STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 20 / ISSUE 04 / 01 FEBRUARY 2018 / £4.49

SHARES

WE MAKE INVESTING EASIER

THIS WEEK:
LLOYDS, RENISHAW, DECHRA, SHIRE, PHOENIX SPREE
AND MORE

EUROPE

SO MANY REASONS TO INVEST NOW

PENSION POWER:
will your employer pay into your SIPP?

US DOLLAR CONTINUES TO WEAKEN:
why it matters

BITCOIN BLUES:
the end of cryptocurrency fever?

'REMARKABLE TIME' *TO INVEST IN UK INCOME FUNDS*

Companies and investors need to avoid short-termism

Don't make rash decisions if a quarterly earnings statement doesn't live up to expectations

Last week I met the manager of a global fund who made a very interesting comment about the companies he meets in Japan. He said his most rewarding conversations are the ones about industry rather than quarterly earnings.

Japanese directors, in his view, are more likely to engage in a lively discussion when talking about their sector and its opportunities rather than dissecting numbers for a short trading period.

It's an interesting point. Corporates should have a view on how their business fits in the marketplace and how they will grow it. The eye should be on the longer term prize and not three months' worth of trading.

TOO MANY INVESTORS ARE IMPATIENT

Many investors are making knee-jerk reactions to quarterly trading updates. They can also be impatient, demanding almost instantaneous gain or they walk away, rather than waiting for value to be created or realised in the share price.

So has this driven a culture of short-termism among corporates as well? *Harvard Business Review* made a very good point in an article last year saying that too many companies prioritise quarterly earnings over long-term innovation, human capital investment and brand development.

'The popular argument goes as follows: Short-term investors – those who hold onto a stock for less than, say, a year – aren't interested in the company's prospects beyond that year,' it wrote. 'So, if the company misses its quarterly earnings target, they sell their shares.

'The fear of such selling forces the firm to fixate on meeting the target, cutting investment to do so. Moreover, since shareholders can sell at the drop of a hat, the firm has no stable source of long-term capital, and so cannot make long-term plans.'

Companies may be better off trying to focus on the long-term picture in order to attract long-term shareholders. And investors shouldn't judge a company on a three month trading period – but they should rightfully scrutinise a company if a 12 month period disappoints.

Consultant McKinsey last year wrote that companies should make more effort to attract and retain longer-term shareholders to 'blunt the effects of short-termism and best support a strategy of long-term value creation'.

Ways in which to achieve this goal include pursuing long-term value creation even at the expense of short-term earnings, proactively structuring investor communications, resisting artificial efforts to meet earnings targets, and rethinking management's approach to quarterly earnings calls.

BEING PUNISHED BY SHORT-TERM ACTIONS

A point related to short-termism was raised last month by **Fundsmith Equity (GB00B41YBW71)** fund manager Terry Smith in his annual investor letter.

He criticised activist investors, saying too often they follow a playbook that involves buying a stake in a business, engaging in a public row, pushing for a spin-off, merger or sale of assets and then, if the demands are met, selling their stake.

'We and other long term shareholders are left with a company that has incurred fees and diverted time from running the business to respond to the activist and execute the changes, which is now potentially more fragmented, more highly leveraged and has had to install new management,' comments Smith.

In effect, Smith implies the activist has enjoyed a short-term gain yet the longer-term shareholders have potentially been left with an inferior business. (DC)

DISCLAIMER: The author has a personal investment in Fundsmith Equity

Contents

01 February 2018

VIEWING SHARES AS A PDF?

CLICK ON PAGE NUMBERS TO JUMP TO THE RELEVANT STORY

10

12

Contents

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, Stephanie Hawthorne

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.

Currency movements imply potential weakness in many large cap stocks

Dollar weakness means US-focused firms may struggle

There has been considerable volatility in currency markets of late with the pound shooting above $1.42 for the first time since the Brexit vote in June 2016. It has since slipped back through this level on renewed fears about the course of the UK's exit from the European Union.

Unless you are a currency trader it isn't necessary to monitor daily movements in the foreign exchange markets. However, it is important to keep tabs on the wider trend which shows significant US dollar weakness against both the pound and euro since March 2017.

This has significant implications for the profit of UK companies with substantial US sales. Many of these companies would have seen their 2016 results boosted by sterling weakness but will have seen that supportive trend steadily reverse over the last 12 months. As such they may have found it difficult to match their 2016 financial performance in 2017.

If earnings disappoint due to a currency impact in the coming full year results season, we may see some share price weakness. The accompanying list from AJ Bell shows companies which derive a lot of their revenue stateside and which could be vulnerable to dollar weakness. (TS)

COMPANY	% OF SALES IN US
BTG	90%
Ashtead	85%
BBA Aviation	84%
Indivior	81%
Ferguson	79%

Source: AJ Bell

Dechra deals could create animal magic

We explain the benefits of acquiring AST Farma and Le Vet for €340m

INVESTORS ARE excited by **Dechra Pharmaceutical's (DPH)** proposed acquisitions of AST Farma and Le Vet Beheer for a combined €340m announced on 25 January, prompting a 13% share price rally over two days.

Dechra is an international veterinary pharmaceuticals business that derives approximately two-thirds of sales from its companion animal products, essentially medicines for cats and dogs.

We believe the acquisitions are a good strategic fit for Dechra as Le Vet and AST Farma derive approximately 80% of their revenue from companion animal products. The remaining sales are generated equally from treatments for horses, poultry, pigs and cattle.

AST Farma develops generic treatments and sells them directly to vets, while Le Vet sells products through a European network of marketing partners, including Dechra.

The deals are expected to boost underlying earnings per share in the year to 30 June 2018 and be 'materially accretive' to earnings in 2019. Investment bank Jefferies reckons they could boost earnings per share by between 11% and 17%.

Jefferies says the €340m price tag implies a multiple of 24.4 times earnings before interest, tax, depreciation and amortisation. The broker expects the price to be 'far lower' in reality thanks to the significant growth potential delivered by the deal alongside cost, sales and manufacturing synergies. (LMJ)

Lloyds has an under-appreciated business which could boost group profit

Jefferies says bulk annuities could help drive future earnings

High-street Bank **Lloyds (LLOY)** is best known for its increasingly profitable banking operations which have helped underpin generous dividend payouts. However its insurance division is often overlooked despite the considerable scale of this business.

Lloyds bought the 200 year-old Scottish Widows in 1999 for £7bn and last year further bolstered the division by bolting on Zurich Insurance's £15bn UK pension arm.

But it was Scottish Widows' entry into the bulk annuity market in 2015 that marked a real turning point for the company.

A bulk annuity is essentially a contract which pays a retirement income to a large proportion of participants in a pension scheme, freeing a company of investment, inflation and longevity risks. In return the insurer secures substantial assets and regular premiums.

Analysts at financial institution Jefferies note the bulk annuity market in the UK is a 'major growth opportunity for UK insurers' and only specialist players can be involved, Scottish Widows included according to them.

Jefferies views that Scottish Widows' market share of UK bulk annuities has much less penetration than other parts of the group's business where it enjoys an average market share of 19%. If it can raise its market share, it could result in a 6% uplift to Lloyds' profit for 2019 and £3bn of value creation. (DS)

Renishaw's rating haircut may not be over

Large premium to peers does not reflect unpredictability of orders

INVESTORS IN science-based engineering group **Renishaw (RSW)** have been left stunned by the big sell-off in the share price in the wake of half year results on 25 January.

While those figures were impressive and demand continues to be firm, the company's valuation is being called into question. The stock slumped nearly 15% on the day from £56.40. The shares currently change hands for £49.12.

Renishaw is a world leading developer and manufacturer of high precision, automated metrology equipment, or very high-specification measurement kit. Products are used widely in aerospace, automotive, healthcare and other industrial markets.

The half year results showed 20% organic growth in revenue to £279m, while high margin after-sales work helped pre-tax profit jump 70% to £62.3m. Dividends were raised 12% to 14p per share.

The company's expertise is not in doubt but unpredictability remains a long-run problem. Renishaw has a long history of surprising the market both positively and negatively and management admit little more than six weeks visibility on its order book.

Even after the latest share price sell-off the stock continues to trade at a hefty premium to peers, about 40% to 45% on a price to earnings measure, based on next 12 months data from Reuters.

SHARES SAYS: ↘
This is a fantastic business but the valuation is too high to warrant buying at the current price. (SF)

BROKER SAYS 1 6 3

A 'remarkable time' to invest in UK income funds

Wealth manager picks top collectives after UK-listed companies paid record dividends in 2017

Two new reports are offering an insight into the continuing dividend appeal of UK stocks in 2018.

The latest *UK Dividend Monitor* report from Link Asset Services shows British firms paid a record £94.4bn to shareholders in 2017, boosted by miners being more generous with dividends and several large one-off payments.

Underlying dividends were up 10.4% to £87.7bn which represented the fastest rate of growth since 2012.

Wealth manager Sanlam's own bi-annual income study notes that now is a 'remarkable time' to invest in UK equity income funds 'with investors having the opportunity to own many funds yielding between 4% and 6%'.

It has compiled three lists of income funds ranked according to levels of dividend income. The top-ranking 'White List' includes names such as Gervais Williams and Martin Turner-steered **LF Miton UK Multi Cap Income (GB00B4M24M14)** which has only ever occupied first place since it qualified for entry in the study.

A significant turnaround appears to have been achieved under manager Henry Dixon at **Man GLG Income (GB00B0117F58)** which came in at the bottom of Sanlam's rankings in July 2016. A strong 2017 performance and a generous 5.3% yield have helped lift it onto the White List.

The middling 'Grey List' includes **Threadneedle UK Equity Income (GB0001448900)** which has dropped out of the White List.

Consistent laggards which feature once again in the 'Black List' include **Scottish Widows UK Equity Income (GB0031643561)**, **HSBC Income (GB0000154913)** and **Aberdeen UK Equity Income (GB00B0XWN812)**. (TS)

SANLAM'S WHITE LIST OF BEST INCOME FUNDS

FUND	TRAILING DIVIDEND YIELD
LF Miton UK Multi Cap	4.0%
AXA Framlington Monthly Income	4.3%
Marlborough Multi Cap Income	4.3%
Slater Income	4.5%
Royal London UK Equity Income	3.9%
SLI UK Equity Income Unconstrained	3.8%
MJ Cheleverton UK Equity Income	3.8%
Majedie UK Income	4.7%
Premier Monthly Income	4.5%
RBS Equity Income	4.2%
JOHCM UK Equity Income	4.2%
Premier Income	4.6%
Man GLG UK Income	5.3%
Lazard Multicap Income	4.1%
AVERAGE	**4.3%**

Source: Sanlam, January 2018

HOW DOES SANLAM COMPILE ITS FUNDS LISTS?

Starting with IA UK Equity Income sector statistics, and including only funds available to retail investors with sufficient track records and size, Sanlam undertakes a quantitative study.

It examines the previous five individual calendar years of performance, five-year levels of volatility and the total dividend income distributed over the five-year period.

Each of these metrics is weighted using a consistent formula, ranked individually, and then used to identify the funds with the best combination of performance, volatility and income paid.

13.2%

Vertu crashes after big slump in new car sales

NEW CAR SALES slumped by 13.2% on a like-for-like basis at **Vertu Motors (VTU:AIM)** in the four months to 31 December, triggering a profit warning from the company.

Vertu has been hit by further declines in the new car market due to the depreciation of sterling and weaker consumer spending in the run-up to Christmas.

It is cautious on the outlook for the next financial year, although a strong, property rich balance sheet with low debt levels should, in theory, help it weather the tougher times ahead.

KIER'S 10% RALLY IS NOT AS IMPRESSIVE AS SOME MAY THINK

Construction company **Kier's (KIE)** shares soared by 10.1% to £11.04 on 25 January as it made a reassuring statement to the market about the fallout from the collapse of **Carillion (CLLN)**.

It is worth putting the share price jump in the context of previous share price movements.

Kier's shares had actually fallen from £11.47 to 955.5p between 16 and 23 January amid fears over its exposure to Carillion's problems and negative broker comment about the strength of its balance sheet.

The rebound on 26 January is merely recovering the bulk of that lost territory.

THREADBARE MARGINS IN MOBILE PAYMENTS

DIRECT CARRIER billing specialists **Bango (BGO:AIM)** and peer **Boku (BOKU:AIM)** have seen their commission from app store purchases shrink to just 1.4% each.

Direct carrier billing is where consumers can elect to charge app store purchases to their monthly phone bill rather use a credit card.

But as digital purchases continue to soar, large app store operators – Amazon, Google and Apple, for example – are demanding an increasingly large part of the profit pie.

End user spend margins have been shrinking for years. Five or six years ago Bango had hopes of long-run margins of 4% to 5%. That has proved to be overly ambitious, and the measure stood at 1.8% at interim results announced in September.

Further squeezes are believed to have come through since, a point confirmed by the 1.44% Boku reported in a trading update on 23 January. (SF)

K3 Capital is hoovering up small cap M&A deals

This gem of a business enjoys high margins and generates lots of cash

While much focus is on the large cap mega deals, the Kraft-Heinz $46bn merger in 2015 for example, we think it is worth looking at a company involved in smaller deals, of which there are currently plenty.

We give you advisory firm **K3 Capital (K3C:AIM)**, a fantastic little gem that has already topped Thomson Reuters' small cap advisory league table. It's the market leader in UK small cap M&A and a company you may not have heard of, yet.

Being a market leader is not just about bragging rights either. Someone looking to sell a business will presumably look at the leaderboard as it suggests that the top name will have the largest supply of buyers as well.

Jeremy Grime, analyst at the company's broker FinnCap, is certainly a fan. The company's half year results to 30 November 2017 came in above his expectations across the board. Grime says: 'The unique high margin, high return on equity and highly cash generative model is set to grow significantly over time while we confidently expect a re-rating'. The shares have jumped up since that comment, yet we think they've got much further to go.

DISRUPTION PAYS OFF

Unlike the well-known professional service firms such as EY and Deloitte, K3 operates a direct marketing approach to client acquisition using salespeople rather than advisers. This helps keep costs in check, with the average salary of the company's workforce being £26,000 albeit with additional money for hitting targets and other performance-based incentives.

K3 CAPITAL BUY
(K3C:AIM) 224p
Stop loss: 179p

Market value: £94.5m

The company also uses a valuation database, accessible online. Using this, potential clients can enter data and receive a range of valuations for their business instantly. All those enquirers will receive a phone call within 48 hours to gauge interest in the sales process. This is both a rapid and efficient means of securing new clients.

LEGAL EAGLES

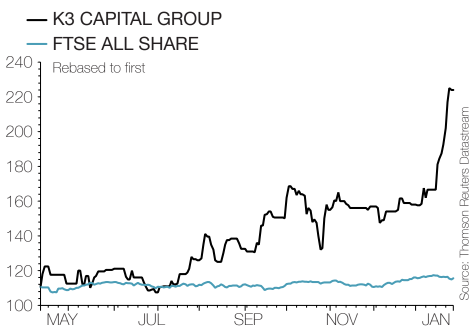
Another trick K3 has up its sleeve is a partnership with **Gateley (GTLY:AIM)**, a legal services provider. This has been in place since 2013 and adds another tick to K3 and its subsidiaries' offerings.

Gateley acts for 76% of the more upmarket KBS Corporate division of K3 and 59% of the smaller business vendor Knightsbridge.

The benefit to the client is that legal costs are 100% contingent on completion of the deal. The law firm holds the cash consideration of the deal so there can be no bad debts for K3.

K3 trades on 22.4-times 2018's 10p of earnings using FinnCap's forecasts. There's also some income on offer with a 2.2% dividend yield.

BROKER SAYS: 1 0 0



Value retailer B&M is strong and getting stronger

Bag the FTSE 250 constituent for self-funded growth and sustainable payouts

Investors seeking a beneficiary of the cash-strapped shopper's quest for value should consider multi-price discounter **B&M European Value Retail (BME)**. New customers are driving strong growth at B&M, it is opening new stores in the UK and Germany and the acquisition of Heron Foods provides a new growth channel in the attractive convenience sector.

Liverpool-headquartered B&M, a variety retailer founded in 1978 and floated on the stock market in 2014, is among those shopkeepers disrupting the market by offering value to hard-pressed consumers. We've come round to the view that Simon Arora-steered B&M is one of UK retail's highest quality names. It is a self-funded growth story and a cash generative business offering investors scope for higher dividends.

B&M EUROPEAN VALUE RETAIL BUY
(BME) 418p
Stop loss: 300p

Market value: £4.2bn

CHRISTMAS CHEER

Last month (12 Jan), B&M reported record Christmas trading, with like-for-like sales in its core UK B&M estate up 3.9% in its third quarter to 23 December, a performance built on a particularly strong prior year comparator, when sales shot up 7.2%.

Overall sales for the UK B&M-branded estate grew 12.9% to £837.3m, reflecting same-store growth and new store openings, with B&M's budget grocery and FMCG (fast moving consumer goods) ranges flying off the shelves.

As Liberum Capital argued in a recent note to clients, B&M is 'a stock for all seasons', benefiting from higher average transaction values in prosperous times, while footfall and volumes rise in a more uncertain climate.

CONVENIENCE OPPORTUNITY

In Germany, B&M's nascent Jawoll chain's sales grew 10.4% to £52.7m in sterling terms.

Back on home turf, the FTSE 250 constituent said its North of England-focused discount convenience chain Heron, acquired for £152m last summer, chipped in £79.8m of revenues in the quarter including 'strong positive like-for-like revenue growth'.

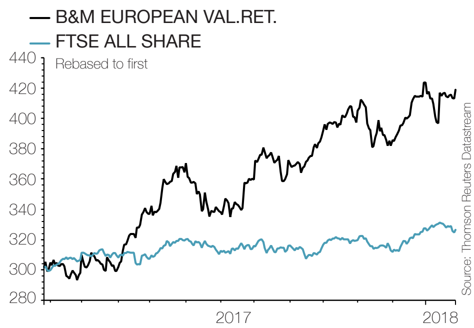
Convenience is one of the areas of growth in grocery retailing and Heron is allowing B&M to roll out a complementary discount convenience grocery brand.

'Management has a strong track record of navigating exogenous shocks and we see multiple drivers of long-term growth,' enthuses Liberum Capital. For the year to 31 March 2018 Numis Securities forecasts a pre-tax profit surge to £224.2m (2017: £190.1m) for earnings of 17.8p (2017: 14.8p) and a 7p dividend (2017: 5.8p).

For 2019, Numis looks for pre-tax profit of £257m and earnings of 20.5p and an 8p shareholder reward. Though B&M swaps hands for 20.5 times next year's forecast earnings, we view the business as an exciting structural growth winner.

In addition, sterling's recovery will help B&M's margins, since it sources most of its non-food product directly from Asia in US dollars. (JC)

BROKER SAYS: 13 3 0



SOPHEON

(SPE:AIM) 574p

Gain to date: 73.9%

Original entry point:

Buy at 330p, 22 June 2017

DRIP FEEDING INFORMATION into the market may not be for everyone but **Sopheon (SPE:AIM)** investors won't be complaining, certainly not after the latest update and share price spike on 29 January, with a 16.5% jump to a record 574p.

That came after the software platform designer reveal a $2m forecast revenue beat for 2017, confirming $28m versus expectations of $26m.

Sopheon is the innovation management solutions supplier we first flagged back in June. It helps enterprises manage all aspects of new product development lifecycles, allowing customers to make smarter decisions about which products to develop and how to bring them to market faster.

This latest share price surge adds to a 28.5% hike on 4 January.

We now learn that 59 new licence agreements were signed in 2017, up from 49 in 2016, including two large deals.

With $9.5m of net cash and $18m of 2018 sales already in the bag, near-term prospects and share price momentum look very much on the front foot.

We still don't know what this means for pre-tax profit, previously pitched at $3m by FinnCap, an estimate that was retired in early January.

Decent operating leverage should see plenty of revenue translated into profit. It is a good reason to be optimistic about full year results on 22 March.

SHARES SAYS: ↗

Stick with this momentum play. (SF)

BROKER SAYS: 1 0 0

GREENCORE

(GNC) 200p

Gain to date: 8.3%

Original entry point:

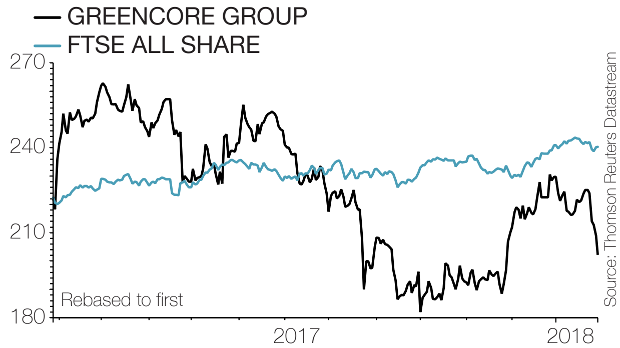
Buy at 184.6p, 5 October 2017

Our positive call on convenience food maker **Greencore (GNC)** is given some credence by a robust first quarter trading statement (30 Jan).

The sandwiches, salads and chilled soups supplier caught our attention in October as we saw the company was poised to reap the benefits of a period of heavy investment. We expected rising cash flow to reduce indebtedness and help drive the shares higher.

Pro-forma revenue (adjusted to reflect the impact of major acquisition Peacock Foods in the US) was up 7.2% in the 13 weeks to 29 December 2017.

The company also noted that as expected 'the trajectory of the group's capital spend continued to reduce in the first quarter'. The group also says it expects to report a one-off non-cash credit of $28m in its first half results on 22 May thanks to reduced US corporation tax.



SHARES SAYS: ↗

While the company is very bullish on the year ahead, it does warns that a continuation of the current sterling-dollar exchange rate could have an 'adverse impact' on profit from its US arm (around 40% of the business).

We acknowledge that is a key risk to the share price near-term, but still believe the business is an attractive investment longer term, so we're sticking with it. (TS)

BROKER SAYS: 1 0 0

NMC HEALTH
(NMC) £33.60

Gain to date: 59.8%

Original entry point:

Buy at £21.03, 6 July 2017

UNITED ARAB EMIRATES-BASED private healthcare provider **NMC Health (NMC)** has soared since we flagged its potential last July.

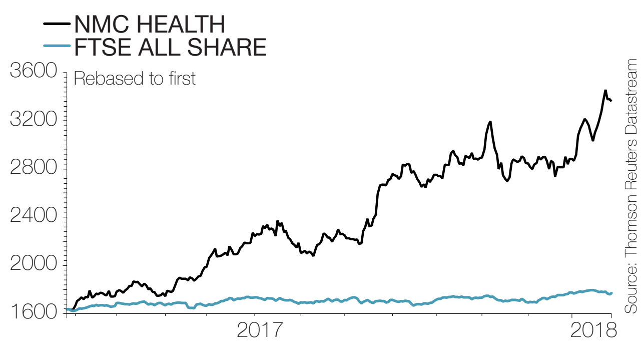
The UAE healthcare market is anticipated to expand in the low double digits, driven by an ageing population suffering from more diseases, according to Berenberg analyst Charles Weston.

He is optimistic further growth will be supported in Abu Dhabi by the higher oil price, flagging the International Monetary Fund's forecast growth of 3.2% in 2018 on the basis of $53 per barrel. Oil currently stands around $70 per barrel, suggesting growth could surprise on the upside.

NMC was busy in January, acquiring a 70% stake in CosmeSurge for $250m and buying an 80% stake in Al Salam Medical for $37m.

Dubai-based cosmetic clinic CosmeSurge offers a high margin, double-digit growth business and Al Salam extends NMC's foothold in Saudi Arabia with a 100-bed hospital and two clinics.

To build on its position as the second largest player in the global fertility market, the company has bought the remaining 49% stake in Fakih IVF. NMC also acquired the remaining 30% stake in As Salama Hospital for $218m.



SHARES SAYS: ↗

Keep buying. (LMJ)

BROKER SAYS: 8 2 0

AVESORO RESOURCES
(ASO:AIM) 205p

Loss to date: 24.1%

Original entry point:

Buy at 270p (adjusted for consolidation), 8 June 2017

LIBERIAN GOLD MINER **Avesoro Resources (ASO:AIM)** has completed a 100:1 share consolidation effectively cutting the number of shares by a hundred times. That serves to make the share price look much higher than it did before.

The new 205p share price doesn't mean we are in the money on our bullish call on the stock. We adjust our entry price from 2.7p to 270p and await a better 2018 for Avesoro as it ramps up production from its existing mines and looks to add new projects to its portfolio. (TS)

BROKER SAYS: 1 0 0

MPAC
(MPAC:AIM) 155.2p

Gain to date: 11.7%

Original entry point:

Buy at 139p, 28 September 2017

ENGINEERING FIRM MOLINS has renamed itself **MPAC (MPAC:AIM)** to reflect its increasing focus on the packaging industry.

Shares is not always a big fan of name changes as they can reflect an attempt to deflect attention from historically weak performance.

In Molins' case the company had no choice as it reflected the terms of its sale of its tobacco machinery business which involved the transfer of the Molins name. (TS)

BROKER SAYS: 1 0 0

WINNING WITH INNOVATION: LOOK FOR VALUE & AVOID HYPE

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

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

Boeing's continuous innovation

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

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

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

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

Nvidia: the disruptive technologists

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

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

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

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

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

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

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

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

Bitcoin blues: the end of cryptocurrency fever?

The value of bitcoin, ethereum, ripple, dash and other cryptocurrencies have taken a big hit in 2018

After rallying through most of 2017, popular cryptocurrencies have firmly fallen out of bed. For example, bitcoin soared to record highs of $20,089 just before Christmas and has since fallen by 44.5% to $11,154.

The decline has been widespread across the cryptocurrency ecosystem with every one of the top 10 cryptocurrencies, by market value, showing steep declines over recent weeks. This group includes ethereum, ripple, dash and others. Although, it is worth noting that ethereum has started to recover quite strongly in recent sessions.

The general decline in the value of cryptocurrencies this year will undoubtedly cement the views of sceptics that the entire industry is nothing more than a financial fad inflated to the extreme, and that the bubble is close to popping.

WHY ARE CRYPTOCURRENCY PRICES FALLING?

It seems investors have been spooked by veiled threats that cryptocurrency markets could face tight regulation down the line, something that could massively undermine the perceived advantages. This could involve bans on underage investors and a clampdown on anonymous trading accounts.

South Korea's finance minister Kim Dong-yeon recently said that an outright ban on cryptocurrencies remains a possibility; and Chinese authorities are also thought to be mulling potentially restrictive measures.

There were further cautionary words from US Treasury Secretary Steven Mnuchin and UK Chancellor Philip Hammond at the World Economic Forum meeting in Davos last week.

WHAT ARE CRYPTOCURRENCIES?

Bitcoin and other cryptocurrencies are digital alternatives to cash. In theory, they can used to transfer financial resources cheaply and quickly across international borders. In some cases they can be used to purchase goods and services.

They work on what has become known as blockchain technology. A block is a piece of computer code that stores the data for a transaction. It is linked to the existing chain of blocks which acts as a ledger, or a record of all transactions, copies of which are distributed across the entire networks of a cryptocurrency's users.

WHAT ARE THE CONCERNS?

Unlike traditional currencies such as pounds, dollars or euros, there is no central control of cryptocurrencies, such as the Bank of England in the UK.

That worries politicians, central bankers and many investors. The perceived lack of checks and balances, say critics, potentially opens cryptocurrencies up to be used for all sorts of illegal practices; such as money laundering, organised crime and funding terrorists.

They also potentially loosen the controls governments and central banks have over the traditional cash system.

GETTING RICH QUICK

Bitcoin and other cryptocurrencies have become notoriously volatile. In the last quarter of 2017 the total market cap of all cryptocurrencies increased by a quarter to around $600bn.

Earlier in January 2018 the total market cap rose to just shy of $830bn, before the big sell-off in the second week of January. It is now trading at around the $570bn mark, but still shows enormous gains over the past 12 months. The market cap was less than $18bn a year ago.

Such vast paper profits have pulled in a lot of new investors,

Bitcoin | Ripple | Ethereum | Dash | Steem | IOTA | Litecoin | Monero | NEO | Bitcoin Cash

THE BLOCKCHAIN NAME GAME

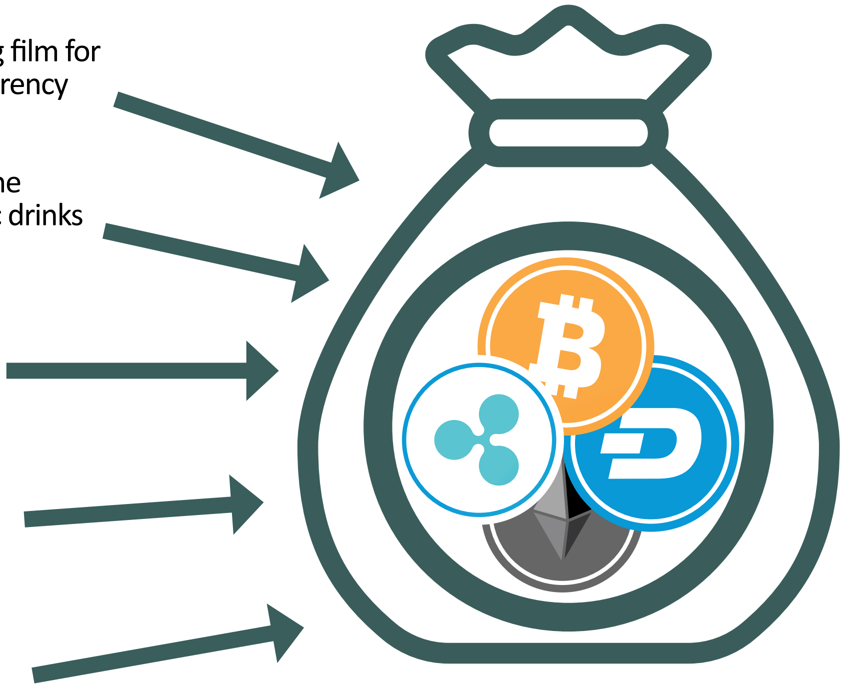
Eastman Kodak (KODK:NYSE)
US imaging business best known for making film for cameras has now created its own cryptocurrency

Long Blockchain (LBCC:NDQ)
Previously known as Long Island Iced Tea, the former loss-making retailer of non-alcoholic drinks now invests in blockchain technologies

ADVFN (AFN:AIM)
Financial data website has launched the PlusOneCoin blockchain joint venture in conjunction with OnLine

OnLine Blockchain (OBC:AIM)
The ADVFN shareholder is launching the PlusOneCoin cryptocurrency wallet

Blockchain Worldwide (BLOC)
Cash shell Stapleton Capital switched plans to invest in the telecoms space and is now focused on blockchain investment



puffing up prices. 'The key dynamic is that the crypto market is growing by hundreds of thousands of users per week, with the market adding over 100,000 users daily,' says Jacob Pouncey, a cryptocurrency expert at Saxo Bank.

'Crypto assets are behaving similar to the dotcom stocks of the late 1990s,' says Pouncey. He points to examples such as Kodak, the photographic films company; and Long Blockchain – formerly known as Long Island Iced Tea.

'They have seen their stock prices soar after announcing blockchain pivots, just as did companies that added .com to their names during the internet bubble.'

The analyst also flags the rapid rise of investment vehicles emerging in the cryptocurrency space. By his calculations there are more than 120 crypto-focused hedge funds currently operating, while the US Securities and Exchange Commission has recently noted the increase in the number of blockchain and cryptocurrency ETF applications.

VERY HIGH RISK

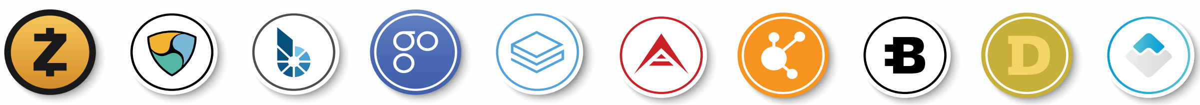
What is perhaps most startling about the surging value of cryptocurrencies is that it has not been built on any fundamental change in how they work, or their potential in the long-run.

The ultimate success of any cryptocurrency depends on its ability to become widely accepted and used, so rapid growth in users is a positive sign. Yet even bitcoin, the most popular, remains a long way off mainstream adoption.

Saxo's Pouncey believes that 2018 could become a make or break year for the cryptocurrency world. Most have progressed little further than producing an idea in a white paper, and a rough technological roadmap. It can be argued that none has as yet made a meaningful demonstration of their fundamental use.

The cryptocurrency space remains in its infancy and that makes it an extremely high risk asset class for investors.

Whether any of these assets will be able to show long-term usefulness remains to be seen, and until there is more positive evidence we firmly suspect that the majority of ordinary investors should avoid the space. We don't yet know if cryptocurrencies are merely the emperor's new clothes. (SF)



FRIDAY 2 FEBRUARY

FINALS	
AstraZeneca	AZN
INTERIMS	
BT	BT.A
TRADING STATEMENTS	
Gem Diamonds	GEMD
Vedanta Resources	VED
AGMs	
Autins	AUTG
Brewin Dolphin	BRW
Scottish Investment Trust	SCIN
ECONOMICS	
UK	
Construction PMI	

MONDAY 5 FEBRUARY

TRADING STATEMENTS	
International Consolidated Airlines	IAG
AGMS	
Cerillion	CER
Future	FUTR
ECONOMICS	
UK	
Services PMI	

TUESDAY 6 FEBRUARY

FINALS	
Amino Technologies	AMO
Ocado	OCDO
St Modwen Properties	SMP
INTERIMS	
BP	BP.
Frontier Developments	FDEV
Hargreaves Lansdown	HL.
Mattioli Woods	MTW
TRADING STATEMENTS	
Babcock	BAB
ECONOMICS	
UK	
BRC Retail Sales	

WEDNESDAY 7 FEBRUARY

Finals	
GlaxoSmithKline	GSK
Rio Tinto	RIO
Smurfit Kappa	SKG
Tullow Oil	TLW
INTERIMS	
Redrow	RDW
TRADING STATEMENTS	
Grainger	GRI
GlaxoSmithKline	GSK
Severn Trent	SVT
AGMS	
Blackrock Frontiers Investment Trust	BRFI
Daily Mail and General Trust	DMGT
Grainger	GRI
Nektan	NKTN
ECONOMICS	
UK	
Halifax HPI	

THURSDAY 8 FEBRUARY

FINALS		
Smith & Nephew	SN.	
INTERIMS		
Ashmore	ASHM	
TalkTalk	TALK	
Thomas Cook	TCG	
TRADING STATEMENTS		
AA	AA.	
Bellway	BWY	
Compass	CPG	
EI	EIG	
Tate & Lyle	TATE	
AGMS		
Compass	CPG	
Dunein Smaller Companies Investment Trust	DNDL	
Dewhurst	DWHT	
EasyJet	EZJ	
On The Beach	OTB	
Premier Asset Management	PAM	
Thomas Cook	TCG	
EX-DIVIDEND		
Daejan	DJAN	35p
Foresight Solar Fund	FSFL	1.58p
ICG Enterprise Trust	ICGT	5p
Impax Asset Management	IPX	2.2p
Nexus Infrastructure	NEXS	4.2p
Sage	SGE	10.2p
Treatt	TET	3.35p
ECONOMICS		
UK		
Official Bank Rate		

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

WE'RE ABOUT to enter results season for the FTSE 100 drug developers. Full year results are expected from **AstraZeneca (AZN)** on 2 February and from peer **GlaxoSmithKline (GSK)** on 7 February.

Shares in AstraZeneca have been gaining momentum since the second half of 2017 as the company's prospects started to improve. This was confirmed in November when the company said it expected earnings to hit the 'favourable end of the guidance range of a low to mid-teens percentage decline.'

Oncology sales are anticipated to drive further growth at AstraZeneca. In the third quarter of 2017, new oncology sales grew by 72%.

GlaxoSmithKline's shares haven't fared as well with a big sell-off between October and December 2017, although they've since been slowly recovering. Its HIV drug Juluca was approved late last year and should boost value in its ViiV business.

SHARES IN defence contract outsourcer **Babcock (BAB)** have been in decline for around three years. Weighing on the stock more recently have been Brexit concerns and a reduction in the Ministry of Defence's spending.

The company's trading statement in September last year buoyed investors and reversed the depreciation of its share price briefly.

Investors will be hoping for good news on 6 February when the company issues its latest trading update. (DS)

EUROPE
SO MANY REASONS TO INVEST NOW

By Daniel Coatsworth

Ignore all the buzz about US markets surging away and businesses enjoying a boost from lower tax rates. We think Continental Europe is a better opportunity and one that is still underappreciated by many investors.

Why do we like Europe? Economic conditions are good, companies are finally enjoying decent earnings growth, politics aren't getting in the way and equity valuations aren't overly expensive.

In contrast, there are growing concerns about strong inflation in the US and a lack of faith in President Donald Trump which could cause US markets to wobble. US equity valuations are also very high in many sectors, plus we feel there is too much excitement in general about US markets.

Bank of America Merrill Lynch says there is 'little evidence of euphoria on EU equities despite froth elsewhere'. It says booming macro data and improving profit margins underpin a recovery in earnings per share growth for European-listed companies.

IT CAN'T ALL BE GOOD, CAN IT?

It is important to stress this article and its comments are only about Continental Europe and do not include the UK.

Before we explain in more detail why European equities are a great place for your money at present, it is important to note one negative to the story.

The euro has become much stronger versus the US dollar since December 2017 which presents a headwind for European companies which export goods.

However, many observers comment that global growth is more important to European equities. You also have to consider that many European manufacturers incur costs and revenue abroad, providing a hedge for the currency impact.

'Yes, the euro strength has some minor implications for some exporters at the edge. But far more important is the improving global outlook. The bigger picture is so strong that a higher euro is not a concern at the moment,' says Jake Robbins, fund manager at **Premier Global Alpha Growth Fund (GB00B6740K61)**.

'Businesses in Europe were previously hit by excess capacity and no pricing power. They're now seeing better demand. Old economy industries like manufacturers are seeing margin improvement and higher sales,' he comments.

'We're entering into a new phase for European markets in 2018,' adds Old Mutual fund manager Ian Ormiston. 'It looks like we will see faster GDP growth than 2017 which leads us to be more optimistic about European equities.

'Higher GDP growth equals higher earnings growth which should be the driver of the markets.'

ECONOMIC GROWTH

	2016	2017	2018	2019
EUROPE EX-UK				
EURO AREA	1.8%	2.4%	2.2%	2.0%
FRANCE	1.2%	1.8%	1.9%	1.9%
GERMANY	1.9%	2.5%	2.3%	2.0%
ITALY	0.9%	1.6%	1.4%	1.1%
SPAIN	3.3%	3.1%	2.4%	2.1%
OTHER REGIONS				
UNITED STATES	1.5%	2.3%	2.7%	2.5%
JAPAN	0.9%	1.8%	1.2%	0.9%
UNITED KINGDOM	1.9%	1.7%	1.5%	1.5%
WORLD OUTPUT	3.2%	3.7%	3.9%	3.9%

All forecasts, apart from 2016. Source: IMF, Jan 2018

FIVE REASONS TO BE BULLISH

1. ECONOMIC STRENGTH

The International Monetary Fund last week upgraded its forecasts for global economic activity in 2018 and 2019, lifting both years by 0.2 percentage point to 3.9%. It also raised expectations for 2017 by 0.1 percentage point to 3.7%, noting particular strength from Europe and Asia.

The key message is that the global recovery has strengthened. The euro area will grow by 2.2% in 2018, according to IMF forecasts. That's quite impressive when compared against expectations for growth in Japan (1.2%), UK (1.5%) and Russia (1.7%).

Eurozone consumer confidence climbed to a near-record high in January. A flash estimate from the European Commission showed the index rose from 0.8 in December to 1.3 in January.

Businesses are also in a chirpy mood. IHS Markit's flash composite purchasing managers' index (PMI) for the eurozone stood at 58.6 in January, its highest level since June 2006. Anything above 50 indicates growth.

2. EARNINGS GROWTH

Last year was a major turning point for corporate earnings among companies in Continental Europe. Growth started to come through – and the trend is continuing as 2018 gets underway.

'For six years to 2016, markets started each year optimistic for 10% to 12% earnings growth for European stocks. As each year progressed, growth was revised down to zero or even negative,' says Tim Stevenson, director of pan-European equities at asset manager Janus Henderson Investors.

'Last year started with expectations for 10% growth and it got better as the year went on. Estimates suggest we actually got 12% for 2017. Projections for 2018 are still holding up at 10% to 12% earnings growth,' he adds.

Ian Ormiston at Old Mutual says he wouldn't be surprised to see low to mid-teens growth for both small and large cap stocks in Europe this year.

Equity ratings should, in theory, move in tandem with earnings per share movements – so you could deduce that investing in a Europe (ex-UK) fund could deliver a return in the region of 10% or more in 2018.

Just before Christmas investment bank Jefferies analysed 2018 market forecasts for an index of stocks across the main eurozone countries and says financial sector earnings were expected to grow by just under 12%; industrials by 13.5%; and telecoms by just over 23%, among others.

Dylan Ball, a portfolio manager at Templeton Global Equity, says earnings at European companies as at 30 September 2017 were just over half of their prior peak, 'providing ample room for catch-up'.

'Unlike the United States, where corporate profits have already surpassed their pre-financial crisis peaks, European corporate earnings have lagged,' he comments. 'A decade of extraordinary central bank policy support will begin to end in 2018, but a favourable economic environment and improving corporate fundamentals could allow European stocks to play further catch-up with US equities.'

EUROZONE PMI MANUFACTURING DATA

Jan-17	55.2
Feb-17	55.4
Mar-17	56.2
Apr-17	56.7
May-17	57.0
Jun-17	57.4
Jul-17	56.6
Aug-17	57.4
Sep-17	58.1
Oct-17	58.5
Nov-17	60.1
Dec-17	60.6

Source: Forex Factory / Markit

Eurozone PMI data has become much stronger than the UK's

UK PMI MANUFACTURING DATA

Jan-17	55.9
Feb-17	54.6
Mar-17	54.2
Apr-17	57.3
May-17	56.7
Jun-17	54.3
Jul-17	55.1
Aug-17	56.9
Sep-17	55.9
Oct-17	56.3
Nov-17	58.2
Dec-17	56.3

Source: Forex Factory / Markit

UK PMI data took a big step back at the end of 2017

3. INEXPENSIVE EQUITY VALUATIONS

European equities are trading on 15 times forward earnings versus a long-run average of 13 times. In comparison, US markets are trading on approximately 19 times forward earnings.

The long-run average for the S&P 500 index is around 15 times – illustrating how US equities are trading on a bigger premium versus Europe.

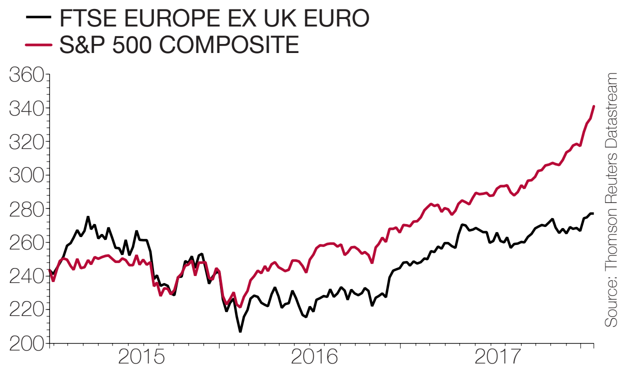
European markets can't be called cheap but they certainly cannot be called expensive when you consider the earnings growth story is in full swing.

4. POLITICAL CONCERNS HAVE EASED CONSIDERABLY

A year ago the market was concerned about the potential outcome of various elections in Europe, principally ones in France, Germany and the Netherlands.

The French election result was deemed positive with the centrist party of Emmanuel Macron beating the Marine Le Pen-led far-right party.

'Macron is definitely a positive for France,' says Olly Russ, manager of **Liontrust European Income Fund (GB00BD2WZ105)**. 'Basic tax reforms are a step in the right direction. You can make the case for France to enjoy a better time over the next decade than over the last one.'



There was relief as the mainstream triumphed in the Netherlands election as Mark Rutte's centre-right party beat the anti-immigration party of Geert Wilders.

German Chancellor Angela Merkel won a fourth term in September 2017 but had still to form a collation government at the time of writing this article.

Going into 2018, the only major election in Europe is Italy and observers don't believe that event will have a major impact on the direction of European stock markets.

Catalonia is perhaps the one issue that still presents itself as a potential risk to Europe in 2018. Catalonia's drive for independence has plunged Spain into its biggest political crisis for 50 years. It is being watched nervously by other European states with strong nationalist movements.

5. MONETARY POLICY

The European Central Bank (ECB) will begin a moderate withdrawal of monetary stimulus in September 2018. It has previously said it would extend quantitative easing (QE) beyond this date, or even raise the level of monthly purchases from €30bn, should conditions worsen again. It also said it would keep interest rates low until well past the end of QE.

Some analysts believe the ECB will revise up its economic forecasts at a meeting on 8 March and then use that to justify a change to its forward guidance around QE.

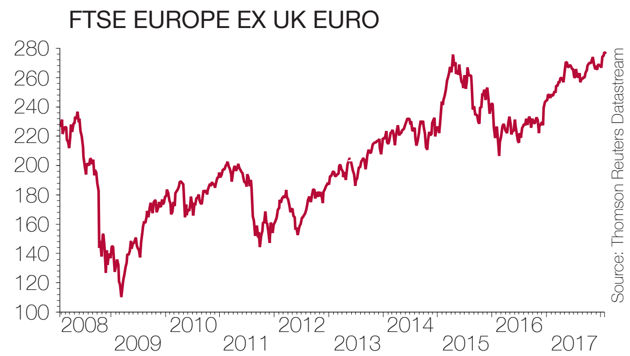
'The overall monetary policy stance is likely to stay accommodative for the foreseeable future, as the ECB balance sheet is going to stay very large for another decade; extensive amounts of excess liquidity imply that the deposit rate is likely to stay the de-facto policy rate for years to come,' says investment bank UBS.

It forecasts the first deposit rate hike will happen in July 2019, moving from -0.4% to -0.2%. It sees another hike from -0.2% to zero in September 2019.

'Eurozone banks should benefit if the ECB's emergency measures start to come off. Deposit rates moving from negative to zero would have a big positive effect on banks,' says Old Mutual's Ian Ormiston.

FOLLOWING A SIMILAR PATTERN?

Stevenson at Janus Henderson believes the ECB is following a pattern that resembles the actions taken by the US approximately 18 to 24 months ago.



'As the economy grows, you have to start scaling back QE,' he says. 'There is still significant bond buying from the ECB. But 2018 could see less bond buying than issuance. This will be the first time there is net supply in 10 years. There was a negative yield on the 10-year German bond in 2016; now there is a positive rate at 0.6%.

'Do you sell equities now the bond market has turned? We expect the 10-year bond to go to 0.8% by the end of 2018.'

Stevenson doesn't see rising bond yields as a headwind for equities. He believes a company is a far better investment in a low inflation world than a bond. 'Leading companies will have pricing power; whereas you can't say "I want a higher yield" with a bond,' he comments.

SEVEN FUNDS AND INVESTMENT TRUSTS TO PLAY EUROPE

MID AND LARGE CAPS: HENDERSON EUROTRUST (HNE)

HENDERSON EUROTRUST has achieved 14% compound annual growth over the last 25 years. 'Today in a lower growth, lower inflation world, it is misleading to think you can compound 14% over another 25 years. It is more realistic to drive for 10%,' says fund manager Tim Stevenson.

'If we can find a company that grows sales by 5% a year; if it is cash generative then there is a good chance it can add 2% a year through acquisitions. SGS and Sodexo are doing this. That gives you 7% annual sales growth.

'You can lift this to 8% through small operational improvements,' adds Stevenson. 'It isn't radical to suggest you can get 2% yield from these companies. If you make an unrealistic assumption that markets are valued the same in 12 months as they are now, then you'd make 10% total return.'

The investment trust's holdings include industrial conglomerate Siemens as the fund manager thinks Germany will spend more money on infrastructure and Siemens will be one of the beneficiaries. Elsewhere, it has a position in Legrand which is an efficient lighting systems business with very good growth, according to Stevenson.

It has also a long-held stake in Deutsche Post which the fund manager describes as one of the world's foremost logistics companies. He adds: 'German parcel growth is phenomenal and Deutsche Post-owned DHL has a 45%+ market share in Asia.'

TOTAL RETURNS (PRICE)	
1 YEAR	26.32%
3 YEARS ANNUALISED	14.83%
5 YEARS ANNUALISED	16.68%
10 YEARS ANNUALISED	12.98%

Source: Morningstar, as at 29 Jan 2018

MID AND LARGE CAPS: SCHRODER EUROPEAN (GB00B76V8C37)

HEALTHCARE, TECHNOLOGY, CONSUMER goods, industrials and financials are key focal points for the Schroder fund which is predominantly weighted towards large cap stocks. Main holdings include pharma-to-agricultural expert Bayer, automotive giant Porsche and private banking group Julius Baer.

Financial data and research group Morningstar says it likes fund manager Martin Skanberg's measured approach to investing. 'We believe that under his management, investors seeking core continental European equity exposure are in safe hands with Schroder European.'

The fund manager is style-agnostic, 'assessing each investment opportunity in terms of an inflection-point thesis (with a focus on a company's growth, margins, and returns), implied market valuation, and share price behaviour,' says Morningstar.

'Performance has generally been steady on a calendar-year basis, which is in line with our expectations of a manager who is style-agnostic but willing to take risks,' it adds.

TRAILING RETURNS	
1 YEAR	18.45%
3 YEARS ANNUALISED	15.61%
5 YEARS ANNUALISED	13.39%
10 YEARS ANNUALISED	9.54%

Source: Morningstar, as at 29 Jan 2018

MID AND LARGE CAPS:
FIDELITY EUROPEAN VALUES (FEV)

THIS INVESTMENT TRUST markets itself as the 'cornerstone long-term investment of choice' for investors seeking European exposure across market cycles. It has a fairly concentrated portfolio of between 50 to 60 stocks with no bias to a particular sector or company size – however its current portfolio is dominated by mid and large caps.

Holdings include food group Nestle, drugs company Roche and oil and gas producer Total. The investment style is to seek growth at a reasonable price.

TOTAL RETURNS (PRICE)	
1 YEAR	24.60%
3 YEARS ANNUALISED	12.16%
5 YEARS ANNUALISED	12.43%
10 YEARS ANNUALISED	8.70%
Source: Morningstar, as at 29 Jan 2018	

SMALL CAPS:
OLD MUTUAL EUROPE (EX UK) SMALLER COMPANIES FUND (IE00BRTNQ884)

THIS FUND SEEKS to achieve long term capital growth through investing in European (ex UK) small cap stocks. Its portfolio includes stakes in brick maker Wienerberger, semiconductor foundries group X-Fab Silicon Foundries and education provider Academedia.

'We recently bought Barco, the Belgian world leader in cinema projectors,' says fund manager Ian Ormiston. 'There is massive growth coming from China in projector demand. And in Europe, it's about making the customers' life easier. Barco can replace old fashioned light bulbs with laser lights which are brighter and save customers money.'

On the global growth theme, the fund has a stake in Cargotec. It owns Hiab which is the global market leader in on-road load handling. Cargotec also owns Kalmar which is a play on ports automation where the industry is seeking to replace expensive workers with robotic systems. 'Cargotec is a self-help story with restructuring and a business on verge of taking off in the field of automation,' says Ormiston.

TRAILING RETURNS	
1 YEAR	18.96%
3 YEARS ANNUALISED	21.89%
5 YEARS ANNUALISED	n/a
10 YEARS ANNUALISED	n/a
Source: Morningstar, as at 29 Jan 2018	

SMALL CAPS:
JPMORGAN EUROPEAN SMALLER COMPANIES TRUST (JESC)

THIS INVESTMENT TRUST focuses on smaller European companies. It aims to invest in both undervalued companies and growth companies in a bid to achieve strong returns.

Healthcare, tech and financial sectors feature heavily in its portfolio. The top holding is Amplifon, an Italian hearing services group. The investment trust's other holdings include Netherlands-based chemicals provider IMCD, French IT consultant Sopra Steria and Italian financial services group FinecoBank.

TOTAL RETURNS (PRICE)	
1 YEAR	46.27%
3 YEARS ANNUALISED	28.00%
5 YEARS ANNUALISED	23.49%
10 YEARS ANNUALISED	15.28%
Source: Morningstar, as at 29 Jan 2018	

OTHER FUNDS:
ARTEMIS EUROPEAN OPPORTUNITIES FUND (GB00B6WFCR53)

'WE LIKE TO pick resilient quality franchises which have been (in our view) unfairly de-rated by a sometimes myopic market,' says co-fund manager Laurent Millet. 'Investors seem to be obsessed by short-term earnings growth and are prompted to sell stocks without "momentum".'

Millet says two stocks currently fit this description in the Artemis fund; it has either bought or added to them both in 2017.

The first is Intrum, a European leader in collecting non-performing loans (both for its own purchased debt as well as for third parties); with sales almost double its nearest competitor. Investors have been worried about the costs of integration for a recent large acquisition. Millet is convinced the company will continue to grow its earnings per share by nearly 15% a year in the foreseeable future.

The second is life sciences group Bayer. 'Its price is still 15% below its peak in the summer of 2017, when it announced its takeover of Monsanto. We purchased our holding after the share price fell. A final decision on the merger is expected in the first quarter and should provide investors with visibility,' says Millet.

'If the merger is rejected, we see no reason for the decline from the summer peak. If the merger is accepted, then the company will be able to end the uncertainty around the financing of the deal. Moreover, the combination makes strategic sense: Bayer would benefit from the historically low cost of debt and the synergies should be substantial. If the merger goes through, Bayer should be a more balanced and focused company than in the past.'

TRAILING RETURNS	
1 YEAR	23.72%
3 YEARS ANNUALISED	15.89%
5 YEARS ANNUALISED	13.42%
10 YEARS ANNUALISED	n/a
Source: Morningstar, as at 29 Jan 2018	

OTHER FUNDS:
FP CRUX EUROPEAN SPECIAL SITUATIONS (GB00BTJRQ064)

Crux's fund is run by veteran European manager Richard Pease who has been successfully investing in the region for over 30 years. He focuses on companies that have exceptional management and a market leading position combined with a strong financial position.

These companies should be in a position to generate excess cash which can be reinvested to accelerate growth or returned to shareholders through dividends.

Current holdings include real estate group Aroundtown, information services business Wolters Kluwer and testing expert Bureau Veritas.

TRAILING RETURNS	
1 YEAR	19.90%
3 YEARS ANNUALISED	16.69%
5 YEARS ANNUALISED	14.49%
10 YEARS ANNUALISED	n/a
Source: Morningstar, as at 29 Jan 2018	

DISCLAIMER: The author owns shares in Henderson EuroTrust.

PENSION POWER: WILL YOUR EMPLOYER PAY INTO YOUR SIPP?

We look at the role of self-invested personal pension schemes in collecting pension contributions as part of your remuneration

Contributing to a pension should be high on everyone's priorities. These days you will probably be auto-enrolled in the workplace scheme but this option might not suit everybody.

If you would like more control, one option is to have a self-invested personal pension (SIPP), a do-it yourself pension plan.

In a SIPP, you can invest directly in equities, funds, ETFs and a range of other choices not always on offer in workplace schemes.

Many people assume you can't use this type of retirement savings account if you want to benefit from employer pensions contributions. In fact you can use them for this purpose.

Admittedly not that many companies will make employer pension contributions into a SIPP at present. However, we believe more companies will eventually support it.

It's definitely worth asking your employer if they will make contributions to your SIPP – as it may be simply be something they've not thought about before.

CAN YOU HAVE A SIPP AND A WORKPLACE PENSION?

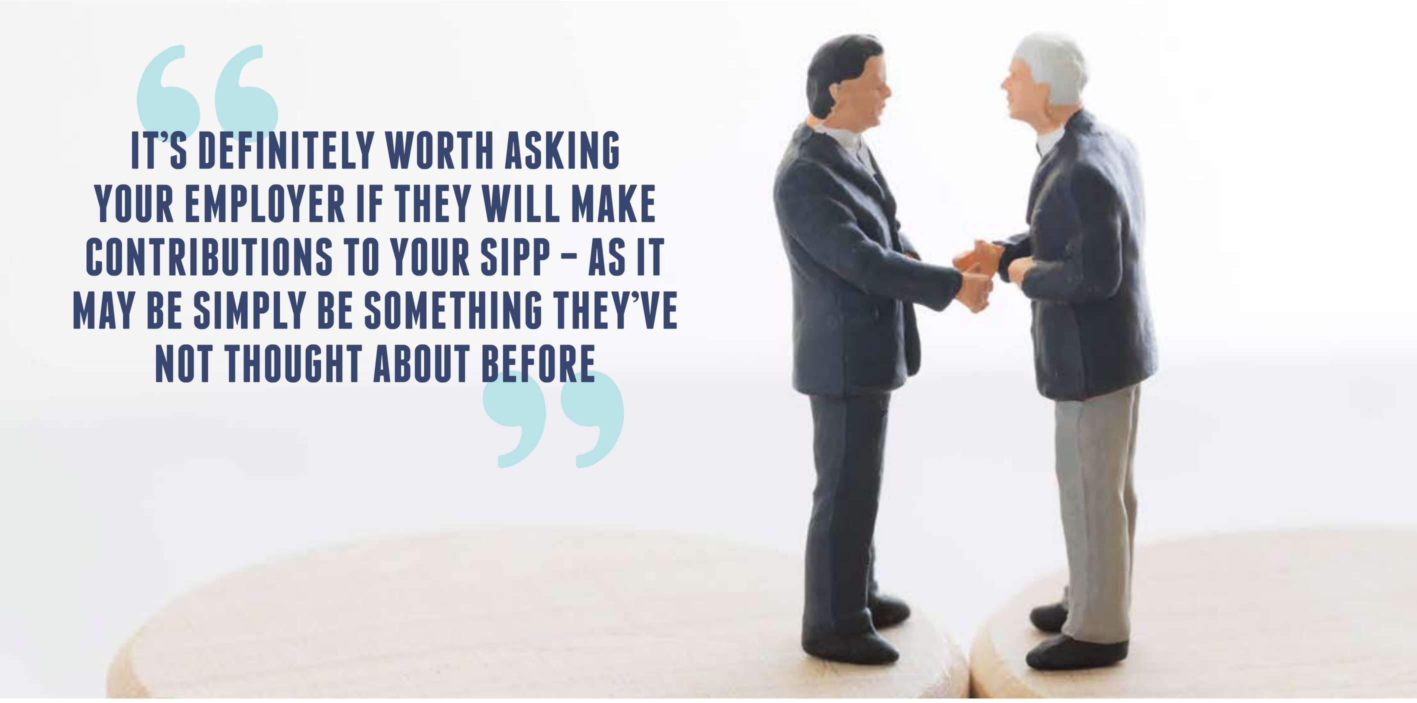
SIPPs are designed for individuals with experience of investing and there is nothing to stop you holding a workplace pension and a SIPP at the same time.

A SIPP can be a useful way of saving a bit extra and giving you more choice over the sometimes restricted range of offerings from your employer.

While some employers will contribute to a SIPP, they are under no obligation. Where an employer does contribute, they may require that you also contribute with matching contributions from your salary.

Minh Tran, senior DC consultant at Willis Towers Watson, explains the background. 'Typically where companies contribute to a SIPP, it is a "group" SIPP and via payroll. It is fairly uncommon (but not unheard of) for companies to contribute to employees' individual and different SIPPs due to the burdensome payroll and administration requirements.'

Additionally, Tran emphasises: 'A workplace



IT'S DEFINITELY WORTH ASKING YOUR EMPLOYER IF THEY WILL MAKE CONTRIBUTIONS TO YOUR SIPP – AS IT MAY BE SIMPLY BE SOMETHING THEY'VE NOT THOUGHT ABOUT BEFORE

pension vehicle is always needed to comply with the automatic enrolment regulations.'

If you opt-out of your workplace pension in favour of your SIPP, it is difficult for employers to monitor your own contributions to check that you are still an active member of a pension scheme. Although in theory, companies can provide a cash allowance for employees to fund their individual SIPPs.

WHY WOULD SOME EMPLOYERS BE ANTI-SIPPS?

David Fairs, pensions partner at KPMG, says given each employee has a different SIPP the employer has the administrative burden of potentially paying a large number of different providers. 'If something goes wrong, you don't have the contact and leverage that you would have if all the employees are in the same scheme,' he adds.

But if you work in a senior role, it is still worth asking an employer for a bespoke deal because sometimes they can be surprisingly flexible and regular contributions may not even be necessary to receive a contribution from an employer.

HOW TO GET A HEAD START WITH A SIPP

One possibility to gain maximum flexibility is to transfer part of a workplace pension fund to a SIPP and then top it up with extra contributions, so you don't lose out on any employer contributions.

SIPPs are also portable. If you change jobs, or stop working, you can continue contributing to the scheme, and, if you join a new employer, they may also decide to contribute to it.

If you do change jobs, you should let the pension provider know to ensure that your contributions continue (especially if your old employer was paying contributions on your behalf).

HOW MUCH MONEY CAN YOU PUT INTO A SIPP?

Contributions to SIPPs and their tax treatment are identical to other types of pension such as a workplace pension and you can hold as many pensions as you want to, subject to overall limits.

Payments are limited to £3,600 (£2,880 before 20% tax relief) or 100% of earned income, whichever is the higher, up to a maximum of £40,000 in any one year.

In theory, employers can even contribute more than the employee's salary up to the annual allowance of £40,000 or more, if using carry forward. If the employee's income is over £150,000 pension contributions are restricted, tapering down to £10,000 for those on incomes of over £210,000.

Since the introduction of the pension freedoms in 2015, SIPPs are increasingly being used to access the new flexibilities and some companies are offering SIPPs as part of their at-retirement solution.

Fiona Tait, technical director at Intelligent Pensions, says: 'Many retirees, particularly those looking to use flexi-access drawdown, are attracted by the flexibility and investment choices available through a SIPP.'

As a final point, it is worth considering that SIPPs aren't always suitable for everyone. 'Many people don't actually use the flexibility of SIPPs, so make sure you are not paying for flexibility you don't need,' comments Fairs at KPMG. (SH)

Is there more to come from top performer Phoenix Spree?

German residential property specialist has 'considerable embedded growth' in its portfolio

The adviser to German residential property investor **Phoenix Spree Deutschland (PSDL)** notes average property prices in the capital city of Europe's largest economy are lower than those in Warsaw.

PMM Partners director Mike Hilton uses this astonishing fact to illustrate the potential opportunity still in front of the fund in Berlin despite an exceptional 2017.

Last year saw its portfolio increase in value by nearly 30% and its shares advance nearly 60%. This made it one of the top performing investment trusts of the year.

A selection of the buildings owned by Phoenix Spree

WHY BERLIN?

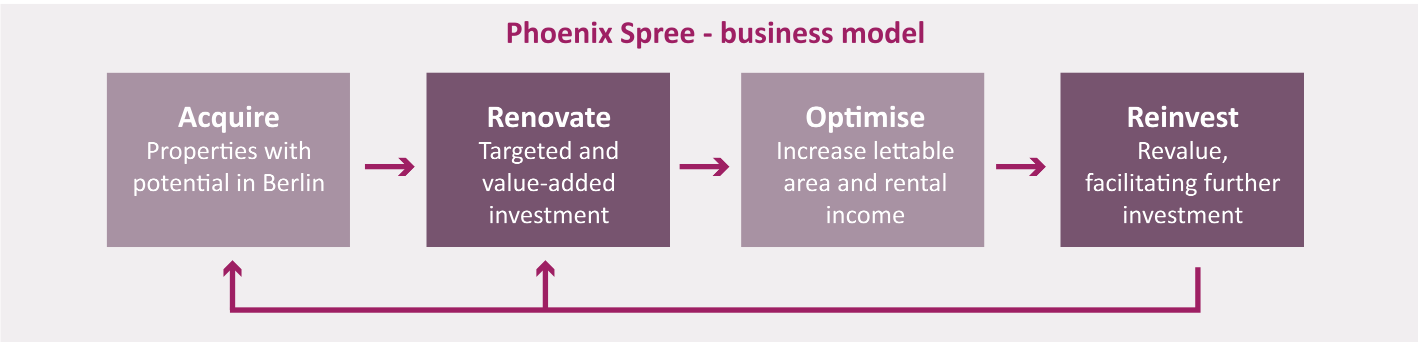
Partly due to its colourful history, that less than 30 years ago saw two halves of the city separated by a 13 feet high wall, Berlin has not developed like most other capital cities in the developed world but in Hilton's view that is beginning to change.

Founded in 2007, Phoenix Spree is a long-term investor in mid-market German residential properties. It listed on the London Stock Exchange in 2015. The company focuses on apartment buildings where it can create value by modernising and renovating individual flats.

Most of the buildings it owns are more than 70 years old and they often require significant investment to bring them up to modern standards.

A single apartment generally costs between €20,000 and €30,000 to renovate, while an entire building renovation might cost up to €2m.

By renovating properties, Phoenix can push through rent increases in a tightly regulated



market. The German rental market is very different from the UK and tenants have several protections not enjoyed by their counterparts here. Evictions are rare. Some people even hold on to tenancies for life.

Once a tenant is in place they are protected from rental increases and more recent legislation has also limited the scope to increase rent for new tenants too, although arguably 'less successfully' in Hilton's view.

The controls on this market mean you can have two identical apartments in the same building and yet a four-fold difference in the rent that is paid, according to Hilton.

MICRO-MANAGING THE PORTFOLIO

As a result, Hilton argues assets must be micro-managed in a way that a portfolio of private rental properties in Manchester, for example, wouldn't have to be. Or, in other words, he and his team work hard to earn their lofty ongoing charge of nearly 7%.

'Historically there's been very little construction activity in the Berlin residential market and with growing demand for apartments there is now a gap between supply and demand,' Hilton says. 'Demand is around twice the level of supply.'

He adds that, amid an inflow of young professionals working in several burgeoning new industries, this has been reflected in rising rents and falling vacancy rates. According to Hilton these dynamics are expected to persist for several years to come.

The rent controls also mean

there is in Hilton's words 'considerable embedded growth in the portfolio'. Typically, there is a 35% to 45% gap between the rents existing tenants are paying and the rents achieved on a new lease. Tenants leave on average every seven or eight years and when they do the unit can be re-let at the market level.

A VIRTUOUS CIRCLE

Over time this creates a virtuous circle for Phoenix Spree. Properties within the portfolio are revalued on an annual basis. Increased rental income is reflected in higher property values which allows the cash spent on renovations to be balanced out by increased bank lending and reinvested into the portfolio.

Low interest rates also mean borrowing costs are very low, reducing from more than 5% when the business was started a decade ago to less than 2% today.

Recently the trust's holdings were trimmed as positions in other German cities were exited. Hilton says the fund doesn't have the scale to adopt a pan-German approach.

Sensibly the team didn't advertise the fact its assets in cities like Bremen and Hannover were non-core so as not to undermine their negotiating position and the trust pocketed €73m from a sale of 34 properties announced in December 2017.

These funds can be reinvested in the Berlin market which now represents more than 99% of the portfolio by value.

REGULATORY CHALLENGES

Hilton concedes there may be further changes to the regulatory backdrop which could impact returns and says this is the 'biggest challenge' for landlords.

However, he argues the authorities must 'walk a middle ground' in order to provide incentives to invest in property and thereby ensure a consistent supply of decent quality accommodation.

Phoenix Spree also operates a lucrative side-line in so-called condominium projects where apartment blocks are sub-divided and sold as single apartments.

Anyone considering an investment in Phoenix Spree should note that its shares at 368p are trading on a very high premium of 26.6% to net asset value. (TS)

Unicorn UK Growth Fund is a magical money-maker

We reveal the process behind a multi-cap fund which has delivered more than 16% annualised return over the past five years

While the growth outlook for Britain is somewhat uncertain, many small companies with good positions in structurally-growing markets should still be able to deliver increases in sales, profit and crucially, the cash flows that drive share price performance over time.

One fund plugged into this part of the market is **Unicorn UK Growth Fund (GB0031269250)**, a multi-cap collective aiming to achieve long-term capital growth through investment in a portfolio of UK equities, but with a bias towards smaller companies listed on AIM.

Managed by Unicorn Asset Management's Fraser Mackersie since February 2011, Unicorn UK Growth has a concentrated portfolio allocating capital across all sectors of the market.

Over the last five years, the fund has returned 120.8% versus the 60.7% generated by the IA UK All Companies sector, according to data from FE Trustnet, and has been ranked consistently in the sector's first quartile of performers.

BBA Aviation accounts for 2.3% of Unicorn UK Growth's top holding

STRONG END-MARKETS

'We keep things pretty simple on the growth fund,' says Mackersie, who seeks out profitable, cash generative and typically dividend paying companies for the near-£50m portfolio.

'There's no blue sky, pre-revenue or very speculative stocks held within Unicorn UK Growth,' he stresses.

'Across the board at Unicorn, we do meet lots of companies. We're looking for a strong end-market and a company with a strong position in that end-market.'

Mackersie says the team behind the fund are generalists, although they've been drawn to software and computer services over the last seven years as one of the sectors which offered good value. The fund does not invest in oil, gas, mining, pharma or biotech stocks.

Of the 50 names currently nestling in the portfolio, 10 were

UNICORN UK GROWTH TOTAL RETURNS	
1 year	29.2%
3 years annualised	19.0%
5 years annualised	16.3%
10 years annualised	12.0%

Source: Morningstar, as at 26 Jan 2018

acquired when they floated on the stock market.

PLAYING CERTAIN THEMES

Technology is a clear theme in the portfolio, with software and computer services speaking for 21.8% of assets at last count, although Mackersie stresses that he doesn't like to be too narrow.

'The growth in online retail and the growth in the broader digital economy in the UK are themes we can play through a variety of other sectors.'

To illustrate, he cites portfolio holdings **Clipper Logistics (CLG)**, the high-growth logistics solutions-to-e-fulfilment company whose customers include **ASOS (ASC:AIM)**, as well as retail assets-owning REIT **LondonMetric Property (LMP)**. In November 2017, Mackersie also initiated a position in packaging group **DS Smith (SMDS)**, which is benefiting from e-commerce demand.

EXPOSURE BEYOND THE UK

One portfolio holding in good shape is US-based and UK-listed **Somero Enterprises (SOM:AIM)**. Its shares recently strengthened in value after it said 2017 revenue would beat market expectations and that it would benefit from a lower corporate tax rate in the US.

'Somero provides machines that lay concrete to a high specification level of flatness,' enthuses Mackersie, arguing Somero is a beneficiary of construction growth in the US and globally.

CRYSTALISING GAINS

'We'll take profit in things that have done particularly well,' says Mackersie, who gives the example of selling a bit of the fund's holding last year in **Frontier Developments (FDEV:AIM)**.

Frontier Developments is due to launch *Jurassic World Evolution* this summer

Despite reducing the fund's stake, he continues to believe the long-term outlook for Frontier is strong. Backed by Chinese internet giant Tencent, the video games developer has had success with its *Elite Dangerous* and *Planet Coaster* games and its third franchise, *Jurassic World Evolution*, is on track for launch this summer.

LOSING STOCKS TO TAKEOVERS

While Unicorn UK Growth's intended investment horizon is three to five years (and hopefully longer), the fund is currently below that range, in part due to heightened M&A activity.

Mackersie explains that if he got something right, the holding period will be longer. 'We've also had a lot of M&A activity in the 18 months since the Brexit vote which has contributed to our current average holding period falling below our expected long term range.'

The qualities of the firms in the portfolio, 'good companies in strong end markets with an IP or channel to market hard to replicate', means they are often highly prized by bidders.

Portfolio holdings that have been taken over in relatively recent memory include ARM (bought by Japan's SoftBank), UK Mail (Deutsche Post DHL) and IP-rich E2V Technologies, bought by Teledyne last year, while more recently, Servelec has been taken over by European private equity firm Montagu. (JC)

UNICORN UK GROWTH TOP HOLDINGS

First Derivatives	3.8%
GB Group	3.3%
Accesso Technology	2.7%
Frontier Developments	2.6%
Clipper Logistics	2.4%
Somero Enterprises	2.4%
James Cropper	2.3%
Smart Metering Systems	2.3%
BBA Aviation	2.3%
SSP	2.2%

Source: Unicorn Asset Management, as of 31 Dec 2017

Why have shares in FTSE 100 pharma group Shire been falling since 2016?

We explain why the market is concerned about the rare disease specialist's outlook

FTSE 100 biopharmaceutical company **Shire (SHP)** has been fighting negative investor sentiment for more than a year amid concerns over debt pressures and competitive threats.

The decision to potentially spin off part of its business hasn't helped to reverse the negative share price trend, down 36% to £34.02 since October 2016. So what's going on?

The loss of investor confidence can be traced back to summer 2016 when Shire completed the $32bn acquisition of Baxalta. Although that deal helped to boost revenue, it also increased the company's debt by a considerable level.

After the deal was completed, net debt stood at an eye-watering 4.5 times earnings before interest, tax, depreciation and amortisation. By the end of 2018, Shire aims to lower the ratio of debt to earnings to a more comfortable 2.5 times.

In addition to the high debt levels, investors have also been worried about the threat to Shire's haemophilia business.

Roche's haemophilia injection *Hemlibra* is threatening to steal market share from Shire's *Factor VIII* treatment.

Liberum analyst Roger Franklin warns the biopharma company is at risk of suffering further erosion as positive interim results suggest *Hemlibra* is stronger than *Factor VIII*.

WHAT DOES SHIRE DO?

Shire's core focus is treating rare diseases. These affect less than five in 10,000 of the general population, according to the European Union.

The company last month decided to split its business into two, comprising rare diseases and neuroscience. The bulk of the group's revenue – 70% in the year to 30 September 2017 – comes from the rare disease division.

The neuroscience business 'warrants additional focus and investment' according to Shire. It will make a decision later this year whether to list the neuroscience arm on the stock market.

Investment bank Piper Jaffray claims getting rid of the high-margin neuroscience division would not be a game-changer. It would also make the remaining business less attractive due to haemophilia pressures.

A downgrade in mid-term sales guidance from $20bn in 2020 to between $17bn and $18bn was also announced last month. While this was disappointing, bearish analysts had already forecast lower sales, dubbing the original guidance a 'stretch goal.'

WHY IS SHIRE INVESTING IN NEUROSCIENCE?

Shire wants to focus investment in the neuroscience division and specialise in neuropsychiatry to help alleviate mental disorders that can be linked back to brain malfunctions. It hopes to achieve this through bolt-on acquisitions, while growth in rare diseases will be organic.

The neuroscience division is one of the leaders in attention deficit hyperactivity disorder (ADHD) where sufferers struggle with hyperactivity and impulsiveness.

Splitting Shire into two parts could accelerate development of key pipeline programmes in neuroscience, including SHP 680, by focusing resources on this treatment. SHP 680 aims to tackle multiple neurological conditions with high unmet need.

By 2020, Shire aims to deliver $4bn in neuroscience sales with nearly three quarters of growth comprising neuropsychiatry. For the rare diseases division, Shire is aiming to drive sales to $13bn by 2020.

Shire's rare disease arm has multiple franchises poised for growth in 2018. Overall, the company has seven franchises with treatments to help tackle immunology, ophthalmics, haematology, oncology, genetic diseases, neuroscience and internal medicine.

With the exception of oncology and ophthalmics, the remaining franchises generate in excess of $1bn in annual sales.

BY 2020, SHIRE AIMS TO DELIVER $4BN IN NEUROSCIENCE SALES WITH NEARLY THREE QUARTERS OF GROWTH COMPRISING NEUROPSYCHIATRY

WHY IS IMMUNOLOGY IMPORTANT TO SHIRE?

One of the most exciting franchises is immunology, which is expected to grow thanks to increased demand for primary immunodeficiency treatments *HYQVIA* and *CUVITRU*.

Primary immunodeficiency is a chronic disorder that occurs in people whose immune systems do not work properly or have parts of it missing. This means people affected with this type of deficiency get more infections and it can take longer for them to get better, according to PID UK.

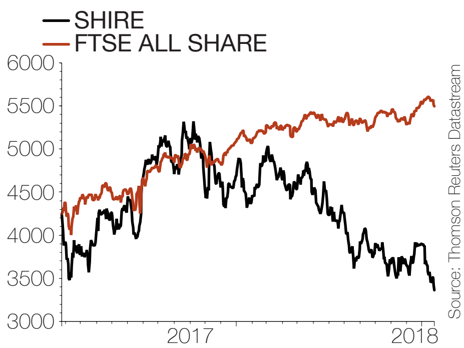
In the first three quarters of 2017, the immunology franchise grew 21% on a pro-forma basis.

Investment bank Jefferies says the neuroscience division has strong cash flow and is enjoying international sales growth of between 30% and 40%.

Through Baxalta, Shire can take advantage of its leading position in a potential $14bn plasma products market. It could also help immunology become the firm's fastest growing franchise.

Since September 2015, Shire's global immunology sales have rocketed 27% to $2.2bn, driven higher by geographic expansion, demand for subcutaneous delivery and a growing diagnosis rate.

Subcutaneous delivery is an injection delivered under the skin, which is highly effective for medications.



Shire has a valuable pipeline in immunology, particularly SHP643, a treatment for hereditary angioedema, which can be life-threatening if the associated swelling obstructs breathing. A potential US launch is pencilled in this year.

WHAT DO ANALYSTS THINK?

The analyst community is generally positive with 16 'buy' ratings, six 'hold' ratings and one 'sell' rating according to Reuters data.

Investment bank Liberum says the company is worth between £37 and £40 per share depending on various scenarios for the haemophilia arm. It thinks the consensus market forecast for earnings per share (EPS) is too high, particularly for longer term forecasts out to 2021.

The consensus expects $5 EPS in 2017, $5.35 in 2018 and $5.85 in 2019, according to Reuters – we don't have access to earnings forecasts beyond that period. In comparison, Liberum forecasts $4.94 EPS in 2017, $5.24 in 2018 and $5.49 in 2019.

Investment bank Berenberg is more enthusiastic, arguing that Shire is significantly undervalued compared to large cap peers with strong cash generation and debt reduction on track. (LMJ)

BROKER SAYS: 16 6 1

Beazley is a cyber security insurance leader

Demand for insurance against online fraud is rising fast

Lloyd's of London insurer **Beazley (BEZ)** is expanding its range of products to keep up with the changing nature of 21st Century security threats.

Market leading cyber security product Beazley Breach Response (BBR) can carry out an assessment of vulnerabilities and recommendations for improvements across networks, servers and databases. BBR also includes consultation services to try and help implement incident response plans as well as other critical procedures.

As this fast-growing part of the business increases its contribution to earnings and becomes better understood by the market it may help lift Beazley's shares.

BEAZLEY BOLSTERS ITS POSITION

At an investor day last month, Lloyd's identified several areas it thinks provide 'strong growth across the market' including the impact of the sharing economy, cyber and political risk.

Investment bank Jefferies notes that Beazley already has these lines of business as a key focus which it argues is a demonstration of 'why the group business mix is highly attractive'.

The most important growth element for Beazley is cyber according to Jefferies. It is currently producing 11% of gross written premiums and expected to hit a compound annual growth rate (CAGR) of 26% between 2018 and 2019.

That CAGR should see this niche account for 15% of premiums and 25% of earnings by 2019. However, Jefferies analyst Philip Kett suggests that rival companies who notice these figures will want a slice of the action and by getting involved in cyber could drive down margins.

Kett says while this may be a threat, he notes that prices rose 20% in 2015 and have remained stable since as industry supply has kept pace with demand. 'In our view, flat prices are of no concern, as margins are attractive and volume growth should drive earnings'.

At 546p and based on Jefferies' 2018 forecasts, the shares trade on a price to earnings ratio of 15.2 and yield 4%.

GOOD TIME TO TEST

Beazley says: 'As the US tax season reaches its peak, cybercriminals will be ramping up their efforts to steal W-2 tax information [US tax form to report wages], file false returns and pocket tax refunds.'

This is the perfect time to test its new systems, as last year W-2 phishing incidents rose 10-fold in January. Breaches usually result in hackers using the data to defraud individuals in a few hours.

Beazley has set up a rapid response service for its US clients to deal with any breaches. The company can assign legal help, notify employees and provide access to credit monitoring all within a single day. (DS)

Sterling bounce is a boon for Shoe Zone

Budget footwear seller still has considerable appeal despite recent setbacks

Sterling's recent rebound helps to alleviate a margin headwind for **Shoe Zone (SHOE:AIM)**. Its value proposition is a source of strength in tougher economic times. The stronger pound should ameliorate pressures on the consumer wallet while boosting the firm's overseas purchasing power.

The company's full year results to 30 September 2017 revealed a 7.8% drop in pre-tax profit to £9.5m with the prevailing weaker pound increasing the cost of Far East imports. Gross margins were 120 basis points higher at 63.2% thanks to improved sourcing and stock management.

Rent reductions are enhancing the profitability of the existing estate. Shoe Zone is making positive steps online, UK sales are building through its own website and international markets (Europe, US) are opening up through the use of Amazon's online sales channel.

Furthermore, the roll-out of its Big Box concept, which sells a broader product range and widens the customer base, offers an additional growth avenue.

For the year to 30 September 2018, Numis forecasts an improvement in pre-tax profit to £10m (2017: £9.5m) on £161.8m worth of sales (2017: £157.8m) and a year-end net cash pile of £12.6m.

It estimates Shoe Zone will increase the dividend to 10.5p (2017: 10.2p) and achieve earnings per share of 16.6p (2017: 15.8p)

SHARES SAYS: ↗
Buy the shares at 165.7p. (JC)

BROKER SAYS: 2 0 0

Pelatro forecast to produce significant profit growth

SELF-DESCRIBED precision marketing software developer **Pelatro (PTRO:AIM)** is set to continue its steep growth curve, if analysts have got their sums right.

Stockbroker FinnCap anticipates that Pelatro will chalk-up a more than three-fold jump in its main earnings points for 2017.

Its 2017 financial year forecasts are: \$3.1m revenue (2016: \$1.2m), \$1.7m pre-tax profit (2016: \$0.4m) and 7.5c earnings per share (EPS).

The rapid growth may not end there, predicts FinnCap. It believes Pelatro will more than double 2017's expected numbers over the next two years. If successful, that could have significant ramifications for the share price.

Its 2019 forecasts stand at \$7.5m revenue, \$4m pre-tax profit and 13.7c EPS.

Pelatro's success to date has been built in the telecoms industry, where its analytics engine scrutinises customer behaviour from different points in the network to help create custom promotions and marketing campaigns.

In time the company is expected to adapt its *mViva* platform for other markets, such as financial services and retailing.

The shares have risen by 23% in value to 77p since the company joined the stock market on 14 December 2017. (SF)

Pension cash withdrawals are falling, says the taxman

New figures from HMRC show how individuals have behaved with pension withdrawals since April 2015

As the pension freedoms approach their third birthday we are starting to get a clearer picture of how savers are using their retirement pots.

More than £16bn has been flexibly withdrawn from pensions since the freedoms launched in April 2015. These payments are added to any other income you have to determine how much tax you pay during the year.

However, it is average withdrawals that are more useful in getting a picture of how people are using the flexibilities. And while many feared a mass draining of retirement funds from savers eager to access their cash today, the reality appears to be different.

While there was predictably something of a 'dash-to-cash' when the freedoms were first introduced, since then average withdrawals have steadily declined. The figure for Q4 2017 (£7,596) was more than £2,000 less than during the same three-month period a year earlier.

If you are thinking about accessing your SIPP flexibly there are a number of key things you should consider first:

1. HOW MUCH TAX WILL YOU PAY?

While money paid into pensions and any investment growth your fund enjoys is tax-free, withdrawals are taxed at your marginal rate (once you've taken your 25% tax-free lump sum).

You need to be careful to watch your tax bands when taking money out of your retirement pot because a large withdrawal could see you inadvertently pay more tax than you need to.

2. DO YOU WANT TO KEEP SAVING INTO A PENSION?

If you want to keep topping up your pension after you have taken taxable income from your fund, you need to consider the impact of the Money Purchase Annual Allowance (MPAA). This restricts the amount you can pay in tax-free each year to just £4,000, compared to the usual annual allowance of £40,000.

3. WHAT WILL YOU HAVE TO LIVE ON IN RETIREMENT?

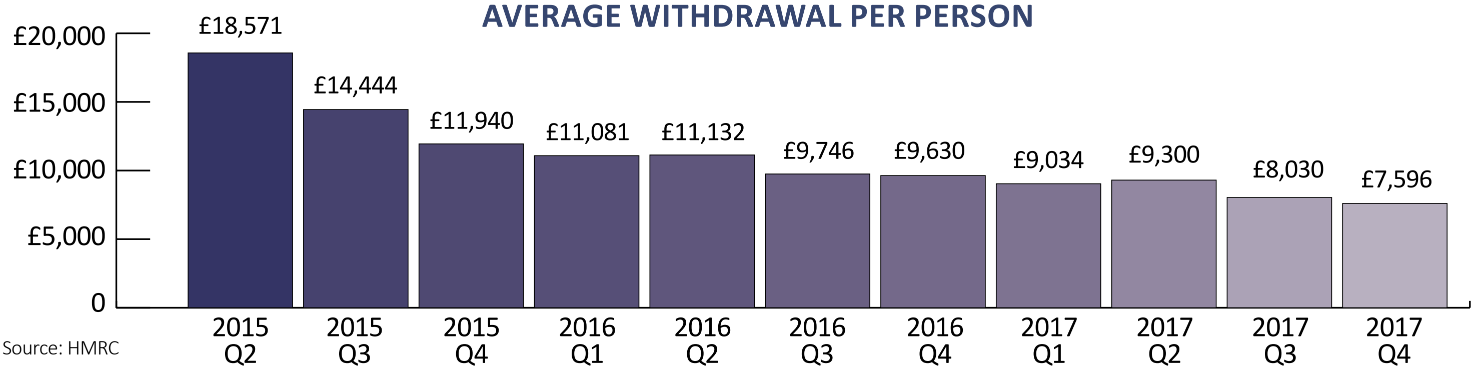
Although there is an obvious temptation to take cash from your pension today, you need to consider how this will impact on your long-term retirement plans. The new state pension is worth about £160 per week, although the age at which you'll receive it is due to be pushed back to 67 by 2028.

If you have other income sources – for example you are still working or have a defined benefit pension big enough to fund your day-to-day spending – then you may feel relaxed about taking cash from your SIPP.

However, if your SIPP is your only source of income in retirement you need to make sure the money lasts as long as you. That means managing your withdrawals carefully and reviewing your retirement strategy at least once a year.

Tom Selby, senior analyst, AJ Bell

AVERAGE WITHDRAWAL PER PERSON



Source: HMRC

How to protect yourself from financial scams

Top tips on how to ensure you are not a victim

Increasingly sophisticated technology and the introduction of pension freedoms are leading to a rise in the number of financial scams.

Fraudsters target people of all backgrounds, ages and income levels, which means anyone reading this article could be a potential victim.

We spoke to the experts to find out what you should look out for and how you can protect yourself.

BEWARE PENSION SCAMS

The Government estimates that £43m has been unlawfully obtained by scammers since April 2014, with those targeted having lost an average of £15,000.

There was a pronounced increase in scams after the pension freedoms were introduced almost three years ago.

One of the most common scams is where fraudsters try to coerce people to withdraw their money from their pension pot and invest it elsewhere. A particular target is people with defined benefit (DB) pension schemes.

'Often these investments will promise astronomical, guaranteed returns that fail to materialise, or in the worst case scenario the investment simply won't exist at all,' warns Tom Selby, senior analyst at AJ Bell.

One technique is known as 'pension grooming', when fraudsters groom individuals on how to respond to pension providers when concerns about suspicious transfers are raised.

'Customers are reassured by the fraudster and told to disregard everything pension providers say. They are told that providers don't want to protect their savings, but want to keep hold of their money,' explains Kate Smith, head of pensions at Aegon.

Other scams offer people the 'opportunity' to access some or all of their retirement pot before age 55, usually through a loan. The offers often fail to mention the 55% tax charge associated with accessing your pension early or the huge fees the companies charge.

TOO GOOD TO BE TRUE

Some scammers try to entice people to put their money into exotic investments that are simply too good to be true. The investment 'opportunity' could be a hotel development in Cape Verde, a vineyard, jewels or a plot of land.

Sometimes the fraudsters are pretty convincing at impersonating a genuine investment company. They may even show you glossy brochures, certificates and professional looking websites.

The 'broker' will usually contact you out of the blue with what looks like an incredible opportunity, and try to pressure you into making a quick decision.

BANKING SCAMS

Criminals might contact you pretending to be your bank. They do so in order to obtain passwords and PINs and, in some

cases, dupe you into transferring your money to them.

Genuine banks never phone you to ask for your PIN or online banking password, nor do they ask you to update your personal details by following a link in a text message.

TAX SCAMS

Scammers often try to catch people out by sending fake tax rebate messages.

The emails and text messages look like they're from HM Revenue and Customs and ask you to click on a link. The link could contain malicious software or direct you to a bogus website.

HMRC says it never sends notifications of a tax rebate or refund by email, nor does it ask people to disclose personal or payment information by email or text.

BITCOIN SCAMS

New bitcoin scams are popping up every day, primarily because the cryptocurrency market isn't regulated by governments.

Scammers try to trick people into visiting malicious websites, entering their private details or clicking links that contain harmful software.

Some exchanges and initial coin offerings (the way companies raise capital) have been discovered to be completely fake.

HOW TO PROTECT YOURSELF

There are a few simple things you can do to avoid getting duped:

- Be suspicious of cold-calls or unsolicited texts or emails.
- If you get cold-called by someone claiming to offer an incredible investment opportunity hang up the phone immediately. Don't respond to text messages or emails from someone you don't know.
- Don't deal with unregulated advisers.
- Check the Financial Conduct Authority website to ensure the company is legitimate and regulated.
- Be wary of overseas investments.
- Make sure you're 100% confident you're being sold a genuine investment and that you fully understand the risks.
- Watch out for schemes offering 'guaranteed' returns.
- 'Nothing, and I mean nothing, is guaranteed when it comes to investments,' says AJ Bell's Tom Selby. 'The closest thing you'll get are government bonds and final salary pensions – ironically the very things scammers often encourage people to leave. So if a company you've never heard of says it can deliver guaranteed returns of any amount, don't touch them with a barge pole.'

- Don't rush to make a decision.
- Make sure a pushy salesman doesn't coerce you into doing something you might later regret. Read any documents carefully before you sign on the dotted line.
- Report possible scams.
- Contact Action Fraud by calling 0300 123 2040 or online at actionfraud.police.uk

WHO ARE THE VICTIMS?

Anyone can be a victim of fraud, but one of the groups most likely to lose money is men aged 36 to 55.

Action Fraud says this group takes risks when investing, acts on impulse and has the ability to invest large amounts of money.

This increases the likelihood of them becoming a victim and, when they do, they feel a sense of shame that results in them not reporting the fraud. (EP)

INDEX

KEY

- Main Market
- AIM
- Fund
- Investment Trust