loans to small businesses, personal loans, asset-rich individuals and property owners. Investors might find it easier to understand this kind of lending and many platforms offer an unprecedented amount of transparency and data to aid investors' decision making.' (EP)

Investment trust **P2P Global Investments (P2P)** is to reposition its fund away from unsecured peer-to-peer lending to consumers and small businesses, in favour of having greater exposure to specialist and secured assets.

The trust's share price has been falling for some time as investors lost patience with dividends failing to hit their target and the portfolio's underlying net asset value returns falling short of the original target at the time of its flotation in 2014. (DC)

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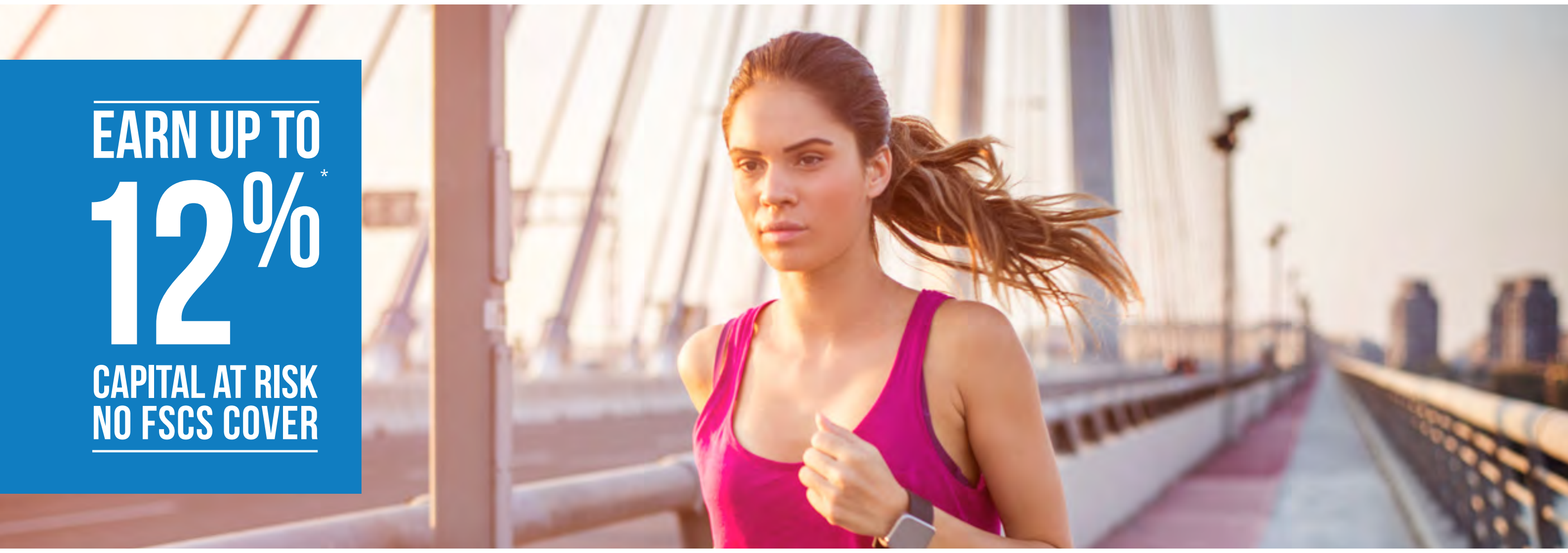

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Over recent years the need for investors to invest for income has become a hot topic. As a nation we are living longer, which means our savings and investments need to work harder.

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Our model is simple: **we match people who want to invest with people who want to borrow.**

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B&C AWARDS 2017
Alternative Lender of the Year - Highly Commended

SHARES AWARDS 2017
Shortlisted - Best Peer-to-peer Lending Platform

MONEYFACTS 2018
Shortlisted - Peer-to-peer Provider of the Year

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⁺ T&Cs apply. *Our current investment returns range from 7-12% with the chance to earn additional loyalty bonuses up to 3%. *All loans made through the Lendy platform are secured on UK property; however, capital is at risk should a borrower default. Funds lent through a peer-to-peer website are not covered by the Financial Services Compensation Scheme. Whilst no Lendy platform investor has been subject to any loss of capital, past performance is not a guarantee of future performance. Please obtain independent advice if you are in any doubt as to whether the Lendy platform is suitable for you or if you require tax advice. Lendy Ltd is authorised and regulated by the Financial Conduct Authority. This advertisement is intended for intermediary use only and must not be used with potential clients. Please see our full risk statement at https://lendy.co.uk/risk*

How to avoid running out of money in retirement

New research finds that adults aged over 55 need to think harder about making their pension last longer

As the festive season approaches, millions of Britons prepare to gorge themselves on turkey and stuffing safe in the knowledge they can at least attempt to work off their excesses in January.

However, savers stuffing their faces on pension freedoms withdrawals might find it more difficult to get themselves back in financial shape.

An AJ Bell survey of 250 UK adults aged over 55 who have flexibly accessed their pension shows 44% of people are withdrawing more than 10% of their pension savings each year.

Based on the average level of pension savings of £118,000 those levels of withdrawals would only last for a maximum of 12 years (see table).

If that withdrawal is reduced to 6% of the starting fund value the money could last for a much more comforting 26 years.

The table shows the fund value each year based on 6% and 10% withdrawals of the initial fund value of £118,000. It assumes 4% investment growth per year post charges.

These levels of withdrawals might be OK if you're in your 70s or 80s but the research suggests people in the younger age brackets are actually more likely to make larger withdrawals.

Over half (57%) of people in the 55-59 age bracket are withdrawing more than 10% of their fund each year. This reduces to 43% of people in the 60-64 age bracket and 34% of people in the 65-69 age bracket.

Year	6% withdrawal (£7,080)	10% withdrawal (£11,800)
5	£103,684	£77,096
10	£86,265	£27,330
15	£65,074	
20	£39,291	
25	£7,922	
Year money runs out	26	12

Source: AJ Bell

LIFE EXPECTANCY GUESSING GAME

The reason for these potentially unsustainable levels of withdrawals is because the younger someone is, the more likely they are to underestimate how long their pension income will need to last.

Some 51% of people in the 55-59 age range anticipate their pension income will need to last for less than 20 years. However, ONS data for the UK shows that men in this age bracket are expected to live for another 23 to 27 years and women for another 26 to 30 years.

Nearly a quarter (24%) of people in the 55-59 age range anticipates their pension income

CHECKLIST FOR PENSION FREEDOM SAVERS

BE CLEAR ON HOW LONG YOUR PENSION INCOME NEEDS TO LAST
This will boil down to a combination of how long you might live and what other income sources you have available in retirement.

HAVE A CLEAR INVESTMENT STRATEGY
Determine how much risk you are prepared to accept and what investment return you can expect for that level of risk. This should include the level of income your investments might produce each year.

SET REALISTIC WITHDRAWAL LEVELS
Once you understand the level of income your portfolio might produce you can start planning the level of withdrawals that you can realistically make. You can also plan whether these will just come out of the income from your investments or whether you will need to sell some of your investments each year to create an income.

KEEP A CASH BUFFER
One of biggest problems with remaining invested in retirement is that any market downturns can have a detrimental impact on your portfolio value which will be magnified if you need to sell investments just after they have fallen in value. Keeping a cash buffer can help avoid having to sell investments at the wrong time.

REVIEW REGULARLY
Managing your own pension withdrawals is a finely balanced equation. Reviewing how your portfolio is performing and the impact your withdrawals are having on the size of the fund at least once a year means you can make adjustments to ensure your pension fund can provide an income for as long as required.

Tom Selby,
Senior Analyst, AJ Bell

will need to last for less than 10 years. That is less than half the time they can expect to live on average – and remember many will live far beyond the average.

Anyone who is using the pension freedoms needs to have a realistic idea of how long their pension income might need to last and what level of investment return they can hope to achieve. They can then work out how much they can withdraw each year without running out of money too early.

Even then, the level of withdrawals should be reviewed regularly, something that far too few people are doing.

Market loses patience with Daily Mail's owner

Devil was in the detail which accompanied full year results

Shares in publishing, events and professional information business **Daily Mail & General Trust (DMGT)** are bumping along close to a five-year low as it points to a tough 2018 for its consumer-facing businesses.

Alongside full year results (30 Nov) the company guided for its media arm, encompassing brands like *Daily Mail*, *Mail on Sunday* and *MailOnline*, to see a mid-single digit underlying revenue decline in the 12 months to 30 September 2018. The market had expected a flat performance.

The guidance also compared unfavourably with the 1% growth delivered in the 2017 financial year, when *MailOnline* increased its revenue by 20% and moved into profitability.

Further damage to sentiment resulted from a £206m impairment charge on several investments including Genscape, Xceligent and SiteCompli which helped drag the company to a £112m loss for the September 2017 financial year.

Corporate costs for 2018 are also expected to be £8m higher than previously thought at £45m and performance on the business-to-business side will be impacted by recent disposals and the planned sale of its EDR commercial real estate service.

ARE THE SHARES OVERSOLD?

The latest news has done significant damage to an already depressed share price. Despite recovering slightly, the shares currently remain more than 20% below the levels at which they traded before the downbeat commentary was published.

Investment bank Berenberg, which recently initiated coverage on the stock with a 'buy' recommendation, argues the share price decline is an over-reaction despite cutting September 2018 earnings per share (EPS) estimates by a similar quantum to the share price fall at 20%.

It comments: 'Although the headlines for short-term EPS trends make for painful reading, we believe there were clear signs that management were being very conservative and that the fundamental longer-term value of the company has not changed nearly that amount.'

The bull case for this business has typically focused on the fact it is no longer a traditional newspaper entity but instead a higher quality operation more akin to **Informa (INF)** or **RELX (REL)** providing subscription-based information services to professional industries and running events.

However, in 2016 the media business was still the biggest contributor to reported revenue at 41%.

The heavy share price sell-off probably reflects some frustration with the pace of change. Panmure Gordon analyst Jonathan Helliwell commented that 2018 will be 'arguably the fifth transitional year in a row'.

The shares trade on 12.6 times Berenberg's new 2018 EPS forecast. A material recovery in the share price may have to wait until management can demonstrate 2019 won't be another year of transition. (TS)

Walker Greenbank looks oversold after warning

Overseas earnings and progressive dividend are reasons to stay positive

A savage 43% share price slump to 120p following a profit warning on 15 November leaves luxury interior furnishings maker **Walker Greenbank (WGB:AIM)** looking significantly oversold.

Shares believes the investment case of international export and licensing growth business remains intact, while sentiment towards the stock should improve once its core UK market begins to stabilise. A chunky dividend yield provides downside protection.

HARSHLY PUNISHED

In November, the £87.2m cap warned that UK brand sales had 'weakened significantly' versus management expectations, meaning profit for the year to 31 January 2018 will be around 10% lower than previous forecasts. Given the modest size of the earnings downgrade, a 40%-plus share price slump seems disproportionate.

Chief executive John Sach conceded that 'momentum in order intake has not been sustained', disappointing as Walker Greenbank had only recently highlighted an improving trend heading into the Autumn selling season.

Stripping out October 2016 acquisition Clarke & Clarke, an exciting deal that has extended Walker's reach in the US market, UK demand for Walker Greenbank's premium brands has disappointed.

British consumers are evidently scaling back spend amid economic and political uncertainty, while lower housing activity at the premium end of the market is also having an impact.

COMPETITIVE STRENGTHS

Among the competitive strengths of Walker Greenbank, whose winning portfolio of brands includes *Sanderson*, *Morris & Co*, *Harlequin*, *Zoffany*, as well as more recent lines *Scion* and *Anthology*, is the fact it boasts its own wallpaper and fabric printing factories in Loughborough and Lancaster respectively.

On the flip-side, as Investec Securities explains: 'With its vertically integrated model, declining UK brand sales have also had a knock-on effect on manufacturing sales and profitability.'

OVERSEAS AND OVERSOLD

The good news is this small cap has very attractive overseas growth potential. Walker Greenbank's products are solid in 85-plus countries and its international and licensing revenues are trading ahead of the prior year.

Balance sheet gearing is expected to be modest at the end of the current financial year, with positive cash generation anticipated thereafter. Research house Edison now forecasts normalised pre-tax profit of £12.9m for the year to January 2018, anticipating a dividend hike from 3.6p to 4.5p.

A payout covered more than three times by estimated earnings of 14.5p, Walker's dividend yield of 3.75% and forward price to earnings ratio of 8.3 indicate value. For 2019, Edison sees pre-tax profit building to £13.4m with the shareholder reward rising to 5.6p.

SHARES SAYS: ↗

We're positive on Walker Greenbank at 120p. (JC).

BROKER SAYS: 2 1 0

Ten Lifestyle is a fascinating new AIM addition

Investors can tap into the lifestyles of the rich and famous

Investors have the opportunity to profit from the lifestyles of the rich and famous after **Ten Lifestyle (TENG:AIM)** completed its AIM flotation.

London-based Ten, which was founded in 1998, is a technology-led personal concierge service. Clients get exclusive offers, restaurant recommendations, entertainment ideas, travel guides and more.

For example, an executive might fly into London for a short business visit but hope to catch a play at the theatre and a meal at a top restaurant. If the tickets are sold out and the restaurant is fully booked Ten can set its experts on the case, typically finding a solution. It can also provide a chauffeur-driven limo if required.

Ten's service is often offered as a loyalty perk to the best customers of some businesses, typically by private banks and premium credit card companies. They pay fees to Ten, although private individuals can sign up for a £300 monthly fee.

Ten plans to expand its market beyond financial services with many luxury brands; top automotive firms, exclusive hotels and apartments, or jewellery and fashion designers, for example.

Ten raised around £26m at 134p per share after some founder investors and management sold parts of their stakes. Management retain roughly 25% of the stock, with 26.9% in public hands. The share price has subsequently risen to 143.5p.

The company reported £34.9m of revenue for the year to 31 August 2017 and a £2.2m pre-tax loss due to growth investment. *Shares* understands that further pre-tax losses are likely in 2018, before moving into profit in 2019. (SF)

Firestone Diamonds goes cap in hand

LESOTHO-BASED **FIRESTONE Diamonds (FDI:AIM)** has raised £18.5m by issuing new shares priced 80% lower than its share price at the start of the year.

The miner was forced to downgrade its production guidance by a fifth in August after finding fewer large stones than expected.

That setback has weighed on the share price and left the company in a weak position for the latest fundraise which was done at an astonishing 49.4% discount to the market price on the eve of the announcement. (DC)

Eve's sleep disruption

PREMIUM MEMORY FOAM mattress business **Eve Sleep (EVE:AIM)** has shrugged off faltering UK consumer confidence to report (29 Nov) continued positive sales momentum in the second half of 2017. Current marketing initiatives are proving successful at driving sales and raising brand awareness, says the company. In a note headed 'Waking up a sleepy market', Berenberg has initiated coverage with a 'buy' rating and 140p price target. (JC)

WANdisco offers bigger carrot

DATA REPLICATION technology developer **WANdisco (WAND:AIM)** has raised $22m from investors to meet strong customer demand, far more than the $10m originally targeted.

Getting investors to participate may have been difficult with the shares close to recent highs of 881.5p, representing a 345% share price rally since the start of 2017. Investors were clearly more willing to back the placing at the 550p per share price level announced. (SF)

NOW IS THE TIME TO FOCUS ON YOUR INVESTMENT PORTFOLIO

Come and join Shares and AJ Bell Media at their evening event in London on Thursday 14 December 2017 and meet the directors from **Echo Energy (ECHO)**, **NetScientific (NSCI)**, **ThinCats** and **Vipera (VIP)**.

London - Thursday 14 Dec 2017

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Companies presenting

Echo Energy (ECHO) Speaker to be confirmed
Echo Energy plc is a UK listed South and Central American focused mid-cap gas company in the making. The Company is pursuing a high value piped onshore gas strategy across South and Central America, which includes a Multi Tcf potential Bolivian exploration portfolio as well as the recently announced farm in to substantial assets in Argentina.

NetScientific (NSCI) Francois Martelet, CEO
NetScientific is a biomedical and transatlantic healthcare technology group with an investment strategy focused on sourcing, funding and commercialising technologies that significantly improve the health and well-being of people with chronic diseases.

ThinCats Stewart Cazier, Head of Retail
Thincats are one of the pioneers of the peer-to-peer business lending industry; specialising in loans with security and linking retail and institutional investors directly with established business borrowers to provide a serious alternative to high street banks.

Vipera (VIP) Martin Perrin, CFO
Vipera is a leading provider of mobile financial services platforms. The Vipera platform provides the easiest, fastest, most cost-effective way to develop and operate mobile data services. Solutions powered by Vipera run today on more than 500,000 phones, on hundreds of mobile networks in many countries. Founded in 2005, Vipera has offices in Zurich, Milan and London.

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Contact

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- **Main Market**
- **AIM**
- **Fund**
- **Investment Trust**

Allied Irish Banks (ALBK) 14
Ashtead (AHT) 7
CF Miton Cautious Multi Asset Fund (GB00B0W1V856) 25
Cineworld (CINE) 14
Corero Network Security (CNS:AIM) 27
CRH (CRH) 7
CVS (CVSG:AIM) 8
Daily Mail & General Trust (DMGT) 40
Defenx (DFX:AIM) 26
Dixons Carphone (DC.) 16

ECSC (ECSC:AIM) 27
Eve Sleep (EVE:AIM) 43
Ferguson (FERG) 7
Fidelity Strategic Bond Fund (GB00BCRWZS59) 25
Firestone Diamonds (FDI:AIM) 43
First State Global Resources Fund (GB0033737767) 25
Fundsmith Equity (GB00B41YBW71) 24
GAM Star Credit Opportunities (IE00B510J173) 24
Gamma Communications (GAMA:AIM) 7
GB Group (GBG:AIM) 26
Greene King (GNK) 3
Hollywood Bowl (BOWL) 16
HSBC (HSBA) 24
Impax Asset Management (IPX:AIM) 14
Informa (INF) 38
Intercede (IGP:AIM) 27
James Halstead (JHD:AIM) 10
JPMorgan US Smaller Companies Investment Trust (JMI) 30
Jupiter US Smaller Companies (JUS) 31
Just Eat (JE.) 18

Lloyds (LLOY) 24
Marston's (MARS) 3

Mears (MER) 28
Mitchells & Butlers (MAB) 3
NCC (NCC) 26
North Atlantic Smaller Companies Investment Trust (NAS) 31
Osirium Technologies (OSI:AIM) 27
P2P Global Investments (P2P) 36
Polar Capital Global Technology Fund (IE00B42W4J83) 25
Rathbone Global Opportunities Fund (GB00B7FQLN12) 24
Redcentric (RCN:AIM) 11
RELX (REL) 38
Sophos (SOPH) 26

Stagecoach (SGC) 6
TalkTalk (TALK) 26

Ten Lifestyle (TENG:AIM) 43
Tharisa (THS) 12
Thomas Cook (TCG) 16
TUI (TUI) 16
VT AJ Bell Passive Moderately Adventurous Fund (GB00BYW8VL77) 23
Walker Greenbank (WGB:AIM) 42
WANdisco (WAND:AIM) 43
Worldwide Healthcare Trust (WWH) 25