STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 19 / ISSUE 49 / 14 DECEMBER 2017 / £4.49

SHARES

WE MAKE INVESTING EASIER

WHITBREAD IS THE LATEST TARGET FOR ACTIVIST INVESTORS

BIG QUESTIONS FOR 2018

HAMMERSON: TAKEOVER OF INTU MAY NOT BE A SWEET DEAL

CANADA: 3 FUNDS TO PLAY THE UNDER-APPRECIATED MARKET

THE BEST PERFORMING SHARES OF 2017: WHY THEY SOARED AND WHAT'S COMING NEXT

Shareholder activism isn't a ticket to short-term share price gain

It can take time to enforce positive change

Activist investors are back on the agenda thanks to hedge fund Sachem Head Capital taking a small stake in **Whitbread (WTB)** and a high profile spat between TCI and **London Stock Exchange (LSE)**.

While these events have been headline-grabbing news, it is worth bearing in mind that activist investors have been omnipresent in UK stocks for several years, as part of a growing trend across many stock markets globally.

Morgan Stanley calculates the number of activism campaigns launched across non-US companies is up nearly 10-fold since 2013. Activism campaigns across European companies, in particular, have increased materially over the past three years, it finds.

DOES ACTIVISM BOOST THE SHARE PRICE?

Analysis by Morgan Stanley implies you won't suddenly make a lot of money on shares being targeted by activists. Extracting value as a result of activist investor involvement can be a much slower game.

The investment bank analysed 132 campaign announcements across European companies since 2005 to see whether activist-related news flow had a positive impact on share prices.

Its back test didn't reveal a meaningful impact on companies' subsequent share price performance over the short term. 'The median company involved in such campaigns only outperformed modestly in the one month after the announcement and underperformed both the market and their respective sectors over the subsequent two years,' it reveals.

'However, our analysis shows that activism has been instrumental in driving relative return on equity higher over the following two years.'

A NEW WAY OF THINKING

It's impossible to say that a share will follow a certain pattern once an activist gets involved. However, the presence of an activist investor can be very interesting as it could get the target's board thinking in a different way – and hopefully one that benefits shareholders.

Activist investor Elliott first invested in miner **BHP Billiton (BLT)** in 2015 but didn't start its activism campaign until 10 April 2017. Shares in the company have subsequently been very volatile but currently trade essentially at the same level as they did when Elliott started to put public pressure on the miner.

Toscafund, another activist investor, started to lobby **Speedy Hire (SDY)** in October 2015 on the composition of its board. It failed in an attempt to remove the chairman in summer 2016, but remains a major shareholder with 8.2% of the business. Speedy's shares have risen by approximately 40% since Toscafund got involved.

Other examples of stocks with activists on the shareholder register include newspaper publisher **Johnston Press (JPR)** and luxury goods firm **Burberry (BRBY)**.

It is also possible to get exposure to activist investors whose shares trade on the London Stock Exchange. For example, **Crystal Amber Fund (CRS:AIM)** was behind campaigns at Pinewood (subsequently taken over) and property group **Grainger (GRI)**.

Crystal Amber increased its net asset value by a third in the year to 30 June 2017, making it the seventh best performing investment trust among 119 analysed by Trustnet. 'The company achieved exceptional performance thanks to its focus on undervalued opportunities where it sees the potential to act as a catalyst for change,' said chairman William Collins. (DC)

Contents

INTERACTIVE PAGES

CLICK ON PAGE NUMBERS TO JUMP TO THE RELEVANT STORY

14 DECEMBER 2017

EDITOR'S VIEW
03 Shareholder activism isn't a ticket to short-term share price gain

BIG NEWS
06 Businesses are looking for Brexit certainty

BIG NEWS
06 Does the Hammerson and Intu marriage add up?

BIG NEWS
07 Could income stock GVC put dividend on pause?

BIG NEWS
07 Whitbread gains caffeine hit from activist investor stake

BIG NEWS
08 Clipper Logistics' returns business is booming

BIG NEWS
08 Dividend fears cloud Inmarsat

STORY IN NUMBERS
09 Apple's taxjoy and other stories in numbers

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

GREAT IDEAS
12 Aviva's smart investment plan makes this a must buy stock

DISCLAIMER

IMPORTANT

Shares publishes information and ideas which are of interest to investors. It does not provide advice in relation to investments or any other financial matters. Comments published in Shares must not be relied upon by readers when they make their investment decisions. Investors who require advice should consult a properly qualified independent adviser. Shares, its staff and AJ Bell Media Limited do not, under any circumstances, accept liability for losses suffered by readers as a result of their investment decisions.

Members of staff of Shares may hold shares in companies mentioned in the magazine. This could create a conflict of interests. Where such a conflict exists it will be disclosed. Shares adheres to a strict code of conduct for reporters, as set out below.

1. In keeping with the existing practice, reporters who intend to write about any securities, derivatives or positions with spread betting organisations that they have an interest in should first clear their writing with the editor. If the editor agrees that the reporter can write about the interest, it should be disclosed to readers at the end of the story. Holdings by third parties including families, trusts, self-select pension funds, self select ISAs and PEPs and nominee accounts are included in such interests.

2. Reporters will inform the editor on any occasion that they transact shares, derivatives or spread betting positions. This will overcome situations when the interests they are considering might conflict with reports by other writers in the magazine. This notification should be confirmed by e-mail.

3. Reporters are required to hold a full personal interest register. The whereabouts of this register should be revealed to the editor.

4. A reporter should not have made a transaction of shares, derivatives or spread betting positions for seven working days before the publication of an article that mentions such interest. Reporters who have an interest in a company they have written about should not transact the shares within seven working days after the on-sale date of the magazine.

Contents

16

GREAT IDEAS
13 Telford Homes is our pick of the housebuilders

GREAT IDEAS UPDATE
15 We update on Xafinity and Kainos

MAIN FEATURE
16 The big questions for investors in 2018

INVESTMENT TRUSTS
24 Understanding how investment trusts manage discounts and premiums

FEATURE
26 The best performing shares of 2017

UNDER THE BONNET
32 Repaired Laird is ripe for recovery

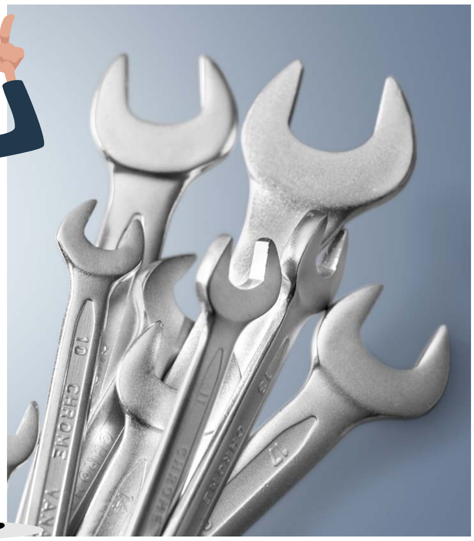
FUNDS
34 How to invest in Canada via investment trusts and ETFs

MONEY MATTERS
37 How to balance risk and return

MONEY MATTERS
39 What does 2018 have in store for savers?

INDEX
42 Index of companies and funds in this issue

24



WHO WE ARE

EDITOR: Daniel Coatsworth @SharesMagDan

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

REPORTER: David Stevenson @SharesMagDavid

REPORTER: Lisa-Marie Janes @SharesMagLisaMJ

CONTRIBUTORS Emily Perryman, Tom Selby

PRODUCTION
Head of Design: Rebecca Bodi
Designer: Darren Rapley

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

MANAGING DIRECTOR
Mike Boydell

Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH. Company Registration No: 3733852.

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.

Businesses are looking for Brexit certainty

Divorce secured (sort of) but what about transition?

The UK Government has progressed to the second stage of Brexit talks after securing a divorce agreement (8 Dec).

A summit starting today (14 Dec) in Brussels may see the opening salvo in a negotiation to agree a trade deal between UK and the EU. The market will be looking for positive noises on a transition agreement which will give companies some of the certainty they crave.

Judging by the reaction to the divorce deal, the main beneficiaries may be housebuilders who rose sharply on the day it was announced, although they were also supported by positive financial results from sector constituent **Berkeley (BKG)**, as well as other domestic-focused names in the leisure, retail and financial sectors.

Perhaps the most significant takeaway from recent developments is the bolstered position of Prime Minister Theresa May. Shore Capital's senior political adviser Matthew Elliot comments: 'Theresa May is in the strongest position she has been in since the General Election, and is likely to be in post next Christmas.'

This arguably reduces the risk posed by the potential election of a Labour government which has a relatively radical agenda that could have a significant business impact. (TS)

Does the Hammerson and Intu marriage add up?

Combination in structurally challenged retail space is received with scepticism

A 253.9p all-share takeover offer from **Hammerson (HMSO)** for **Intu Properties (INTU)** looks set to deliver a shopping centre investor with more than £21bn worth of assets across Europe. But will the £3.4bn deal create or destroy value for shareholders?

Hammerson swooped after months of weakness in Intu's share price, having fallen from 293.7p in February to a low of 195.9p at the start of December.

Under the takeover proposal, the enlarged business would operate under Hammerson's name with its shareholders owning 55% and Intu shareholders the remainder.

Jefferies analyst Mike Prew is unimpressed, describing the transaction as a 'coalition of weak business models'.

He says Hammerson chief executive David Atkins at a recent capital markets day noted his business was 'sheltered from UK pressures' thanks to 56% of its business being overseas.

Assuming the Intu deal goes through, noting that Hammerson has already secured support from half of Intu's shareholder base, the merged business would be 75% focused on the UK.

Prew also doesn't see the takeover as a catalyst for the wider space. 'This is not a cash bid for a high-quality UK REIT by an overseas buyer which would trigger a re-rating of the sector.'

Proving him wrong will require Hammerson to live up to all of its historic track record of operational and financial efficiency and more. (TS)

Could income stock GVC put dividend on pause?

Mooted Ladbrokes Coral mega-merger may come with conditions

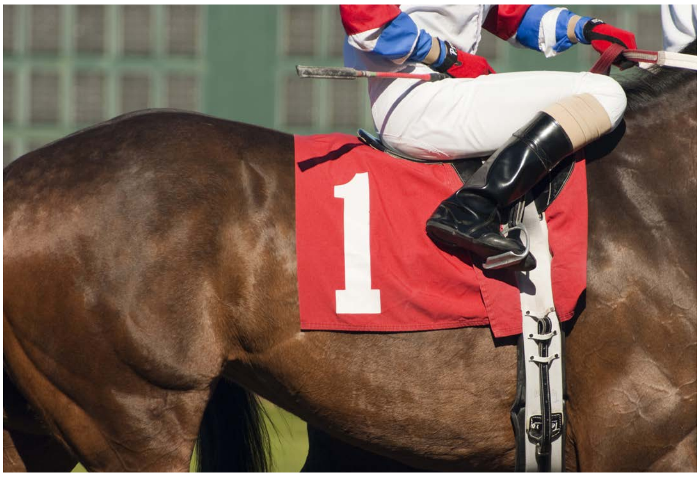
Gaming consolidator **GVC (GVC)** plans (7 Dec) to buy **Ladbrokes Coral (LCL)** for up to £3.9bn.

GVC has a strong record of creating value from acquisitions, having bought Sportingbet in 2013 and Bwin.Party in 2016, although the FTSE 250 business took a dividend holiday in calendar 2016 under the conditions of the debt financing connected with the Bwin.Party deal.

If the Ladbrokes Coral acquisition proceeds, GVC will own 53.5% of the enlarged gambling group, whose CEO would be GVC boss Kenneth Alexander.

Berenberg says the high cash flow generation and quick deleveraging following the deal would support GVC's progressive and generous dividend policy of at least 50% of free cash flow. For now Berenberg forecasts a €30 cent dividend from the Foxy Bingo-to-Sportingbet brands owner for 2017, rising to €32.84 for 2018.

Berenberg says the Ladbrokes Coral deal makes strategic sense for both companies and remains convinced 'GVC is the best way to play trends in the gaming space'.



Irish broker Davy argues: 'Enhanced scale would obviously improve the defensiveness of the group as the industry faces rising regulatory and tax hurdles. No detail on potential synergies has been provided but we would think that £70-£100m would be achievable over time through integration of technology.' (JC)

Whitbread gains caffeine hit from activist investor stake

Market starts to speculate whether Whitbread will be broken up or start selling assets

SHARES IN *Costa Coffee* owner **Whitbread (WTB)** have risen by 6.5% to £39.50 since news (6 Dec) that activist investor Sachem Head Capital now owns 3.4% stake of the business.

Sachem is a hedge fund with a history of piling pressure on firms to overhaul their operations to boost performance with previous targets including rare diseases specialist **Shire (SHP)**. According to media reports, Sachem wanted Shire to consider a sale or spin-off of several of its assets.

Investors are excited by the sudden appearance of Sachem as it reignited speculation that Whitbread could be broken up into separate businesses, being Costa and its hotels chain Premier Inn.

Numis analyst Tim Barrett says other strategies which Sachem or another activist investor could pursue include extracting value from Whitbread's 410 pub restaurant sites or from other freehold assets within the group.

Shares in Whitbread have barely moved since the start of 2016 as the company finds it harder to grow UK sales in a competitive market. Its strategy is currently focused on driving further growth in the UK as well as structural growth opportunities for Premier Inn in Germany and Costa in China. (LMJ)

Clipper Logistics' returns business is booming

Logistics firm is in a sweet spot as retailers require more sophisticated product management

The proliferation of consumers returning items bought online is playing into the strengths of logistics solutions and e-fulfilment company **Clipper Logistics (CLG)**.

The ability to return an item at little or no cost is fast becoming one of the key reasons why consumers choose to use certain retailers, particularly fashion sellers.

There is a growing trend for individuals to order multiple sizes of clothes and send the ones back that don't fit, rather than having to go into a physical store to try them on.

Other people are getting swept up by online promotions and regretting orders soon after they've been made, thereby resulting in the items being sent back.

Clipper runs returns management services for many of the UK's biggest retailers.

Its e-fulfilment and returns management business grew earnings before interest and tax (EBIT) by 25.7% to £5.3m in the six months to 31 October 2017.

Having worked with **ASOS (ASC:AIM)** in the UK, Clipper has now opened a new returns facility for the online retailer in Poland.

In June Clipper bought RepairTech, a provider of consumer electronic repair services, as another way of capitalising on the returns trend.

Clipper's strategy is to handle item returns on behalf of retailers; sorting out products which can be resold and helping them get back into the supply chain. (DS)

Dividend fears cloud Inmarsat

Satellite firm's balance sheet looks increasingly stretched

SATELLITES NETWORK operator **Inmarsat (ISAT)** could be the next FTSE 350 constituent to cut the level of dividends it pays to shareholders.

The £2bn company provides sea, air and land communications for governments, military and enterprise customers. A period of heavy infrastructure investment has left the company's balance sheet stretched.

Analysts calculate the company ending the current year with more than $2.1bn (approximately £1.6bn) of net debt. Those borrowings are forecast by analysts to exceed $2.7bn (£2bn) over the next three years.

EARNINGS COVER EVAPORATES

Rising net debt is coinciding with weak trading from Inmarsat's maritime division and a potentially costly spectrum battle for its partner Ligado Networks in the US.

It is facing competition from rival Iridium Certus, possibly putting pressure on more than $100m in annual Inmarsat revenues earned from Ligado.

Inmarsat's dividend has failed to be covered by earnings per share in each of the last three years. Analysts at UBS predict earnings of $0.23 versus a $0.57 cash payout in 2017, with cover expected to get even worse in 2018.

FTSE 350 companies to have already cut their dividends this year include education publisher **Pearson (PSON)** and doorstep lender **Provident Financial (PFG)**.

Investors are also concerned about future payouts from **Centrica (CNA)**, **GKN (GKN)** and **Mitchells & Butlers (MAB)**. (SF)

£834M

19TH AIM ALUMNI TO RISE UP THE RANKS AND JOIN THE FTSE 250

INVESTORS IN ANY doubt about AIM's role as a breeding ground for growth companies might be encouraged by *Stevia* sweeteners maker **PureCircle (PURE)** which this month joins the FTSE 250 index.

The company is the 19th former junior market member to have moved to London's Main Market and eventually qualify for the FTSE 250, thanks to impressive growth in the value of its business, now worth £834m.

PureCircle moved from AIM to the Main Market in October 2015, at the time valued at around £745m. It originally floated in December 2007 with a market cap of £224.2m.

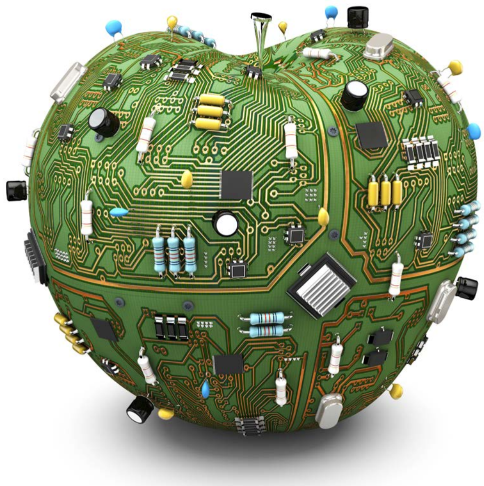
The company's peak valuation was in excess of £1.2bn on a 637.5p share price, in January 2014, but its AIM listing at the time excluded it from joining the premium indices.

$47BN

APPLE'S BIG BOOST FROM TRUMP TAX CUT

CALCULATIONS BY TAX experts and *Financial Times* suggests consumer electronics business Apple could see as much as $47bn slashed from its tax liability if planned reforms in the US get through Congress.

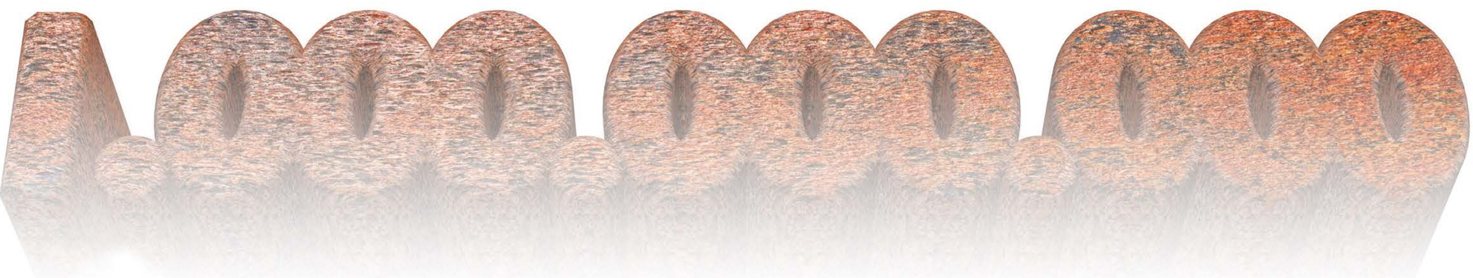
The scale of the windfall reflects an expected reduction in the tax rate applied to overseas cash holdings. It also means its final bill could be less than the $36.4bn it had set aside for future obligations and this could provide a one-off boost to profit.



HERALD'S MAGIC MILESTONE

SMALL CAP technology fund **Herald Investment Trust (HRI)** has now created more than £1bn for investors since its 1994 launch. As relayed to research house QuotedData, seasoned manager Katie Potts says £98m was raised from investors at launch and in subsequent issues. 'All of this and more has been returned via share buy backs, yet Herald still has net assets of £952.3m (up from £791m at the start of 2017),' enthuses QuotedData in a note (7 Dec) headed 'Who wants to be a billionaire?'.

Potts thinks the UK stocks that form the core of her portfolio are still not excessively valued given their future profit growth potential.



FRIDAY 15 DECEMBER

TRADING UPDATE	
Trinity Mirror	TNI
ECONOMICS	
UK	
CBI Industrial Order Expectations	

MONDAY 18 DECEMBER

ECONOMICS	
UK	
Rightmove HPI	

TUESDAY 19 DECEMBER

INTERIMS	
Kromek	KMK
TRADING UPDATE	
Blancco Technology	BLTG
AGMS	
URU Metals	URU
ECONOMICS	
UK	
CBI Realised Sales	

WEDNESDAY 20 DECEMBER

AGMS	
AFI Developments	AFRB
Aviation	AVAP
British Empire Trust	BTEM
Creo Medical	CREO

THE MARKET APPEARS uninterested in Trinity Mirror (TNI) despite its very low price to earnings ratio of just over two times and a dividend yield of 7%.

This reflects its position in a newspaper industry in structural decline and large pension liabilities.

Look for an update on acquisition talks with *Daily Express* publisher Northern & Shell in a trading update on 15 December.

THURSDAY 21 DECEMBER

AGMS		
Trinity Capital	TRC	
Transense Technologies	TRT	
ECONOMICS		
UK		
Nationwide HPI		
US		
Final GDP		
Jobless claims		
Philly Fed Manufacturing Index		
Flash Manufacturing PMI		
Flash Sales PMI		
EX-DIVIDEND		
Acal	ACL	2.65p
Alliance Pharma	APH	0.44p
Burberry	BRBY	11p
Countryside Properties	CSP	5p
Gattaca	GATC	17p
Petro Matad	MATD	$2.77
MITIE	MTO	1.33p
NEX	NXG	3.5p
Octopus AIM VCT	OOA	2.5p
Topps Tiles	TPT	2.3p
United Utilities	UU.	13.24p

GETTING A NEW chief executive in place is clearly something Blancco Technology (BLTG:AIM) investors would love to see in the first quarter update on 19 December.

That would neatly close what has been a torrid year of poorly planned acquisitions, shady revenue recognition and serious management problems.

There are clearly some good products and firm underlying demand, hence the 40% share price rally since early November.

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

BLACKROCK®

POSITIVE OUTLOOK
FOR US ECONOMY

The election of Donald Trump as US President nearly a year ago rocked the markets and sent shockwaves across the globe. Yet looking at the United States' economic data for the past 12 months, investor and business confidence are the highest the country has seen since the turn of the century.

The US unemployment rate is the lowest it has been since 2001[1], wage growth was at 2.95% for the second quarter 2017[2], the annual GDP growth rate is 2.2% and inflation remains modest at 1.9% for the three months to end of June 2017. In the year to October 11 2017, the US stock markets returned 17.78%[3] and corporate profits for US companies have been strong since the start of the year[4].

There are three key sectors driving strong returns from the US stock markets.

First is the healthcare and pharmaceutical sector. An ageing population dependent on long term healthcare and medicines are driving profits in this sector, both domestically and from overseas. In particular, those pharmaceutical companies with long-dated patents look well placed to deliver stable dividends to shareholders.

The largest businesses listed in the US healthcare sector returned 19.87% for the year to 11 October 2017[5], while the US pharmaceutical sector delivered 10.97% over the same period[6].

While the future for the sectors may be a little uncertain as the Trump administration continues its efforts to repeal universal healthcare, the fundamental reasons for the growth in healthcare and pharmaceuticals remain solid: an ageing population and the demand for medicines. The sectors also continue to outpace returns from other stable earners such as consumer staples, which returned -2.32% in the year to date[7].

Information technology represents another source of growth for the US economy, returning as it did 28.27% in the year to October 2017[8]. Typically, the sector benefits from increased consumer and business confidence as individuals and organisations have more to spend on technology. In the year to October 2017, US consumer sentiment has risen from 87.2 to 95.1[9], while business confidence is at the highest it has been for 10 years[10].

Elsewhere, the financial sector is staging a comeback. It returned 13.07% for the year to October 2017 compared with 10-year returns of 0.87%[11]. US banks are benefiting from an increase in interest rates to 1.25% this year[12] which, as lenders, directly boosts their profits. At the same time, an anticipated relaxation in financial regulation under a Trump government could release institutions from some restrictive rules. For example, the US President has said he will revisit legislation that includes the Dodd-Frank Act, which was designed to manage banking activity and improve consumer protection in the wake of the 2008 financial crisis.

For the US markets 2017 has been a good year but there are notable challenges for the months ahead. President Trump has faced difficulty in getting reform through and there is a lack of clarity on future fiscal policy. These are key risks to monitor.

Similarly, there may be more moderate returns from stocks in the months to come as share prices reflect increased investor confidence, improved company returns and the impact of tax rises.

The US market may not be able to deliver the same stellar returns in 2018 as it did in 2017, but North America is worth serious consideration for investors in search of long term income and growth.

To find out more and to take advantage of the opportunities that North America represents, please **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-states/unemployment-rate)
[2] Trading Economics, 30 June 2017 (https://tradingeconomics.com/united-states/wage-growth)
[3] MSCI Indices as at 11 October 2017 (https://www.msci.com/end-of-day-data-search)
[4] Trading Economics, 30 June 2017 (https://tradingeconomics.com/united-states/corporate-profits)
[5] S&P Dow Jones Indices, 11 October 2017 (http://us.spindices.com/indices/equity/sp-500-health-care-sector)
[6] As above (http://us.spindices.com/indices/equity/sp-pharmaceuticals-select-industry-index)
[7] As above (http://us.spindices.com/indices/equity/sp-400-consumer-staples-sector)
[8] As above (http://us.spindices.com/indices/equity/sp-500-information-technology-sector)
[9] Trading Economics, September 2017 (https://tradingeconomics.com/united-states/consumer-confidence)
[10] Trading Economics, September 2017 (https://tradingeconomics.com/united-states/business-confidence)
[11] Trading Economics, 12 October 2017 (http://us.spindices.com/indices/equity/sp-500-financials-sector)
[12] Trading Economics, September 2017 (https://tradingeconomics.com/united-states/interest-rate)

Aviva's smart investment plan makes this a must buy stock

A company with the enviable problem of what to do with all of its money

Life insurer **Aviva (AV.)** is a cash generating machine. It trades at just 8.2 times 2019's forecast 62.5p of earnings while paying a generous dividend yield of 6.4% for the same year.

The company's £3bn capital redeployment plan for the next two years has caused investment bank Jefferies to raise its cash earnings forecast by 9%. It also 'comfortably projects' more than 5% growth in its earnings per share figure in the medium term.

Aviva has tightened its focus on the UK market, having exited Russia, the US and Malaysia. While this narrowing of target markets may well pay off it does give the company greater exposure to the uncertainty in the UK economy over Brexit. However, according to chief executive Mark Wilson, 42% of the company's earnings come from outside the UK so it has some protection.

The plan to exit several markets was aimed at lowering costs and creating greater capital efficiency with higher margins.

He took a knife to the sheer amount of insurance products offered by the company, apparently telling his staff if you can't explain the proposition in a tweet 'then kill it'.

Despite this ruthless approach, the FTSE 100 company still provides a wide range of insurance products, covering life, home, motor, health, personal accident and even pets.

AVIVA ➚ BUY
(AV.) 510.5p
Stop loss: 408.4p

Market value: £20.77bn

Aside from the planned capital redeployment for 2018 and 2019, Aviva is sitting on a great deal of surplus cash. After it has satisfied the amount required by regulators to absorb shocks, the company is forecast to have £11.9bn in surplus funds. This is how it can pay out such bumper dividends from what Wilson describes the 'embarrassment of riches on our balance sheet'.

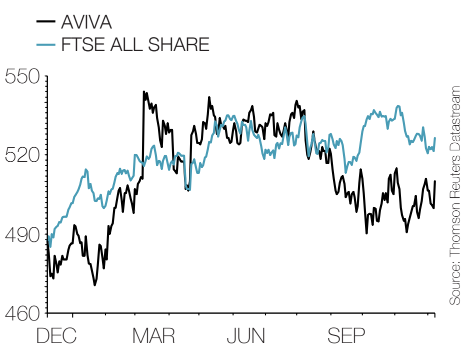
TURNAROUND IN FORTUNES

Aviva was in the doldrums for some years, losing money and damaging shareholder value but those days are well and truly over. The company is now expected to raise its dividend payout ratio to 50% of earnings for 2017, with Jefferies predicting Aviva lifting the ratio to 55% 'comfortably' by 2020.

At the company's recent capital markets day on 30 November, Wilson said that the changes made in 2014 are bearing fruit.

The company's three-year compound annual growth rate for operating earnings per share is 5% and with healthy growth targets set and generous dividend payout on the cards, Aviva looks a very attractive proposition. (DS)

BROKER SAYS: 13 5 3



Telford Homes is our pick of the housebuilders

Focus on non-prime London and build-to-rent makes company stand out

We feel **Telford Homes (TEF:AIM)** is not getting sufficient credit for its position in an attractive growth niche and a differentiated business model. We expect that situation to change in the coming 12 months.

Despite its name, which conjures up images of the England's most rural county Shropshire, the company is focused almost entirely on London.

Its specific focus is 'non-prime London' which is homes at the more affordable end of the market.

The perceived risk posed by Brexit to the London property market has helped keep a lid on the share price. Yet the continuing concentration of jobs in the capital makes it easier to predict demand for Telford's properties whose average selling price of less than £600,000 is relatively cheaper than some of its quoted peers. For example, **Berkeley's (BKG)** average selling price is currently £719,000.

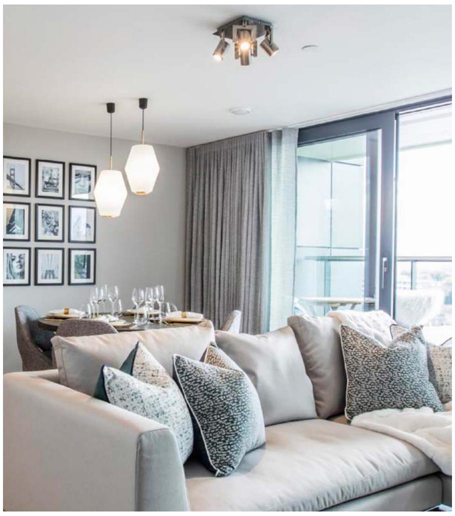
SUPPORTIVE BACKDROP

Telford is likely to enjoy a supportive backdrop with the mayor Sadiq Khan's London plan published at the end of November lifting targeted new housing supply from 42,000 to 66,000 new homes a year.

Khan's plan will make it harder for boroughs to refuse planning permission and easier to grant it. The continuing Help to Buy scheme and cuts to stamp duty at a national level are also helpful to Telford.

TELFORD HOMES
BUY
(TEF:AIM) 408.5p
Stop loss: 326.8p

Market value: £309.9m



The company has great earnings visibility. For the 12 months to 31 March 2018 it has already secured orders worth 95% of guided gross profit as well as 65% of what's forecast for the following financial year.

The total development pipeline is worth £1.4bn, equivalent to nearly 4,200 units and 3,000 of these have planning consent.

This underpins guidance for pre-tax profit to grow to more than £40m for the current financial year and £50m for the following year.

WHAT DIFFERENTIATES TELFORD FROM THE REST?

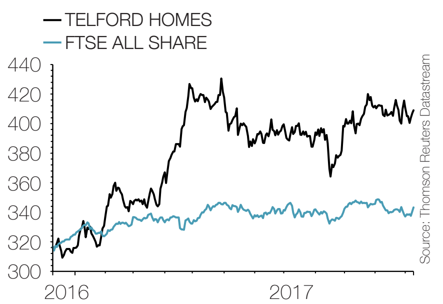
A quality which makes Telford distinct from a lot of other housebuilders is its growing exposure to build-to-rent.

As the name suggests, build-to-rent or private rented sector developments see all the properties built for rent rather than sale.

By moving into this space, the company should be able to expand more rapidly without putting undue pressure on its capital position as the deals are typically forward funded by institutional investors.

Despite these attractions stockbroker Peel Hunt reckons the stock trades at a rough 20% discount to the rest of the sector based on the ratio between its price to net asset value and forecast return on equity. It also offers a dividend yield of more than 4%. (TS)

BROKER SAYS: 3 1 0



XAFINITY

(XAF) 187.75p

Gain to date: 15.2%

Original entry point:

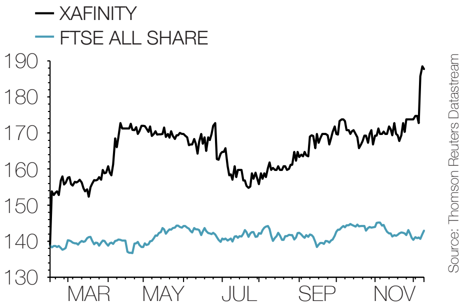
Buy at 163p, 31 August 2017

READING-BASED **XAFINITY (XAF)** is to become the largest pure-play consultant in the UK pension market after striking a deal to buy Punter Southall's actuarial, administration and consulting business for up to £153m.

This will give Xafinity greater scale with defined benefit pension schemes. It advises pension trustees on whether there is enough money to pay pension members over the long term and where the money should be invested. Administration tasks include making sure the right people are paid the right amount of money at the right time.

Co-CEO Paul Cuff says Xafinity's strategy is to undercut the big investment consultants in the market and offer a more focused service. He says the operations being acquired from Punter Southall are 'very good' at large scale administration and M&A advice whereby pensions are big issues to consider during takeovers.

Over the last nine months Xafinity has won 13 new clients and only lost one. 'It takes a while for new work to start; you'll see the benefits of these contract wins start to show in the second half of the financial year,' says Cuff. 'If we keep winning that amount of new business, we will be doing fantastically well.'



SHARES SAYS: ↗

The company has been hinting at acquisitions since it joined the stock market in February 2017 and the first deal looks like a decent one. Keep buying the shares. (DC)

BROKER SAYS: 1 0 0

KAINOS

(KNOS) 314.75p

Gain to date: 59.0%

Original entry point:

Buy at 198p, 19 January 2017

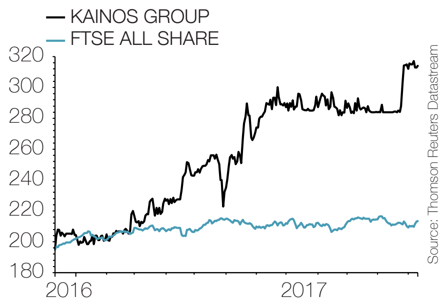
HALF-YEAR RESULTS FROM **Kainos (KNOS)** are more exciting that the figures may first suggest. However, the valuation is looking a bit excessive, so we're taking profit on our *Great Ideas* trade.

Headline revenue and pre-tax profit were virtually flat, at £41.4m and £7.1m respectively, the company's lowest growth since floating on the stock market in July 2015.

We've known NHS investment in digital systems and services has been weak for a while. It remains so, but there are hints of improvement, such as seven new hospitals going live in the six month period for the firm's *Evolve* clinical automation platform.

But Kainos' enterprise digital transformation services, including the Workday resales, could barely be doing better. New orders nearly doubled to £54.9m between April and September, promising a much stronger second half.

Cash conversion was a little weak because of the timing of staff bonuses. Management remain comfortable with typical 80% to 85% averages for the full year.



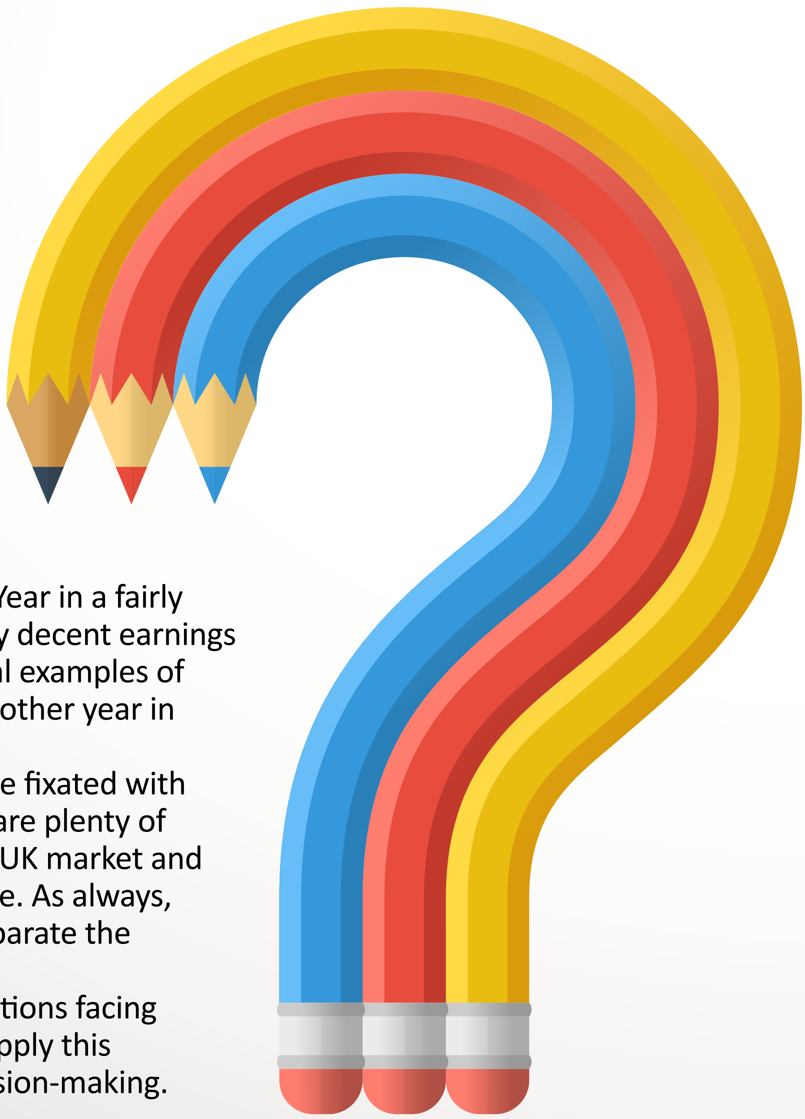
SHARES SAYS: ↘

Kainos remains a class digital enabler with strong long-term prospects. But on a current year PE in excess of 30, a lot of future growth is already priced in, so we're cashing out while the going is good. Sell at 314.75p. (SF)

BROKER SAYS: 3 0 0

THE BIG QUESTIONS FOR INVESTORS IN 2018

THE OUTLOOK FOR MARKETS, POLITICS, SECTORS, TAKEOVERS, COMMODITIES, HOUSE PRICES AND MORE

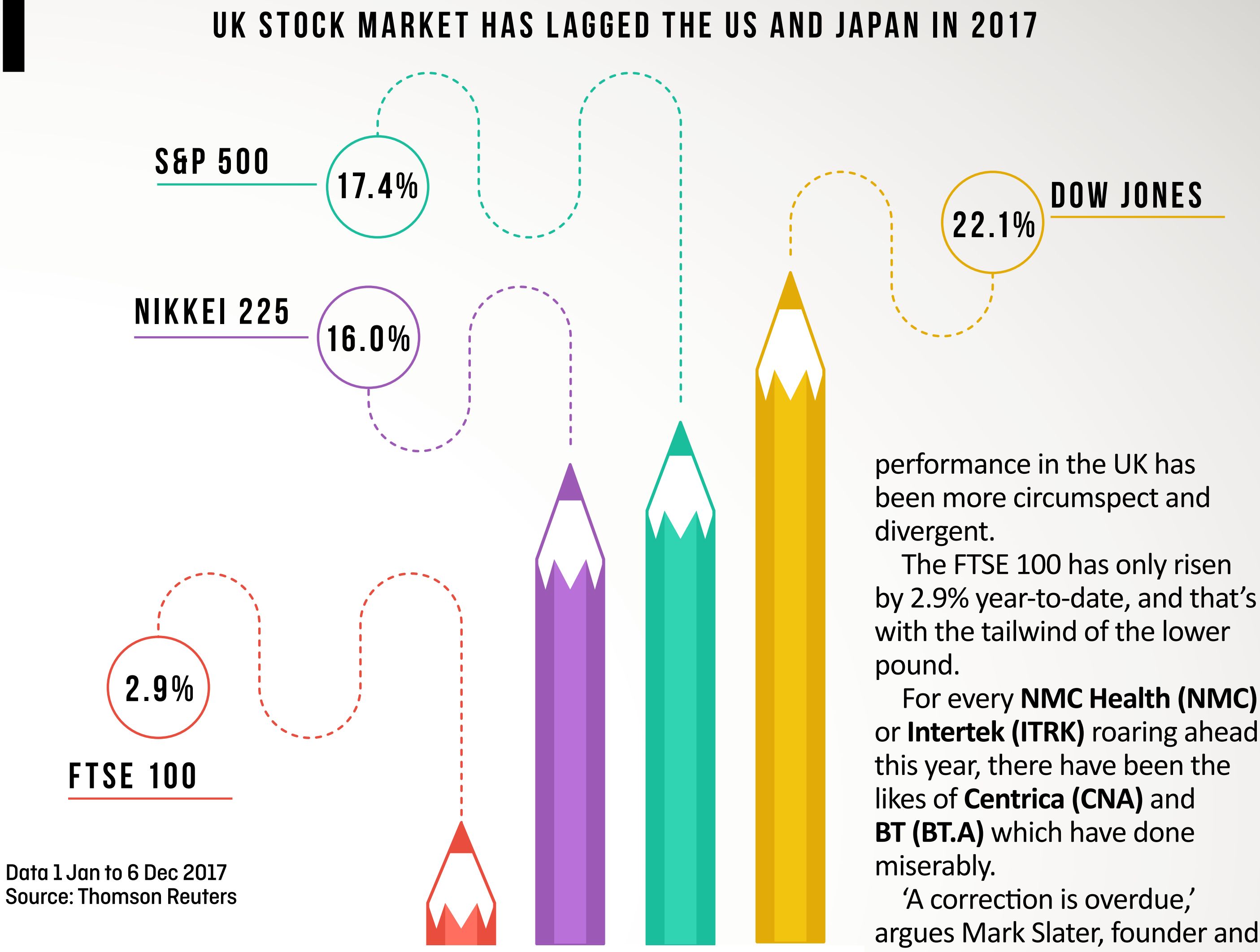


The markets approach the New Year in a fairly resilient mood, characterised by decent earnings growth from companies, several examples of M&A activity and the end of another year in what has been a long bull-run.

Although the general public may be fixated with Bitcoin at present, we believe there are plenty of opportunities for your money in the UK market and overseas, as we explain in this feature. As always, you'll have to do some digging to separate the potential winners and losers.

We now discuss 10 of the big questions facing investors in 2018 and how you can apply this information to your investment decision-making.

1 WHAT WILL HAPPEN TO THE UK STOCK MARKET IN 2018?



It's the question everyone's asking given the widely held perception that many UK equities are trading on bubble-like valuations and that the stock market rally is soon to end.

Fanning the flames of the bubble argument is the fact that the FTSE 100 has set new record highs several times in 2017 including the all-time high of 7,562.28 on 6 November.

The UK stock market has rallied strongly since the financial collapse, more than doubling from the 6 March 2009 nadir of 3,530.73. The FTSE 100 has risen by nearly 30% since February 2016.

Stock prices may have been rising for eight years but, as Trevor Greetham, head of multi-asset at Royal London Asset Management, neatly puts it, 'bull markets don't die of old age'.

THE UK MARKET IN 2017 WASN'T AS STRONG AS YOU MIGHT THINK

While records have been broken on many stock markets this year (such as the S&P 500 and Dow Jones in the US and Nikkei 225 in Japan), the overall performance in the UK has been more circumspect and divergent.

The FTSE 100 has only risen by 2.9% year-to-date, and that's with the tailwind of the lower pound.

For every **NMC Health (NMC)** or **Intertek (ITRK)** roaring ahead this year, there have been the likes of **Centrica (CNA)** and **BT (BT.A)** which have done miserably.

'A correction is overdue,' argues Mark Slater, founder and manager of the **Slater Income Fund (GB00B6YSXJ10)**, yet he remains quite optimistic when it comes to finding investment opportunities.

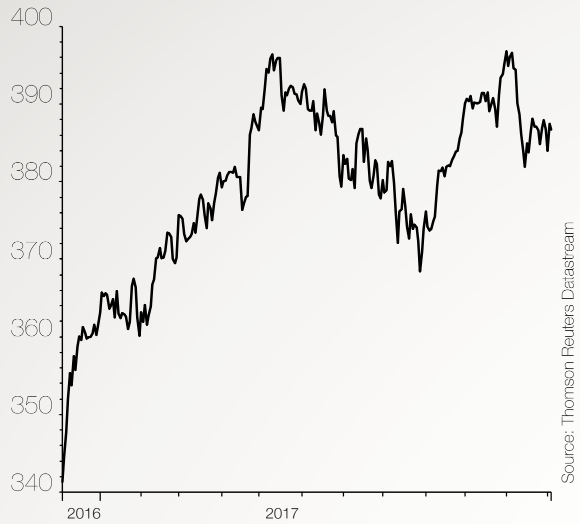
Slater's fund invests right across the market sector and size spectrum and he believes there remain a lot of UK opportunities where the 'valuations are very attractive.' He cites examples such as **Lloyds Bank (LLOY)**, **Liontrust Asset Management (LIO)** and **Amino Technologies (AMO:AIM)**.

This view appears to be widely held by UK fund managers. More than two-thirds expect the global equity bull run to continue throughout 2018, according to a recent *Reuters* poll. Indeed, many fund managers have been upping exposure to UK stocks.

The debate about whether UK equities valuations are good, bad or indifferent could run endlessly. But it is worth remembering that many smart fund managers have called temporary time on UK equity good times before, only to be left with egg on their faces. (SF)

2 OVERSEAS MARKETS: WHICH ONES WILL BE HOT IN 2018?

STOXX EUROPE 600 OVER PAST YEAR



STOXX EUROPE 600 OVER PAST 10 YEARS

Europe has been one of the success stories in terms of stock markets in 2017 and that trend looks set to continue in 2018, according to investment experts.

'After a decade when Stoxx 600 earnings have declined, 2017 is set to break that trend and deliver double-digit earnings growth,' says James Rutherford, chief investment officer, European equities at Hermes. 'Estimates for 2018 are rapidly changing, but current consensus is around 8% growth.'

Stoxx 600 is an index of large, mid and small cap companies across 17 European countries. It has increased in value by 10.6% for the 12 months to 6 December 2017.

Investment bank Morgan Stanley is also bullish on Europe. It believes the European Central Bank will maintain an 'extremely easy' monetary policy and that GDP for the Eurozone could increase by more than 2% for the second year in a row, followed by 1.9% in 2019 (the latter on a par with the US).

OUTLOOK FOR EMERGING MARKETS AND THE US

Emerging markets could be more volatile in 2018. Widespread expectation for higher interest rates in the US near term could cause inflationary pressure in emerging markets, warns Bank of America Merrill Lynch.

UBS takes a positive view, predicting 8% to 10% returns in emerging markets equities in 2018, driven entirely by earnings growth.

The main US stock indices have soared ahead in 2017 yet valuations aren't overly excessive and the macro backdrop remains supportive. Proposed tax cuts should boost corporate profits. UBS predicts 7% to 9% total returns from the S&P 500 index in 2018.

Luca Paolini, chief strategist at Pictet Asset Management, says dollar weakness and Trump's tax plan should support US corporate earnings and boost the market. However, he believes European, Japanese and emerging markets equities have 'even better' prospects.

GAINING EXPOSURE VIA FUNDS AND ETFS

Anyone looking for inspiration in terms of funds and exchange-traded funds to play these themes may wish to look at AJ Bell's Favourite Funds list via www.youinvest.co.uk/investment-ideas/favourite and use that as a starting point for further research.

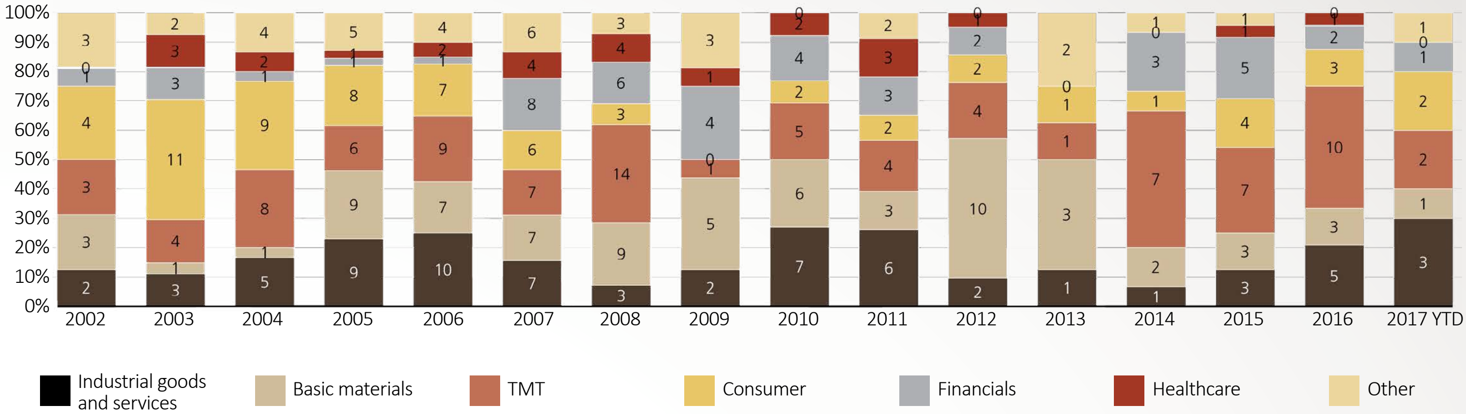
Europe (excluding the UK) funds on the list include: **Artemis European Opportunities (GB00B6WFCR53)** and **Vanguard FTSE Developed Europe ex UK ETF (VERX)**.

US selections include: **JP Morgan US Equity Income (GB00B3FJQ599)** and **iShares Core S&P 500 ETF Acc (CSP1)**.

Japan selections include: **Baillie Gifford Japanese Acc (GB0006011133)** and **Vanguard FTSE Japan ETF (VJPN)**. (DC)

3 WHO ARE THE HOT TAKEOVER TARGETS?

NUMBER OF UK TAKEOVERS BY SUPERSECTOR 2002-2017



Source: UBS, Dealogic, 20 Oct 2017

Takeover activity began to ramp up after the UK General Election in June 2017. Figures from the Office for National Statistics show the value of M&A involving UK companies hit £86.4bn in the third quarter of 2017 against just £33.2bn in the second quarter.

Apart from the £9.3bn takeover of payment processing firm **Worldpay (WPG)** in August and a more recent deals involving a tie-up between shopping centre investors **Hammerson (HMSO)** and **Intu Properties (INTU)**, most of the high-profile bid targets on the UK market remain unconsummated for now. This could change in 2018 as attention moves on from political concerns.

PLENTY OF FIREPOWER TO DO DEALS

Many companies and private equity firms are sitting on mountains of cash. According to industry consultant Preqin global private equity has nearly $1tn in capital at its disposal.

The pound is volatile but remains broadly depressed against other major currencies and this should make UK companies attractive to overseas buyers in particular.

On the flip-side the reason the pound is weak is due to continuing uncertainty over the Brexit process and the risk of a radical Labour government being formed in the UK. Both these factors could limit deal appetite.

The transition agreement on Brexit craved by the corporate world could address both issues by providing greater clarity on the future trading arrangements between the UK and EU as well as bolstering the position of the current Government.

VALUATION SHOULD NOT BE AN OBSTACLE

Valuation is unlikely to be a major issue as UK stocks have materially underperformed US and European equities in 2017.

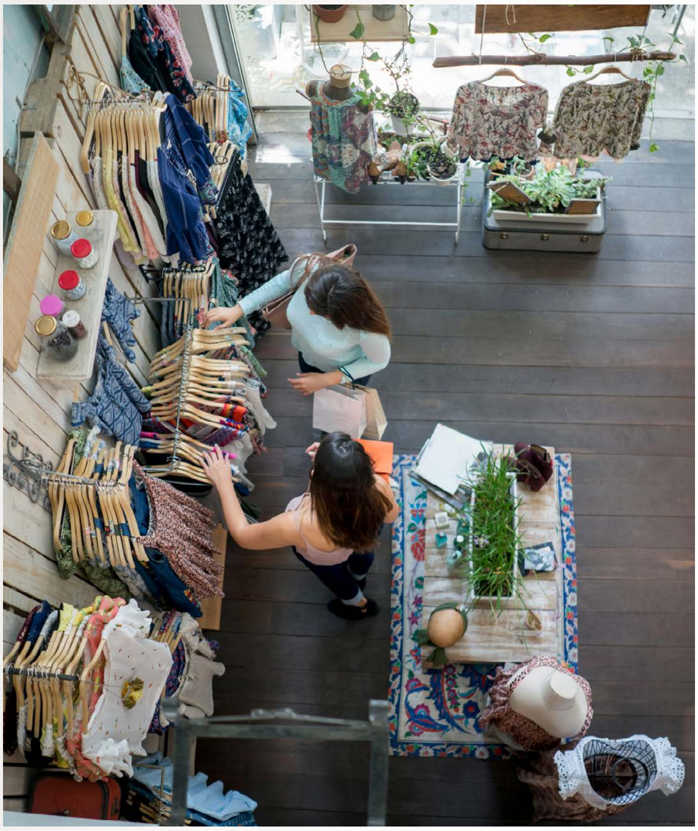
Many of those with UK domestic exposure really struggled. For example, free-to-air broadcaster **ITV (ITV)** is down 22% year-to-date thanks to a gloomy advertising backdrop. This could provide the spur for its largest shareholder Liberty Global to make a takeover bid.

In our view ITV is the M&A candidate with the most potential, given a clearly identifiable suitor, its status as a unique asset and a free cash flow yield of nearly 10% based on Liberum's forecasts – way above the likely cost of financing any deal.

Some companies which have previously fought off bid interest remain potential targets, according to many market commentators, including **AstraZeneca (AZN)** and **Unilever (ULVR)**.

Goldman Sachs recently published a list of potential M&A targets including media group **Ascential (ASCL)**, tech firm **Aveva (AVV)**, oil producer **Tullow Oil (TLW)**, medical devices expert **Smith & Nephew (SN.)**, recruitment agency **PageGroup (PAGE)** and chemicals business **Croda (CRDA)**. (TS)

4 CAN THE RETAIL SECTOR BOUNCE BACK?



SECTOR FORWARD PRICE-TO-EARNINGS RATIO

Source: Datastream

The UK retail sector has been depressed in 2017. Profit warnings and worries over the consumer outlook have weighed heavily on sentiment.

Sector headwinds are numerous; higher inflation, falling real disposable income, weakening consumer confidence, unsecured debts rising ahead of income, and disruption from online-only operators.

Retailers face rising costs in the form of the National Living Wage, pensions auto-enrolment and necessary investment in their online infrastructure.

But as stockbroker Peel Hunt recently commented: 'The consumer is still spending'. That suggests you shouldn't write off the retail sector from an investment perspective.

WHAT'S HOT AND WHAT'S NOT?

Home-related spending and big ticket items are the only areas to have suffered a visible slowdown. Times are tough, but good retailers are still taking share and delivering sales and profit growth.

'We are certainly not going to argue that all is rosy in the garden, but we believe that while the consumer is facing clear headwinds, those headwinds remain a long way from being recessionary or devastating in effect,' says Peel Hunt.

It is worth noting a recent bullish comment from Simon Wolfson, boss of retailer **Next (NXT)**. He said: 'Our prospects going forward appear somewhat less challenging than they did six months ago. I think potentially we have reached the bottom of a number of adverse trends.'

REASONS TO BE CHEERFUL?

There will be less pressure in 2018 on retailers to raise prices, since the bulk of inflationary input costs have now worked into the system.

As N+1 Singer's retail expert Matthew McEachran explains: 'The £/$ fall from 1.50 to 1.20 was the cause of a lot of the sector's issues – firstly on margin (import costs) and now on sales (real wage squeeze). The rate has recently recovered half the gap (now roughly 1.35) meaning not just that the imported inflation bit will stabilise, but that it will part reverse (all else being equal).'

McEachran also guides towards the possibility that real wages could feasibly turn positive again in the second half of 2018, an important theme, not least as retail winners might also benefit from market share gains following a shake out of weaker operators.

The 2018 outlook remains positive for e-commerce as a whole, with online channel shift accelerating and by increased physical space contraction and capacity withdrawal.

In the New Year, other themes to monitor may include trading down to value goods and services.

For investors prepared to look past lofty valuations **ASOS (ASC:AIM)** offers a way to play the continuing shift of retail online while **Card Factory (CARD)** could benefit as consumers trade down. (JC)

5 FROM QUANTITATIVE EASING TO QUANTITATIVE TIGHTENING: WHAT DOES IT MEAN FOR INVESTORS?

We have been living in an age of extraordinary monetary policy since the 2008 financial crisis but this is now changing. The US Federal Reserve is now tightening its monetary policy and other countries including the UK are expected to follow suit – although the pace of change is unknown.

A stronger economy is normally the catalyst for hiking interest rates and stopping quantitative easing (QE), the term used to describe the way in which central banks have engaged in large scale purchases of (mostly government) bonds to stimulate the economy.

Institutions have sold their bonds to central banks, increasing the money supply in the financial system as the proceeds are used for various activities such as commercial banks financing new loans to encourage more spending and investment.

Quantitative tightening (QT) is the reverse and is also known as balance sheet normalisation. Under QE, when maturing bonds owned by a central bank mature, they simply reinvested the proceeds into new bonds. When QT begins, the central bank will taper these reinvestments and allow its balance sheet to gradually shrink.

> “WE EXPECT THE FED WILL HAVE THREE BASIC OBJECTIVES WHEN IT COMES TO UNWINDING ITS BALANCE SHEET: DON'T CRASH THE BOND MARKET; DON'T CRASH THE STOCK MARKET; DON'T CRASH THE ECONOMY”

WHAT'S THE TIMETABLE FOR THE UK AND US?

Although the UK has started to raise rates, it has kept QE in place. We wouldn't be surprised to see growing pressure on the Bank of England during 2018 to provide some guidance as to when it may gradually unwind its programme.

The Federal Reserve started its quantitative tightening in October 2017 and is expected to run the programme until June 2021, contracting its balance sheet by approximately $2tr.

'The obvious question at this point is: if QE pushed interest rates lower and asset prices higher, why would the opposite not unfold under QT?... and there is the $3.5 trillion question!' said asset manager Schroders earlier this year.

'We expect the Fed will have three basic objectives when it comes to unwinding its balance sheet: Don't crash the bond market; don't crash the stock market; don't crash the economy.

'If the risk of any of these becomes uncomfortably high (most likely brought about by bond yields jumping), the Fed has already hinted that it could either resume reinvestments to stabilise its balance sheet, cut short-term interest rates, or in extremis re-expand the balance sheet through further asset purchases.'

WHEN WILL EUROPE STOP QE?

Investors are keeping a close eye on comment from the European Central Bank (ECB) with regards to its monetary stimulus programme.

The majority of economists in a recent *Reuters* poll said the ECB should shut the door on its monthly asset purchases next September. Japan's QE programme is still intact although the pace of its asset purchases is slowing.

Theoretically QT should be bad for bonds and a headwind for stocks, yet we're in unchartered territory as unwinding a significant proportion of a large balance sheet without disturbing the economy or markets has never had to be done before. (DS)

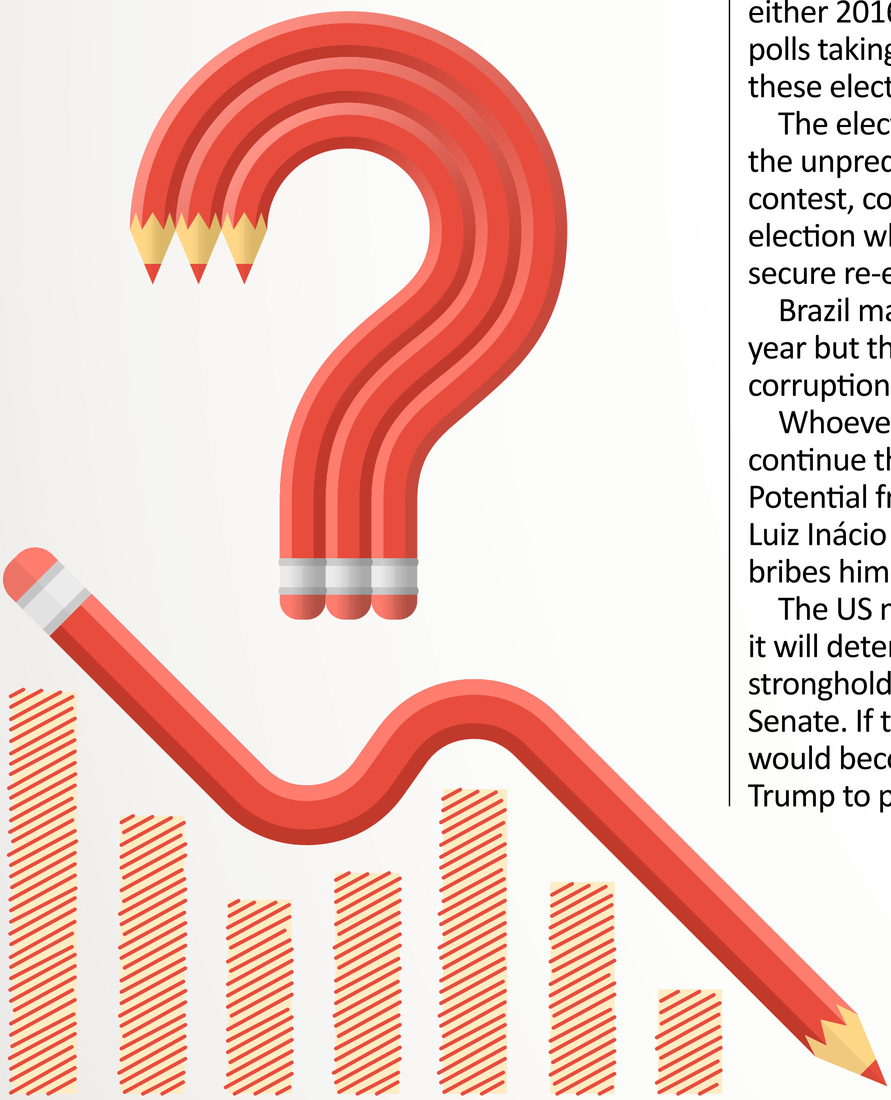
6 WHAT SHOULD YOU EXPECT WITH UK POLITICS IN 2018?

An eleventh hour divorce settlement on 8 December paves the way for Brexit talks on a transition agreement and future trading relationship between the UK and EU to begin. Progress on the former, in particular, is likely to be closely followed by investors in 2018.

Another political issue which could have a material market impact are the fortunes of Jeremy Corbyn's Labour Party.

Corbyn could be a 'threat' to big banks and his re-nationalisation policies could clearly be damaging to listed utilities, postal service, telecoms and transportation companies.

A hike in the minimum wage could also impact margins for businesses with large numbers of staff on low pay. Local elections on 3 May 2018 should offer a barometer of Labour's popularity. (TS)



7 WHERE ARE THE BIG ELECTIONS IN 2018?

ELECTIONS	
COUNTRY	**DATE**
Russia (Presidential Election)	18 March
Italy (General Election)	No later than 20 May
Mexico (General Election)	1 July
Brazil (General Election)	7 and 28 October
US (Mid-Term Elections)	6 November

Although unlikely to be as politically fraught as either 2016 or 2017, there are several significant polls taking place next year. The most notable of these elections are in Brazil, Russia and the US.

The election in Brazil is a risk for investors due to the unpredictability of the outcome amid a tight contest, compared to the Russian presidential election where Vladimir Putin is widely expected to secure re-election.

Brazil managed to escape recession earlier this year but the country is struggling with a wave of corruption.

Whoever wins the presidential election could continue the fight against corruption or stall it. Potential frontrunners include former president Luiz Inácio Lula da Silva, recently convicted of taking bribes himself. He is appealing a prison sentence.

The US mid-term election is significant because it will determine whether the Republicans keep a stronghold in the House of Representatives and the Senate. If the party loses control of either house it would become more difficult for President Donald Trump to pass legislation. (LMJ)

8 WHERE NEXT FOR MAJOR COMMODITY PRICES?

COPPER

Copper prices have rallied in the second half of 2017 thanks to supply disruptions and strong demand. Investment bank Macquarie predicts an almost balanced market in 2018 in terms of supply and demand which suggests we won't get a repeat of this year's rally, yet neither does it imply a big sell-off as the New Year progresses.

GOLD

In the absence of a global stock markets correction, war or political turmoil, it is hard to see gold having a good year in 2018 as there isn't enough panic on the markets to spook investors into buying so-called 'safe haven' assets like gold. Otherwise only higher than expected inflation stands a chance of pushing up the precious metal price.

OIL

The decision by OPEC to extend production cuts from March through to the end of 2018 should provide support for the oil price and should help keep prices above $50 per barrel. Further big advances for crude are likely to be limited as US shale producers boost output, barring a significant escalation of tensions in the Middle East. (DC/TS)

9 WILL EVERYONE STILL BE TALKING ABOUT ELECTRIC VEHICLES IN 2018?

The electric vehicle (EV) industry showed rapid development in 2017 thanks to automotive manufacturers giving widespread support and various countries laying out plans to ban diesel cars in the near future.

We believe it will continue to be a dominant theme as investors look to get a slice of the action. That means favourable conditions for engineers, miners, semiconductor experts, and chemical companies with products relevant to the EV industry, although not everyone is guaranteed success.

We expect investors to start to look more closely at individual stocks rather than assuming anyone connected to the sector will benefit.

On the US market, we expect Tesla to come under increasing scrutiny with regards to its cash burn rate and how it sits versus premium car brands which already have an established and broad dealer network. (DC)

10 WHERE NEXT FOR UK HOUSE PRICES?

House price growth is slowing heading into 2018 and it is hard to see that trend changing given higher, albeit slightly, interest rates, pressured household income and an uncertain economic backdrop.

The continuing imbalance between supply and demand is likely to prevent a sharp correction in prices, nonetheless.

Pressure is likely to be greatest on high end London properties with implications for estate agent **Foxtons (FOXT)** and housebuilder **Berkeley (BKG)**, both of which are focused on the capital.

Jonathan Hopper, managing director of property search consultant Garrington Property Finders, says: 'Few expect the Chancellor's stamp duty cut to provide a silver bullet for the misfiring market, and all eyes are now on the Prime Minister to cut a Brexit deal – which might just give the market the shot of clarity and confidence it needs to start 2018 on the front foot.' (TS)

Understanding how investment trusts manage discounts and premiums

The tools employed by closed end funds to close valuation gaps

The closed end structure of investment trusts means they can trade at a premium or discount to the value of their underlying investments or net asset value (NAV). This is typically dependent on investor demand for the shares.

Some trusts look to counteract this situation by employing 'discount control mechanisms' (DCMs) which will trigger a response to close that valuation gap if the discount gets too wide. This article will look in more detail at how these mechanisms work.

When valuing investment trusts the market will typically focus on net asset value, or total assets minus debt, because trusts can invest with borrowed cash.

Essentially it shows you what you would get back if the trust was wound up, its assets sold off and the proceeds returned to shareholders minus any liabilities.

HOW DO TRUSTS ADDRESS DISCOUNTS AND PREMIUMS?

An investment trust may issue new stock when shares start to trade at a premium. As for discounts, there are two main ways an investment trust will look to reduce the discount to its NAV, with the threshold anywhere between zero and 10% or sometimes higher.

Probably the most common approach is to buy back shares in the market. Reducing the number of shares in issue should boost the NAV attributable to the remaining shares.

Tender offers or redemptions, whereby the trust will allow shareholders to sell a proportion of their shares back to the company at either a fixed discount to NAV or a price close to the NAV itself, are also employed.

Peel Hunt investment trust analyst Anthony Leatham expands on the options available to trusts: 'Certain trusts have either a fixed life or a continuation vote in place which can act as a catalyst for a discount narrowing.'

These arrangements mean either a trust will only exist for a fixed period or it will allow shareholders to regularly vote for it to be wound up after which shareholders will be paid their share of the company's assets at or close to NAV.

'A final, indirect mechanism has been to offer an enhanced or manufactured dividend and thereby make a trust more appealing to a wider audience and increase demand for the shares.'

'DEATH BY A THOUSAND CUTS'

There is no guarantee that buying back shares will be effective in narrowing the discount as the trust is still at the mercy of market volatility and investor sentiment.

For this reason, Leatham reckons the 'hard deadlines' of fixed life, annual redemption facility or continuation vote policies offer a great degree of certainty absent from the buyback approach, noting comments from the chairman of **Baring Emerging Europe (BEE)** that buying back shares to defend a discount can be equivalent to 'death by a thousand cuts'.

Winterflood investment trust expert Kieran Drake says it can be damaging for smaller trusts to buy back shares. By reducing the size of the fund it potentially undermines liquidity, making it harder to buy and sell the shares in the future.

Also for trusts which invest in illiquid underlying assets it could be challenging to raise the cash necessary to buy back shares.

Leatham adds: 'The drawbacks are simple; pursuing a policy which involves spending a material amount of capital to defend a discount that is unavoidably volatile is counterproductive.

'Instead, taking a holistic approach and letting the NAV returns do the talking, amplified by a concerted marketing effort should lead to more sustained buying demand.'

OPPORTUNITIES FOR ARBITRAGE?

Some investors like the closed end structure of investment trusts specifically because they can capitalise on the difference between the NAV and the share price.

> BUYING BACK SHARES TO DEFEND A DISCOUNT CAN BE EQUIVALENT TO 'DEATH BY A THOUSAND CUTS'.

Leatham says: 'Personally, I consider discount volatility to be an opportunity. To see a great manager trading on a wider-than-average discount due to some unforeseen exogenous event can present an opportunity to buy £1 of quality assets for 80p, for example.'

Winterflood's Drake says there is also 'potentially' an arbitrage opportunity on a trust which trades at a wider discount to NAV than targeted by a trust's discount control mechanism. However, he adds that investors must take a closer look 'to see how strongly the board has enforced the target in the past'.

He also points out that trusts may only respond to a widened discount if it persists for a certain amount of time rather than acting immediately to address any short-term gap between the shares and NAV.

In some cases, the trust could be using a specific measure of NAV when determining the discount level. Winterflood bases its numbers on an ex-income NAV with debt at par value. Essentially this means any debt is valued as if the rate of interest on it is unchanged by market conditions.

For example, **Aberdeen Diversified Income & Growth (ADIG)** trades at an 8.6% discount to NAV by Winterflood's reckoning. However, the discount based on its own calculation of NAV, which includes debt at fair value (or in other words takes account of current rates of interest), is 4.6% and therefore within the targeted level of 5%. (TS)

THE BEST PERFORMING SHARES OF 2017: WHY THEY SOARED AND WHAT'S COMING NEXT

BELOW £100M

£100M TO £500M

£500M TO £1BN

£1BN AND ABOVE

We analyse four segments of the London Stock Exchange to find out why certain stocks had such a good year

MARKET CAP: £1BN & ABOVE

IQE +318%

TO CALL **IQE'S (IQE:AIM)** share price run this year remarkable still understates the performance. At one stage last month the stock closed at 178.75p. The share price began the year trading at 37.75p.

So why has it had an amazing run? Unconfirmed rumours that IQE's vertical-cavity surface-emitting laser (VCSEL) technology is being used in Apple's latest iPhone are largely behind the share price excitement. There are also other enticing IQE product lines with the potential for significant growth down the line.

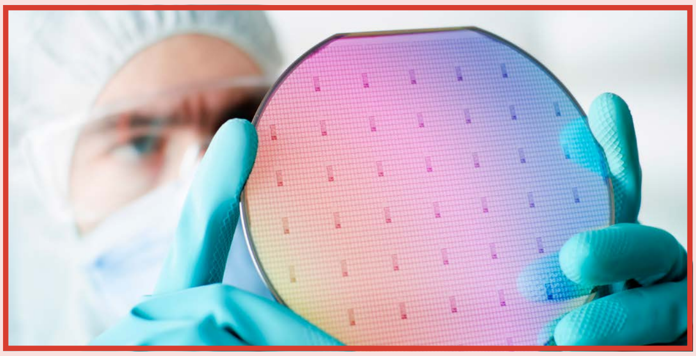
'We believe that IQE remains at the start of a multi-year re-rate cycle and think that the full extent of the future growth opportunities has yet to wholly emerge to the market, despite the stock more than doubling year-to-date,' says Stifel analyst Lee Simpson. It's a point *Shares* made back in September 2016 at 30.25p.

IQE last month used its new found share price strength to raise £95m of growth funding at 140p. The stock has subsequently traded above this level, suggesting that investors think this company is a big future winner. (SF)

BEST PERFORMING STOCKS: £1BN+

Name	EPIC	Price	Year to date change (%)
IQE	IQE	158.88p	318
Plus500	PLUS	937.75p	160
Phoenix Global Resources	PGR	48.5p	120
Hutchison China Meditech	HCM	£49.80	119
Burford Capital	BUR	£12.22	115
Renishaw	RSW	£50.78	103
Sophos	SOPH	527.5p	103
KAZ Minerals	KAZ	713.5p	100
Wizz Air	WIZZ	£35.72	99
Ferrexpo	FXPO	241.75p	85

Source: SharePad. Data taken 6 Dec 2017



PLUS500 +160%

PLUS500 (PLUS:AIM) runs a contracts for difference (CFD) trading platform for retail traders. Its strong run this year has been aided by positive trading statements which have prompted analysts to upgrade their earnings forecasts on several occasions.

This is impressive given pressures on the industry to change the way its services are marketed. The European Securities and Markets Association (ESMA) is clamping down on derivative transactions aimed at the retail investor due to their complexity.

Driving the multiple earnings upgrades was higher quality new and active customers than analysts had expected. In the three months to 30 September, it said revenue was up 50%, average revenue per user was up 11% and the average cost of attracting new customers had fallen by 47%.

'The ESMA will be granted powers of intervention in January, and we expect it will enact changes fairly quickly after that,' says investment bank Berenberg. 'While leverage limits remain the primary risk as it may reduce profitability per trade, we continue to believe that Plus500's technology platform will enable it to adapt quickly to any changes and may allow the company to take share from smaller players that may exit if the regulation becomes too onerous.' (DS)

HUTCHISON CHINA MEDITECH +119%

IT HAS BEEN a breakout year for **Hutchison China MediTech (HCM:AIM)** after revealing positive Phase III data in March for its drug Fruquintinib to treat advanced colorectal cancer.

The biopharmaceutical company is waiting for approval from the China Food and Drug Administration, which is expected in the first half of 2018.

Investors are excited by sales position for Fruquintinib and by its potential to treat gastric cancer.

This will be a key focus next year as the Phase III trial in gastric cancer started in October. (LMJ)

RENISHAW +103%

PRECISION ENGINEER **RENISHAW (RSW)** has doubled in price this year, fuelled by a storming set of full year results in July which revealed 25% increase in adjusted pre-tax profit, a strong balance sheet and an 8.3% rise in the dividend.

It has benefited from improved general industrial demand, auto production growth and strong orders for consumer electronics.

'The share is now pricing in c25 years of 9% per annum growth and while history could support this, we see it as more challenging as the business scale grows and factoring in no execution risk in the business,' said UBS last month as it downgraded the stock to 'sell'. (DC)

KAZ MINERALS +100%

AN 18% YEAR-TO-DATE surge in the price of copper combined with a doubling in production levels has served to push up shares in **KAZ Minerals (KAZ)**.

It has delivered two major growth projects and maintained its position among the lowest cost copper producers globally.

A surge in earnings is helping to generate cash to reduce its debt, leaving the miner looking extremely attractive to investors bullish on copper.

KAZ's shares are likely to remain highly leveraged to the metal price. Analysts have mixed views over copper in 2018. We note investment bank Macquarie believes there will be a balanced market in terms of supply and demand which implies there won't be a repeat of this year's copper price rally. (DC)

RENISHAW HAS DOUBLED IN PRICE THIS YEAR

MARKET CAP: £500M TO £1BN

BLUE PRISM +193%

ONE OF THE UK stock market's best performing shares last year, **Blue Prism (PRSM:AIM)** has only gone and repeated the trick in 2017. It's been an amazing ride for investors, particularly those who got in at its 78p initial public offering (IPO) price on 18 March 2016, a fraction of the current £13.05 price.

Blue Prism is a virtual workforce disruptor which uses robotic automation process (RPA) technology to automate manual back-office administration. This cuts costs, improves customer service and speed and reduces the need to invest in new IT systems.

The secret behind Blue Prism's success has been its ability to repeatedly beat market expectations. For example, at the start of 2017 Investec anticipated £17.3m of revenue for the year to 31 October 2018. By April the forecast had been raised to £25m; and to £26.3m in June. It now stands at £39.5m.

This pace of growth, coupled with equally soaring pre-tax losses, makes valuing the shares tricky to say the least. You need to think about a potential increase in competition and the fact that there is still no forecast in the market for when the company will become profitable.

In a research note on 15 November, Investec issued a £15 target price saying: 'Valuation is not in the "widows and orphans" category, but total addressable market analysis remains exciting, the group's indirect channel has now demonstrated the capability to scale, and competitive position has if anything improved in the last six months.' (SF)

GAMES WORKSHOP +191%

FANTASY MINIATURES MAKER **Games Workshop (GAW)** has delivered a staggering 191% year-to-date share price surge, driven by a series of upbeat trading statements and forecast earnings upgrades.

We said to buy at £12 on 29 June, flagging the Nottingham-headquartered company's strong cash generation and earnings resilience, built on a loyal base of global hobbyists, nigh-on obsessional about its high quality miniatures and games. It now trades at £19.69.

A tailwind for the operationally-geared group has been the weak pound, as the bulk of Games Workshop's sales are generated overseas.

BEST PERFORMING STOCKS: £500M TO £1BN

Name	EPIC	Price	Year to date change (%)
Blue Prism	PRSM	£13.05	193
Games Workshop	GAW	£19.69	191
Keywords Studios	KWS	£14.34	173
Purplebricks	PURP	350.25p	148
Victoria	VCP	822.5p	132
XP Power	XPP	£34.16	100
Conviviality Retail	CVR	402.375p	92
PureCircle	PURE	476p	90
Morgan Sindall	MGNS	£13.74	90
Watkin Jones	WJG	206.75p	80

Source: SharePad. Data taken 6 Dec 2017

Following a trading update on 1 December, Peel Hunt analyst Charles Hall, a buyer with a £24 price target, wrote: 'Games Workshop has delivered a very impressive first half with earnings before interest and tax of £38m matching last year's full year. The company is well on track to deliver on our full year forecast of £65m ahead of the important Christmas period.' (JC)

KEYWORDS STUDIOS +173%

Keywords Studios (KWS:AIM) has been a favourite among investors for some time and with good reason. The company supplies the video games industry with specialist services such as language translation and has been operating a successful buy and build strategy.

The exponential rise in this company's share price has been phenomenal, almost tripling in a year. October saw its biggest acquisition to date, being the $66m purchase of VMC which fast-tracks Keywords from number five to first place for functional testing. (DS)

XP POWER +100%

THERE'S NO SINGLE catalyst behind the stunning rise of **XP Power (XPP)** in 2017, unless you include *Shares*' in-depth feature on the stock (1 Sep 2016) when it was trading at a mere £16.51, less than half the current £34.16 price.

We believe investors have simply woken up to the superb total returns nature of this complex engineering expert.

For example, in the 10 years to 2016 the power switching technology designer paid out 444p per share in dividends, including last year's 71p payout, up from 66p in 2015. A payout of about 77p per share is on the cards for 2017, according to analyst forecasts.

It provides complex, science-based kit designed for times when off-the-shelf solutions can't do the job, allowing XP Power to claw its way up the value chain. This includes more in-house developed, patent protected components.

Expanding its end markets has also helped draw investors to the story, partly through its first acquisition (Comdel) in two years.

A run of superb results 'prove the quality of the business and the appropriateness of the strategy,' says Peel Hunt. 'XP Power more than deserves its premium rating and is a must-have (stock)'. We share this bullish view. (SF)

WATKINS JONES +80%

STUDENT ACCOMMODATION SPECIALIST **Watkin Jones (WJG:AIM)** enjoyed a superb start to 2017 as it unveiled a stellar set of maiden full year results (17 Jan) less than a year after joining AIM in March 2016.

This momentum has carried through the year. The ninth-generation family-run company reported in October that results for the 12 months to 31 September would hit expectations as it continued to secure new student housing sites and expand into the build-to-rent sector.

Equity Development analyst Mark Hughes recently commented: 'The shares trade at just over a 40% premium to the house building sector. We think this is deserved'. (TS)

WATKIN JONES ENJOYED A SUPERB START TO 2017

MARKET CAP: £100M TO £500M

VERSARIEN +553%

Graphene play **Versarien (VRS:AIM)** generated considerable excitement as it held talks with several potential customers and made some progress towards profitability.

Collaborations with Israel Aerospace Industries and a leading global consumer goods firm to use its 'few layer graphene non-platelets', also known as nanene, in its packaging has been followed by an agreement with an unnamed Fortune 100 company in the US (4 Dec).

Further progress might be expected across the pond following the establishment of a sales office in Palo Alto, California (the home of Tesla Motors). The group remains loss-making, posting a narrowed pre-tax loss of £0.77m in the six months to 30 September. (TS)

FARON PHARMACEUTICALS +214%

INVESTORS ARE EXCITED about the potential approval of **Faron Pharmaceuticals' (FARN:AIM)** drug Traumakine for the treatment of acute respiratory distress syndrome (ARDS).

ARDS is a severe orphan disease that can cause inflammation in the lungs as a result of pneumonia, sepsis or significant trauma.

Shares in Faron have soared by 214% to 832.5p so far this year with Phase III results expected in the first half of 2018. If successful, they could lead to approval in the US and Europe.

Panmure Gordon expects rapid take-up of Traumakine if pricing is reasonable. (LMJ)

BEST PERFORMING STOCKS: £100M TO £500M

Name	EPIC	Price	Year to date change (%)
Versarien	VRS	73.5p	553
Frontier Developments	FDEV	£13.22	341
Falcon Oil & Gas	FOG	22.5p	329
Serica Energy	SQZ	59.5p	310
Bango	BGO	252p	273
Asian Growth Properties	AGP	45.5p	257
Bluejay Mining	JAY	23.125p	241
Faron Pharmaceuticals	FARN	832.5p	214
WANdisco	WAND	588.5p	194
IMPAX Asset Management	IPX	166.5p	158

Source: SharePad. Data taken 6 Dec 2017

BLUEJAY MINING +241%

IT'S BEEN A good year for many junior miners and **BlueJay Mining (JAY:AIM)** has certainly caught the market's attention with its mineral sands project in Greenland. The shares are up by 241% so far this year to 23.125p and there could be much more to go, according to broker SP Angel which values the business at 37p per share.

BlueJay is one of *Shares*' running *Great Ideas*; we said to buy the stock at 13.75p in April 2017. We were drawn to the stock because of its project's very high grade material and potential large scale.

The company has made significant progress throughout 2017 and is now talking to potential offtake partners who may be able to provide some upfront cash to help build its mine, in exchange for the rights to future production.

You may think that Greenland isn't amenable to supporting a mining operation given its harsh weather conditions. BlueJay is confident it can run a simple dredging operation and one that won't cause any environmental concerns. While it may only be able to export material direct from site via shipping five months a year, there is potential to stockpile some material in Canada to facilitate all-year-round shipping.

Next year will be very important for the business as investors will want answers on permits, financing and operations, ahead of maiden production in 2019.

Mining stocks are always high risk yet we think this is one of the more interesting stories to back. (DC)

BLUEJAY IS ONE OF *SHARES'* RUNNING *GREAT IDEAS*

MARKET CAP: LESS THAN £100M

GREATLAND GOLD +941%

THE TINY MINER caught the market's attention in May when Newmont, one of the world's largest gold producers, struck a deal to look at **Greatland Gold's (GGP:AIM)** Ernest Giles project tenements and exploration database.

The shares went ballistic in October when Greatland said it had identified multiple gold targets at Ernest Giles. Chief executive Gervaise Heddle reckoned the results gave the potential for the Australia-based project to be 'one of the most significant gold districts to be identified globally within the last decade'. (DC)

ECHO ENERGY +803%

SHARES IN LATIN American focused oil and gas business **Echo Energy (ECHO:AIM)** are currently suspended pending the completion of a big farm-in deal in Argentina which would constitute a reverse takeover under AIM rules.

Before it was suspended, excitement around the story built as investors hoped Echo could follow the blueprint of **Sound Energy (SOU:AIM)** which is run by Echo's chairman James Parsons.

Sound Energy has endured a mixed 2017 thanks to setbacks in Italy but 2016 saw it go from a micro-cap with a messy portfolio of assets and legacy of failure in South East Asia into a major force in the Mediterranean. (TS)

BEST PERFORMING STOCKS: LESS THAN £100M

Name	EPIC	Price	Year to date change (%)
Greatland Gold	GGP	1.77p	941
Echo Energy	ECHO	17.5p	803
Wey Education	WEY	35p	803
Trinity Exploration and Production	TRIN	15.88p	747
Empyrean Energy	EME	15.38p	515
Thor Mining	THR	2.78p	455
Physiomics	PYC	10.63p	445
Frontera Resources	FRR	0.495p	435
Zoo Digital Group	ZOO	45.5p	406
Herencia Resources	HER	0.082p	371

Source: SharePad. Data taken 6 Dec 2017

WEY EDUCATION +803%

WEY EDUCATION (WEY:AIM) is a disruptive force in the education sector. The users of its various divisions can access online lessons in a variety of topics from all over the world.

The company's InterHigh business, a non-selective international online independent school, 'is proving to be successful' according to WH Ireland analyst Nick Spoliar. The company has invested heavily in InterHigh and has a student roll in excess of 1,000 pupils.

The increased income from InterHigh helped Wey to report a 60% increase in group revenue to £2.4m on a year-on-year basis for 2017.

For 2018, Spoliar expects 42% growth from InterHigh and a strong revenue contribution from Wey ecademy. The latter is a business-to-business school platform launched in 2017.

The company also has Quoralexis, an online language school.

The analyst believes that education businesses can 'derive high returns for shareholders' as has been the case with Wey in 2017.

He says: 'With a strong platform set to deliver further rapid growth in 2018/19 ratings compress dramatically, offering a compelling investment opportunity'. He sees near-term fair value closer to 70p, implying that investors could still double their money even after this year's stellar share price rise. (DS)

TRINITY EXPLORATION AND PRODUCTION +747%

SHARES IN TRINIDAD oil producer **Trinity Exploration & Production (TRIN:AIM)** enjoyed a big rally in early 2017 with the shares recovering from a low base after resolving financial problems.

Although they have since stalled we think there are reasons to believe the momentum can be revived in 2018 as the market recognises improving profit and cash flow from a rising production base.

Cantor Fitzgerald has a price target of 37p (versus current trading price of 15.88p) and the company is getting closer to its targeted output of 3,000 barrels of oil per day.

The management team has some pedigree. Executive chairman Bruce Dingwall was the man behind North Sea oil firm Venture Production which he floated at 170p in 2002 and sold to **Centrica (CNA)** for 845p in 2009. (TS)

Repaired Laird is ripe for recovery

Investors have been slow to recognise turnaround at complex electronics engineer

From the look of its regal offices on London's Pall Mall you'd never guess at **Laird's (LRD)** beginnings as a Birkenhead-based ironworks. The company also has one of the more colourful stock market stories, a 193-year history that takes in ship building, railway carriages, car parts, security products and now, high performance electronics.

Today Laird is a global technology company, designing and manufacturing complex engineered components that facilitate and protect mobile communications systems connected solutions. It is split into three core divisions; Performance Materials, Connected Vehicle Solutions and Wireless and Thermal.

It makes those slick-looking sharp fin antennas on BMWs, for example.

Developments such as increasingly connected cars, 5G extra superfast mobile communications, internet of things applications – these are some of the existing and emerging demand drivers for Laird kit and expertise.

BACK ON TRACK

Recent trading has been very encouraging. A third quarter trading update at the end of October showed a 19% year-on-year jump in July to September revenue to £245m. The increase was 16% when currency oscillations are stripped out.

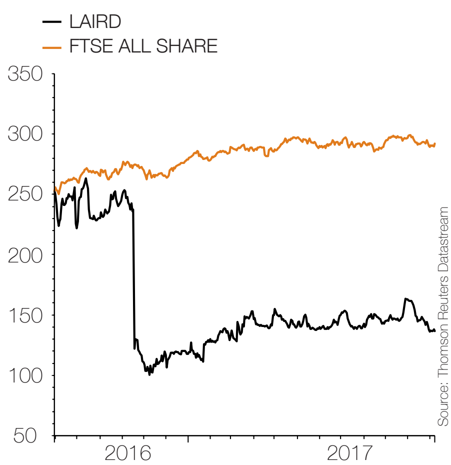
That's a 12% underlying improvement year to date over 2016.

Investors were particularly chuffed to hear management say they now expect pre-tax profit is leaning towards the top of the £60m to £65m forecast range. The consensus had averaged out at £63.3m, the statement helpfully spelled out.

Such growth marks a very welcome turnaround for Laird after a hellish year. In October 2016 the company put out a monstrous profit warning that saw the share price halve from its previous 237p level. Being forced to scrap its second half dividend and go cap in hand to shareholders for £185m to repair its balance sheet didn't help.

Chief executive Tony Quinlan, who took over the top job in September 2016, admits the management team became too focused on top line growth, and lost sight of the basic business. Quinlan also accepts that some of the management team 'weren't up to it.'

This is illustrated by the company's failure to spot



weakening smartphone volumes, something *Shares* readers were forewarned on four months in advance of Laird's warning.

Laird cannot confirm Apple as a major customer, the Cupertino tech giant is notoriously strict with suppliers, but Apple is widely understood in the City to have been worth up to an estimated 30% of Laird's business in the past. It's now about 15% of revenue.

Laird had simply become too complex, Quinlan admits, with seven separate businesses. That had to change, and it has, now streamlined into three distinct parts.

LAIRD'S BIG FIX

The strategy ahead can be summed up as wider, deeper and more unique. In other words, Laird aims to identify new markets and geographies, leverage its highly skilled development engineers to drive product differentiation, and widen its product and service moats versus competition.

So far, so good and Quinlan says he is 'delighted' at how quickly he and his team have been able to effect change. He hopes to be able to prove to all stakeholders (customers, staff and investors) that 'we're pretty good at running this business.'

> **"IN WHAT REMAIN COMPETITIVE BUT ATTRACTIVE MARKETS, WE CONTINUE OUR RELENTLESS FOCUS ON DRIVING OPERATIONAL EXCELLENCE"**
>
> **TONY QUINLAN, CHIEF EXECUTIVE OFFICER**

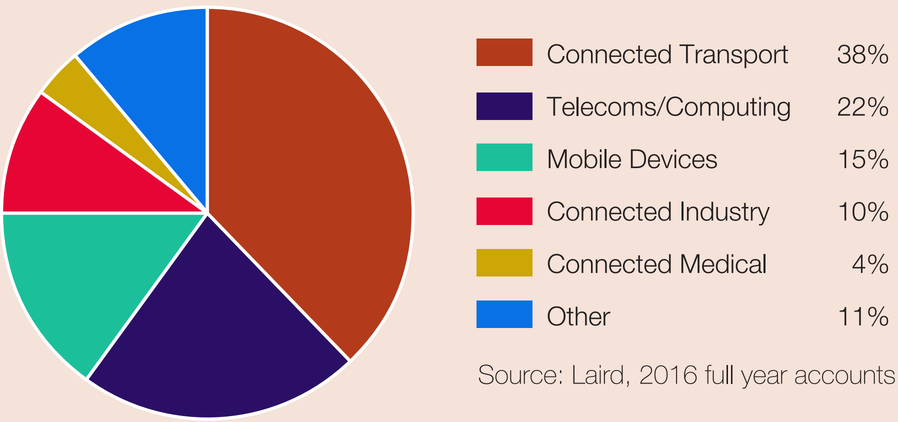
In 2018 analysts forecast around £73m to £74m pre-tax profit from a little more than £950m of revenue.

So almost everything is rising (revenue, profit, operating margins, forecasts) except the the share price. Tony Quinlan admits his disappointment regarding the market's reaction so far, but he's also long-in-the-tooth enough to accept that share prices respond in their own good time.

It leaves the stock, at the current 136.25p, trading on a 2018 price to earnings (PE) multiple of 12.9 times. *Reuters* reckons Laird's peer group PE equivalent is 16. Presume a re-rating, to say, 15-times over the next 12 months and investors could easily be looking at a share price in the 185p-190p range.

A rapid recovery in the dividend, should Laird improve cash flow, could help provide a re-rating catalyst. This year's 3.4p anticipated payout is widely expected to rise to 5.4p per share in 2018. That's still a far cry from previous 10p levels, but it implies a very decent 3.9% dividend yield next year.

LAIRD'S INDUSTRIAL END MARKETS (% OF REVENUE)



Source: Laird, 2016 full year accounts

SHARES SAYS: ↗
We believe Laird offers a very attractive risk versus reward opportunity, with a decent income element. (SF)

BROKER SAYS: 4 3 0

How to invest in Canada via investment trusts and ETFs

We look at numerous investment products offering exposure to the North American country

When scouring for opportunities in solid markets, Canada may not be the first place you'd think of examining. You may be missing out as, according to the OECD (Organisation for Economic Co-operation and Development), Canada tops the G7 nations in terms of real GDP growth predictions for 2017 at 3.2%.

The International Monetary Fund forecasts 3% for 2017 although sees this growth easing to 2.1% in 2018. The latter is slightly below the 2.3% forecast for the US although much high than the UK (1.5%), the Euro Area (1.9%), Brazil (1.5%) and Russia (1.6%), among others.

Canada is currently tightening its monetary policy with the Bank of Canada having raised interest rates twice this year. Higher interest rates are good for banks and Canada has some large players including Royal Bank of Canada and Bank of Montreal.

There are two investment trusts available on the London Stock Exchange providing access to this often overlooked market: **Canadian General Investments (CGI)** and **Middlefield Canadian Income (MCT)**. There are also a plethora of passive products such as exchange-traded funds that track various indices linked to Canadian stocks and shares.

For example, **HSBC MSCI Canada UCITS ETF (HCAD)** tracks the performance of some of Canada's largest listed companies. It has delivered 6.65% annualised returns over the past five years, according to Morningstar.

While Canada may not instantly spring to mind when thinking of stock markets, the Toronto Stock Exchange (TSX) is the ninth largest in the world by market cap at around $2.3tr. The exchange is home to Canada's 'big five' banks and numerous commodities producers.

Its largest energy companies include Cameco, Canadian Natural Resources, EnCana, Husky Energy, Imperial Oil and Nexen.

A CLOSER LOOK AT MIDDLEFIELD

Investment trust Middlefield Canadian Income invests in both the US and Canada although it can also invest up to 10% of its portfolio outside of these countries.

Its weightings towards the US and Canada can change dramatically over time. In November 2016, the trust had a Canadian equity weighting of 67%, today it is in excess of 80%.

Of its top 10 holdings, just two are US-based, being financial services firm Blackstone and

Middlefield Canadian Income: Top holdings		
Company	**Sector**	**Country**
Parkland Fuel	Energy	Canada
Blackstone	Financial	US
Vermillion Energy	Energy	Canada
National Bank of Canada	Financial	Canada
Chemtrade Logistics Income Fund	Materials	Canada
Bank of Nova Scotia	Financial	Canada
Pembina Pipeline	Pipelines	Canada
Chorus Aviation	Industrial	Canada
JP Morgan Chase & Co	Financial	US
Dream Global REIT	Real Estate	Canada

Source: MCI

investment bank JP Morgan Chase. The former company has a healthy dividend yield of 7.2% and makes up for 5% of the investment trust's net asset value. It is one of the largest private equity buyout firms in the world.

In terms of past performance, Middlefield has certainly delivered the goods. It has achieved 8.4% annualised total return over the past decade versus 6.5% from its benchmark.

The trust currently yields around 5%; it targets companies with sustainable dividends as well as decent growth potential.

Two-thirds of the trust's equity holdings have increased their dividends over the last three years compared to 51% of the underlying index, claims Middlefield.

Energy company Parkland Fuel is the trust's top holding, so it has exposure to the cyclical nature of the commodity market. Dean Orrico, chief investment officer of Middlefield, is bullish on commodity prices, believing that a recovery is well underway.

However he says that 'it's very clear that the TSX is more than just commodities'. He adds: 'Canada has been through one the worst recessions in decades but has done well so the economy is much more diverse than just commodities.'

One way Middlefield likes to play the energy market is through the pipeline sector.

The trust has holdings in companies such as Pembina Pipeline and TransCanada Pipeline. The latter recently enjoyed success when the Keystone Delta pipeline, previously denied by former US president Barack Obama was given the go-ahead by Donald Trump.

HOW THE UNDERLYING HOLDINGS DIFFER

Investment trust Canadian General Investments invests primarily in Canadian equities but also holds US stocks as well. Another similarity to Middlefield is that it has a major US company in its top 10 holdings, being Amazon.

There are major differences between the two investment trusts in terms of the sectors they favour. Canadian General has a 19.2% weighting to materials stocks whereas Middlefield only has 5.1% invested in the sector.

Middlefield's main sector is real estate whereas that only accounts for 2.6% of Canadian General's portfolio.

We note that Canadian General has significantly underperformed Middlefield and its benchmark when looking at the 10-year data. It has generated 3.5% annualised total return over this period versus 6.36% from the benchmark. Middlefield has achieved 8.33% annualised return over the same period.

Yet it's a completely different story over the past year: Canadian General is by up 22.4% total return versus a mere 0.1% from Middlefield. (DS)

How to balance risk and return

Understanding risk can help you to grow your money while avoiding restless nights

Striking the right balance between risk and return can be a struggle for even the most experienced investor.

Taking on some risk is essential if you want to grow your money, but this doesn't mean you have to endure sleepless nights worrying about losses.

WHAT IS RISK?

When people talk about risk they're usually referring to market risk. Investing in the stock market can be risky because uncontrollable events like an economic downturn, political upheaval or a natural disaster can cause large price swings.

Market risk varies depending on what you invest in. Emerging markets, for example, are considered riskier than developed markets.

There are other risks to consider, such as currency risk – the risk of losing money from fluctuating exchange rates; and longevity risk – the risk that you'll outlive your savings.

WHY DO I NEED RISK?

Interest rates on cash-based savings are so low that if you want to grow your money you need to take on market risk.

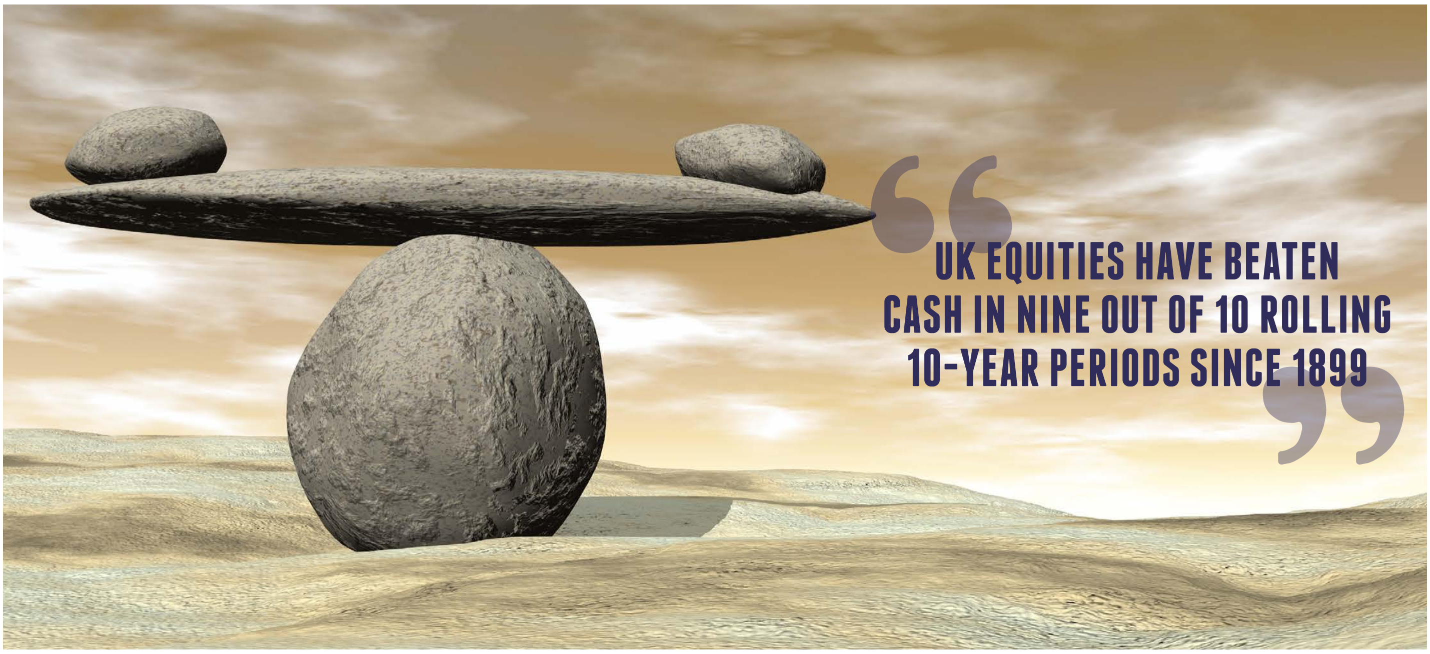
'The rule of thumb is that the more risk you take, the higher the potential return should be. While equities are seen as the highest-risk traditional investment, they have over the very long term delivered the strongest returns,' says Ryan Hughes, head of fund selection at AJ Bell Youinvest.

UK equities have beaten cash in nine out of 10 rolling 10-year periods since 1899. Over rolling 18-year periods, equities have outperformed 99% of the time, according to the Barclays Equity Gilt study.

'If you think back on all the things that have happened since 1899 you can see how remarkably resilient and adaptable good companies are. So we would expect equities to form the largest proportion of most portfolios for 20 to 40 year-olds,' says James Horniman, a portfolio manager at financial services group James Hambro & Partners.

ARE OTHER ASSETS RISKY?

Stocks have traditionally been viewed as riskier than bonds and cash, but this isn't necessarily the case right now as inflation is rising.



> "UK EQUITIES HAVE BEATEN CASH IN NINE OUT OF 10 ROLLING 10-YEAR PERIODS SINCE 1899"

Artemis's Simon Edelsten, who manages **Mid-Wynd International Investment Trust (MWY)**, comments: 'Traditionally equities have been riskier than bonds, but over the long term they have delivered superior returns. Higher inflation is always a problem for bonds, especially when yields are very low, while companies with good pricing power can often raise prices to cope with higher costs.'

Cash savings accounts aren't risk-free either. Inflation is currently higher than the interest on deposit-based savings, which means you're actually losing money in real terms.

HOW MUCH RISK SHOULD I TAKE ON?

Your capacity for risk will depend on your individual circumstances. A good starting point is to work out your investment time horizon – in general, the longer you're investing for, the more risk you can consider taking.

If you're a 20 year-old saving for your retirement you can afford to take on a high level of risk because your investment time horizon is around 40 years. But if you're saving to buy a house in five years' time, your risk appetite would be lower. This is because you have less time to ride out market volatility.

People used to be told to reduce their investment risk as they approached retirement, but this thinking has changed in recent times.

'A 60 year-old who has just retired might need to generate an income from their investments that should last over 20 years, assuming normal life expectancy,' says AJ Bell's Ryan Hughes. 'To keep up with inflation they will have to take an element of risk that is likely to include some investment in equities.'

> **VERY FEW PEOPLE, PROFESSIONAL OR OTHERWISE, HAVE THE PROVEN ABILITY TO MAKE CONSISTENTLY ACCURATE MARKET-TIMING CALLS AND EVEN WHEN THEY DO, ONE BAD CALL CAN UNDERMINE ALL THE GOOD ONES**

There are other factors to consider. Adrian Lowcock, investment manager at financial services group Architas, points out that a millionaire's lifestyle is less likely to be impacted by the loss of £10,000 than someone who only has £100,000.

'Capacity for loss assesses someone's ability to recover from that loss and the impact such a loss would have on them,' he adds.

HOW DO I MANAGE RISK?

One of the best ways to manage risk is to build a diversified portfolio. You can spread your money across different assets, such as equities, bonds, property, gold and cash, as well as different sectors, geographies and company sizes.

'The key is to get assets that are not closely correlated to one another; i.e. they don't go up or down at the same time. Then you also need to rebalance the portfolio, periodically taking profits in the asset class which is performing (the best) and reallocating to those lagging. This helps you lock in gains,' explains Lowcock.

Falling share prices can be unnerving so it's wise to take a long-term view. Peter Chadborn, director at financial adviser Plan Money, says viewing investment behaviours over the short-term will make volatility appear worse than it is and cause unnecessary anxiety.

'We are firm believers in the well-worn investment phrase: time in the market, not timing the market. Very few people, professional or otherwise, have the proven ability to make consistently accurate market-timing calls and even when they do, one bad call can undermine all the good ones,' he says.

If you don't want to choose investments yourself, you could opt for a 'one-stop-shop' multi-asset fund which invests across lots of different assets, sectors and regions. There are lots of versions catering for different risk profiles. (EP)

What does 2018 have in store for savers?

Watch out for changes to pension contributions, dividend allowance and ISA transfers

Ironically as the world became destabilised by the twin forces of Brexit and Donald Trump – not to mention a UK general election, mounting global tensions over North Korea and an emboldened Vladimir Putin – 2017 was a year of relative tranquillity for pensions.

Aside from the cut in the amount savers who have accessed taxable income from their pension can subsequently pay in each year from £10,000 to £4,000 (the Money Purchase Annual Allowance) the UK's retirement rules enjoyed a period of relative stability.

Indeed, the November Budget was one of the quietest in memory for pensions, with the Chancellor confirming a rise in the lifetime allowance by £30,000 to £1,030,000 (in line with Consumer Price Index (CPI) inflation) and the uprating of the state pension by 3% (again simply protecting the payment from inflation).

Given the set-piece was preceded by feverish speculation about potentially dramatic cuts to pension tax perks as part of an attempt redressing the balance between older and younger voters, this came as welcome relief to savers (particularly higher and additional-rate taxpayers).

It's possible a Government with bigger fish to fry will once again leave pensions and savings alone in 2018 – and the decision to only have one major fiscal event a year (the Autumn Budget) should reduce the likelihood of tinkering.

That said there are a few things savers should look out for next year:

AUTOMATIC ENROLMENT CONTRIBUTIONS GOING UP

If you're in a workplace pension scheme and paying in 1% of your salary, prepare for your contributions to rise. From 6 April 2018 the minimum total contribution will increase from 2% to 5%, with 3% coming from you (including tax relief) and 2% coming from your employer.

While some might be tempted to opt-out due to the extra hit on their disposable income, doing this would mean missing out on the bonus of employer contributions (not to mention pension tax relief).

THE DIVIDEND ALLOWANCE GOING DOWN

A cut in the amount of dividend income you can receive tax-free from £5,000 to £2,000 will come into force from April 2018. Any

dividend income received above this amount will be taxed at 7.5% (basic-rate taxpayer), 32.5% (higher-rate taxpayer) or 38.1% (additional-rate taxpayer).

In pounds and pence, that converts into a tax bill of £225 for a basic-rate taxpayer who pays in £5,000, £975 for a higher-rate taxpayer and a whopping £1,143 for an additional-rate taxpayer.

If you're affected, it's worth considering moving some (or all) of your dividend paying investments into a tax wrapper like an ISA or a SIPP, where you can enjoy unlimited tax-free dividend income.

HELP TO BUY / LISA TRANSFER DEADLINE:

There is an important deadline approaching for anyone who has built up funds in a Help to Buy ISA and wants to transfer the money to a Lifetime ISA.

To recap, savers aged between 18 and 39 can pay in up to £4,000 a year into a Lifetime ISA and receive a 25% top-up from the Government. You can keep paying in until age 50, and can take the money out tax-free either to buy your first home, after your 60th birthday or if you fall into terminal ill-health.

Until 6 April 2018 savers can transfer their Help to Buy ISA into a Lifetime ISA without using up their Lifetime ISA allowance. Someone who had contributed the maximum to a Help to Buy ISA – £1,200 in the first month and £200 a month thereafter – would have £4,400 saved.

If that individual transferred the £4,400 into a Lifetime ISA and also contributed the £4,000 Lifetime ISA limit they would receive a 25% bonus on the entire amount – or £2,100 – meaning their total pot would be worth £10,500.

It's worth noting that only the value in the Help to Buy ISA as at 5 April 2017 will be eligible – so anything paid in after that date will count towards the £4,000 limit for this tax year.

> **IT'S POSSIBLE A GOVERNMENT WITH BIGGER FISH TO FRY WILL ONCE AGAIN LEAVE PENSIONS AND SAVINGS ALONE IN 2018**

MORE INFLATION?

Inflation has returned to the economy on the back of record low interest rates, with the latest Consumer Price Index figure recorded at 3%. Inflation is a silent killer that slowly eats away at the value of savings and investments, so it's worth keeping an eye on it and assessing whether you need to take more investment risk to protect your portfolio.

This is particularly important for anyone with savings in low or zero interest paying bank accounts, or Cash ISAs – products which in the current economic environment guarantee a real-terms loss.

Tom Selby,
Senior Analyst, AJ Bell

Sponsored by

PrimaryBid

AJBell Youinvest

ANOTHER SUCCESSFUL YEAR OF SPOTLIGHT INVESTOR EVENTS

REGISTER FOR YOUR COMPLIMENTARY TICKET TODAY

Shares celebreated six years of investor events up and down the UK in 2017. Those of you who attended benefitted from seeing and hearing companies present their investor proposition.

We held events in London, Manchester and Edinburgh with the demand for more of the same scheduled for 2018

SAVE OUR LINK TO ENSURE YOU DO NOT MISS OUT ON REGISTERING FOR OUR EVENTS NEXT YEAR

www.sharesmagazine.co.uk/events

During the event and afterwards over drinks, investors will have the chance to:

- **Discover new investment opportunities**
- **Get to know the companies better**
- **Talk with the company directors**

HAVE A GREAT CHRISTMAS AND A VERY PROPOSEROUS NEW YEAR TO YOU ALL !

Contact

Chris Williams, Spotlight Manager
chris.williams@sharesmagazine.co.uk
0207 378 4402

Register free now
www.sharesmagazine.co.uk/events

INDEX

KEY

- Main Market
- AIM
- Fund
- Investment Trust
- Exchange-Traded Fund

Aberdeen Diversified Income & Growth (ADIG) 25
Amino Technologies (AMO:AIM) 17
Artemis European Opportunities (GB00B6WFCR53) 18
Ascential (ASCL) 19
ASOS (ASC:AIM) 8, 20
AstraZeneca (AZN) 19
Aveva (AVV) 19
Aviva (AV.) 12
Baillie Gifford Japanese Acc (GB0006011133) 18
Baring Emerging Europe (BEE) 25
Berkeley (BKG) 13, 23
BHP Billiton (BLT) 3
Blancco Technology (BLTG:AIM) 10
Blue Prism (PRSM:AIM) 28
BlueJay (JAY:AIM) 30
BT (BT.A) 17
Burberry (BRBY) 3
Canadian General Investments (CGI) 34
Card Factory (CARD) 21
Centrica (CNA) 17
Clipper Logistics (CLG) 8
Croda (CRDA) 19
Crystal Amber Fund (CRS:AIM) 3
Echo Energy (ECHO:AIM) 30
Faron Pharmaceuticals (FARN:AIM) 29
Foxtons (FOXT) 23
Games Workshop (GAW) 28
GKN (GKN) 8
Grainger (GRI) 3
Greatland Gold (GGP:AIM) 30
GVC (GVC) 7
Hammerson (HMSO) 6, 19
Herald Investment Trust (HRI) 9
HSBC MSCI Canada UCITS ETF (HCAD) 34
Hutchison China MediTech (HCM:AIM) 27
Inmarsat (ISAT) 8
Intu Properties (INTU) 6, 19
IQE (IQE:AIM) 26

iShares Core S&P 500 ETF Acc (CSP1) 18
ITV (ITV) 19
Johnston Press (JPR) 3
JP Morgan US Equity Income (GB00B3FJQ599) 18
Kainos (KNOS) 15
KAZ Minerals (KAZ) 27
Keywords Studios (KWS:AIM) 28
Ladbrokes Coral (LCL) 7
Laird (LRD) 32
Liontrust Asset Management (LIO) 17
Lloyds Bank (LLOY) 17
London Stock Exchange (LSE) 3
Middlefield Canadian Income (MCT) 34
Mid-Wynd International Investment Trust (MWY) 38
Mitchells & Butlers (MAB) 8
Next (NXT) 20
NMC Health (NMC) 17
PageGroup (PAGE) 19
Pearson (PSON) 8

Plus500 (PLUS:AIM) 27
Provident Financial (PFG) 8
PureCircle (PURE) 9
Renishaw (RSW) 27
Shire (SHP) 7
Slater Income Fund (GB00B6YSXJ10) 17
Smith & Nephew (SN.) 19
Sound Energy (SOU:AIM) 30
Speedy Hire (SDY) 3
Telford Homes (TEF:AIM) 13
Trinity Exploration & Production (TRIN:AIM) 31
Trinity Mirror (TNI) 10
Tullow Oil (TLW) 19
Unilever (ULVR) 19
Vanguard FTSE Developed Europe ex UK ETF (VERX) 18
Vanguard FTSE Japan ETF (VJPN) 18
Versarien (VRS:AIM) 29
Watkin Jones (WJG:AIM) 29
Wey Education (WEY:AIM) 31
Whitbread (WTB) 3, 7
Worldpay (WPG) 19
Xafinity (XAF) 15
XP Power (XPP) 29