STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

WILL TECH SECTOR SELL-OFF LEAD TO TAKEOVER FRENZY?

INVESTING THROUGH THE GENERATIONS

THE BEST WAYS FOR PEOPLE OF DIFFERENT AGES TO BUILD WEALTH

SPOTTING DIVIDEND OPPORTUNITIES IN A FEW SIMPLE STEPS

HOW DOES A FUND SURVIVE WHEN A STAR MANAGER DEPARTS?

THE BEST WAYS TO USE HISTORIC PERFORMANCE DATA TO ASSESS NEW INVESTMENTS

How to spot decent dividend opportunities

Falling share prices can result in higher dividend yields… time to go shopping?

While this year's stock market weakness is bad from a capital returns perspective, it does have some benefits from a dividend perspective. A reduced share price will serve to push up dividend yields, assuming there is no change to dividend forecasts as a result of earnings pressures.

Therefore now could be a good time to look for some high quality dividend-paying stocks, avoiding those that trade on high valuations and only picking companies which generate sufficient cash flow to fund the dividend.

WHAT'S ON OFFER?

Sixty two companies in the FTSE 350 index now have a prospective dividend yield greater than 5%, according to SharePad data. And 109 stocks have at least 4% prospective yield.

There are a few points to consider before you start researching potential income investments.

1. ARE THE SHARES EXPENSIVE, EVEN AFTER THE GLOBAL MARKET SELL-OFF?

It is important to never overpay for investments. You must look closely at different valuation metrics and make a judgment as to whether the current rating is justified based on a company's expected earnings growth, market position and competitive advantage.

2. IS THE DIVIDEND COMFORTABLY COVERED BY FREE CASH FLOW?

Free cash flow is cash generated from operations, less the amount of money a company needs to reinvest back in its business to keep it competitive.

The money left over after capital expenditure can be used to develop new products, make acquisitions, reduce debt and pay dividends.

HOW TO FIND FREE CASH FLOW DATA

For this article we used SharePad which is one of several financial data websites that let you filter the markets. We looked at forecast free cash flow dividend cover, stipulating a minimum cover ratio of 1.5-times. That means a company is expected to generate at least 1.5 times as much free cash flow as its forecast dividend payment.

We also searched for stocks yielding 4% or more; are trading in a forward price-to-earnings (PE) range of 7 to 17; and have a minimum 5% forecast pre-tax profit growth.

AJ Bell's latest *Dividend Dashboard* report says the 10 highest forecast dividend yields in the FTSE 100 are starting to look 'questionably high'. Many of these stocks have seen share price declines for some time because of company or industry-specific issues and not simply dragged down as a result of February's broad market sell-off.

As such, we've applied a filter to say shares in our search results mustn't have had a negative share price performance in the six months before February's market decline. The end result is a list of nine stocks as seen in the accompanying table (and none feature in the FTSE 100's top 10 highest forecast yielders).

This won't be a perfect list as forecasts aren't always correct and shares are still vulnerable to market volatility. However, it provides a good starting point for you to undertake further research. (DC)

THE FINAL NINE:
OUR SEARCH FOR DIVIDEND OPPPORTUNITIES

STOCK	PE	PRE-TAX PROFIT GROWTH	FREE CASH FLOW DIVIDEND COVER	YIELD
Aviva	8.6	27.8%	1.6	6.1%
Berkeley	7.3	11.0%	2.7	4.7%
BHP Billiton	11.6	25.3%	1.9	5.4%
G4S	12.7	20.3%	1.8	4.1%
Greencore	9.0	22.9%	1.9	4.1%
Man	13.0	24.2%	1.6	5.1%
Royal Dutch Shell	13.5	44.5%	1.6	5.9%
Royal Mail	12.8	15.2%	2.0	4.4%
Sainsbury (J)	11.7	5.4%	2.1	4.4%

Source: SharePad. All data based on forecasts & share price 3 April 2018.

FIDELITY ASIAN VALUES PLC

More than 18,000 listed companies make the opportunity for investment in Asia truly immense. But with such diversity, how do you ensure you are setting off on the right path?

For Nitin Bajaj, portfolio manager of Fidelity Asian Values PLC, it's about finding the smaller companies that are primed to turn into the region's winners of tomorrow. Nitin's approach is quite simple – he looks to invest in attractively-valued, quality businesses that are run by people he trusts.

PAST PERFORMANCE

	Feb 13 - Feb 14	Feb 14 - Feb 15	Feb 15 - Feb 16	Feb 16 - Feb 17	Feb 17 - Feb 18
Fidelity Asian Values Net Asset Value	-4.7%	22.8%	-0.8%	46.6%	3.4%
Fidelity Asian Values Share Price	-0.8%	22.8%	-2.4%	53.2%	6.9%
MSCI AC Asia ex Japan	-9.5%	18.4%	-11.8%	41.7%	19.2%

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 28.02.2018, bid-bid, net income reinvested. ©2018 Morningstar Inc. All rights reserved. The comparative index of the Investment Trust is MSCI AC Asia ex Japan.

So, if you want to explore a road less travelled, then Fidelity Asian Values PLC could be just what you're looking for.

Past performance is not a reliable indicator of future returns. The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. Investments in small and emerging markets can be more volatile than other overseas markets. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. This trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies.

To find out more, go to fidelity.co.uk/asianvalues or speak to your adviser.

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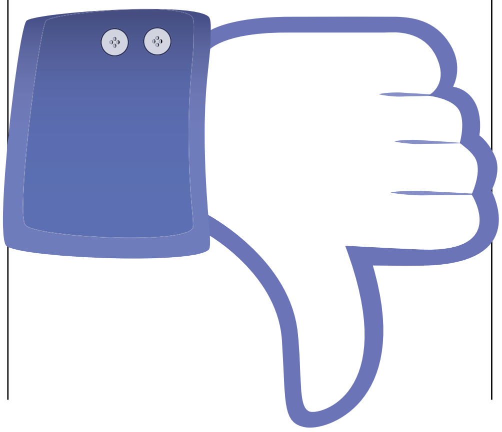

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WHO WE ARE

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BROKER RATINGS EXPLAINED:

We use traffic light symbols in the magazine to illustrate broker views on stocks.

Green means buy, Orange means hold, Red means sell.

The numbers refer to how many different brokers have that rating.

Eg: 4 2 1 means four brokers have buy ratings, two brokers have hold ratings and one broker has a sell rating.

The traffic light system gives an illustration of market views but isn't always a fully comprehensive list of ratings as some banks/stockbrokers don't publicly release this information.

Takeover activity could put the spark back into the technology sector

Analysts are optimistic about a new wave of takeovers and stock market flotations

Sharp declines in global technology stocks have sparked consternation among investors on both sides of the pond, yet some analysts are predicting a surge in mergers and acquisition (M&A) activity through the rest of 2018.

US president Donald Trump's scathing attack on Amazon over the Easter weekend wiped more than $35bn off the internet retail giant's valuation early this week.

Other big US-based technology companies to see their share prices fall include Facebook, Netflix, and Tesla.

These share price declines have been mirrored by the performance of many of the UK's largest technology companies.

FTSE 100 software company **Micro Focus (MCRO)** collapsed last month after getting into integration difficulties with a large acquisition. Its share price has lost a staggering 60% since the start of 2018.

TECH SECTOR SELL-OFF

COMPANY	1-MONTH SHARE PRICE MOVEMENT
Tesla	-21%
Facebook	-12%
Amazon	-7%
Alphabet	-6%
Apple	-5%
Microsoft	-4%
Netflix	-3%

Source: SharePad, data to 3 April 2018

Accounting software firm **Sage (SGE)** has come under stiff selling pressure, down more than 20% since the end of January.

FTSE 250 cyber security company **Sophos (SOPH)** has also landed hard, down more than 35% since late January.

Aveva (AVV), the engineering design software provider and the largest UK technology company outside the FTSE 100, is down nearly 9% even after accounting for its recent large cash return.

This matters for all investors because technology companies have grown to dominate global stock markets in terms of weighting, or in other words, their influence on stock markets as a whole.

Numbers crunched by analysts at investment platform provider AJ Bell recently show 10 of the world's 25 biggest companies are technology businesses, including all of the top five.

M&A AND IPO MARKET TO SURGE AHEAD

While valuations are arguably still high in the tech sector, analysts at stockbroker Peel Hunt believe that M&A activity is set to accelerate through the remainder of 2018.

M&A has picked up over recent months, with Aveva sealing a merger and **Worldpay (WPY)** being acquired by Vantiv.

On 3 April, **Fidessa (FDSA)** delayed a meeting to vote on a takeover by Temenos after receiving interest from two other parties.

Peel Hunt believes this could be just the tip of the iceberg with capital expenditure budgets for technology projects rising and industry balance sheets loaded with cash.

'We think the UK listed tech universe will provide rich pickings to play the [M&A] theme,' Peel Hunt says. The analysts also anticipate that the technology initial public offering (IPO) market in the UK will 'roar back' this year. (SF)

DFS is delivering again, but for how long?

Trading strengthens at sofa seller yet big ticket spending remains squeezed

Has the market been too pessimistic on sofa seller **DFS Furniture (DFS)**? Its share price jumped last week when the company said recent trading had shown improvement.

Investors were more excited about current conditions to worry about a 30% decline in half year pre-tax profit to £11.6m. In reality, a decline in earnings was fully expected by the market.

Stockbroker Numis now forecasts annual pre-tax profit to decline to £47.5m (2017: £50.1m), ahead of a recovery to £52.5m in 2019.

'The shares performed steadily enough in the two years following the IPO (initial public offering) in March 2015,' says Numis analyst Matthew Taylor. 'The demand backdrop was relatively benign and DFS achieved solid profit growth, in line with forecasts, while broadening its business base and paying generous dividends.

'The past year has been a much tougher ride with operating profit c.15% below the level achieved before the IPO.'

Anyone buying the shares today could get a 6%+ dividend yield, assuming earnings forecasts are correct.

However, earnings growth is unlikely to be consistent in the near-term given the ongoing fragile state of the retail market and consumer spending pressures. That suggests that the share price could also remain volatile. (JC)

Easter rain and Conviviality collapse add to retail and leisure sector woes

Expect to see further bad news when the retail and leisure sectors next update on trading

A WASHOUT Easter and the collapse of a major industry supplier look set to cause further headaches to the already-bruised retail and leisure sectors.

The long Easter weekend has traditionally been a strong sales driver for consumer-facing companies. However, the past weekend's terrible weather may have deterred people from going out to eat, drink or enjoy leisure activities.

Easter can often result in busy pub gardens and packed theme parks if the weather is nice. Therefore this year's bad weather doesn't bode well for the likes of pub chains such as **Greene King (GNK)** and **Mitchell & Butlers (MAB)**, as well as theme park operator **Merlin Entertainments (MERL)**.

Also disrupting the sector is the collapse of drinks distributor **Conviviality (CVR:AIM)**. Its troubles may have caused temporary disruption to supplies for some of its customers, including budget pub chain **JD Wetherspoon (JDW)** and **Revolution Bars (RBG:AIM)**.

At the time of writing cider maker **C&C (CCR)** was in talks to buy the distribution arm of Conviviality and several unnamed parties were in discussions about buying Bargain Booze, the retail arm of Conviviality.

Reports suggested many Bargain Booze stores were experiencing supply problems, which could have encouraged shoppers to go to rival alcohol sellers such as convenience store chain **McColl's Retail (MCLS)**. (LMJ)

Kore Potash to rival Sirius Minerals with 'world class' mining project

Fresh on the UK stock market, Kore will soon have to raise a lot of money to build a potash project

Fans of British mining stock **Sirius Minerals (SXX)** may be interested in another potash company called **Kore Potash (KP2:AIM)** which has just listed on the UK stock market.

Analysts reckon it has a world class project which is likely to have some of the lowest operating costs in the industry, implying scope to make healthy profit margins if potash prices hold up.

Later this year Kore will have to raise a very large amount of money. Current estimates suggest its Kola project in the Republic of Congo will cost $1.8bn to build.

Chief executive Sean Bennett believes one third of the money will have to be raised from investors, adding up to $600m (£427m). That's more than four and a half times its current market cap (£90.2m). The remaining $1.2bn will come from debt finance.

'Our big investors know we have to raise a lot of money once our definitive feasibility study is out at the end of the second quarter or in the third quarter this year,' explains Bennett. 'They wouldn't have backed us if they weren't willing to help with the costs of the mine build.'

Kore (when known as Elemental Minerals) received a $123m takeover offer from Asian investor Dingyi Group in 2013 but the deal fell through for technical reasons linked to red tape around a stock market listing in Hong Kong.

Dingyi now owns 8.82% of Kore and is the fourth largest shareholder. Other big investors include SGRF (Oman's state general reserve fund) at 19.06%, Chile lithium producer SQM at 17.55%, and Harlequin Investments at 12.55%.

Bennett says Kore will look to switch listings from AIM to London's Main Market when it raises money for the mine build, similar to the route followed by Sirius Minerals.

He hopes to start construction next year and begin production in 2022, meaning it is just behind Sirius which is already building and eyeing a 2021 start-up for its potash project in Yorkshire.

Kore has an advantageous position thanks to its ore body being relatively shallow compared to many potash mines at 190m to 340m deep. In comparison, Sirius is sinking a shaft to a depth of 1,500m.

Kore will produce MOP which is the most common potassium source used in agriculture, accounting for approximately 95% of all potash fertilisers used worldwide. Sirius plans to produce polyhalite which has an unproven market.

Kore is at a disadvantage to Sirius from a financing perspective. The latter has already raised its mine money and arguably operates in a lower risk geography from an investment perspective.

The pair could soon be joined on the London stock market by another potash miner, Danakali. It has a joint venture in Eritrea on the Colluli project which could start production in 2020 via open pit mining. (DC)

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- Contact your usual financial adviser
- Visit **fcit150.co.uk**, or search for 'Foreign & Colonial'.

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Could digital advertising face double taxation?

THE EUROPEAN UNION has outlined plans to impose a 3% tax on digital advertising revenue, fees from subscribers to online services like Spotify and income from selling personal data to third parties, based on users' locations.

The proposals are aimed at getting the likes of Google and Facebook to pay their fair share of taxation.

The move has been criticised by the chief executive of German media firm Bertelsmann Thomas Rabe. He fears this would mean effective double taxation for firms such as his which already pay substantial taxes in the EU.

Dunkerton waves goodbye to Superdry

202%

INVESTORS WHO BOUGHT into branded clothing and footwear business **Superdry (SGP)** on flotation (as SuperGroup) in March 2010 have tripled their money. The shares have delivered a 202% total return. Julian Dunkerton, one of the founders of the Superdry brand, is leaving the company in order to 'devote more time to his other business and charitable interests'. The bearded entrepreneur, 53, co-founded Superdry with designer James Holder in 2003. Originally the brand was sold in Cult Clothing, a retail business founded by Julian and a former business partner in Cheltenham in 1985. The first Superdry store was launched in 2004 and the business grew quickly from there.

IS IT WORTH FOLLOWING WIDDOWSON ON FRESH ODYSSEY?

ODYSSEAN CAPITAL IS seeking to raise up to £100m for the **Odyssean Investment Trust** through an IPO priced at £1 a share. Debut dealings are slated for 1 May. The new fund will be managed by Stuart Widdowson, who amassed a following with his excellent stewardship of **Strategic Equity Capital (SEC)**, and Edward Wielechowski. The pair plans to put money to work in smaller companies trading below intrinsic value and 'where this value can be increased through strategic, operational, management and/or financial initiatives.' Under Widdowson's tenure between 30 June 2009 and 31 January 2017, Strategic Equity Capital delivered a net asset value (NAV) total return of 377% and a share price total return of 508%.

Miton looks cheap with plenty of room to grow

A plucky little asset manager which is a great value and income play

While the heavyweights of asset management such as **Standard Life Aberdeen (SLA)** seem to be haemorrhaging money through multi-billion pound outflows from their products, a much smaller peer is pulling in the punters.

We give you **Miton (MGR:AIM)**, a self-proclaimed 'specialist' asset manager whose 2017 results showed £494m of inflows into its products during the year.

The funds that Miton offer can be broadly described as single strategy and multi-asset, with a penchant for seeking out value plays. The latter style is illustrated explicitly with its **UK Value Opportunities Fund (GB00B8KV0M06)** and both the **US Smaller Companies Fund (GB00BF54H991)** and **UK Smaller Companies Fund (GB00B818N094)**.

CEO David Barron tells *Shares* that one reason his firm has done well is due to a desire for 'genuine active management'. 'It's harder to buy the market and make money' he says, in reference to investors relying on index trackers to make returns.

He adds that this has been heightened by central banks across the world moving to normalise monetary policy, i.e. rein in quantitative easing programmes and raise interest rates.

Miton's funds have around 90% active share meaning they are very far from tracker funds (0% active share would be a tracker).

MITON ↗ BUY
(MGR:AIM) 41.75p
Stop loss: 33p

Market value: £74m

THE NUMBERS

For 2017, Miton increase its pre-tax profit by 33% to £6.8m and upped its dividend by 40% to 1.4p per share.

The company is debt free with a £24m net cash position and no pension deficit.

Stuart Duncan, analyst at broker Peel Hunt, says 'there is a clear value opportunity now with Miton'.

Using his forecasts this seems evident. Miton is trading on a bargain 9.5 times 2019's forecast earnings while paying a prospective dividend yield of 4.8%.

THE RISKS

2018 has not been a great year for the markets, with a global sell-off occurring in February. While active management should mitigate some of the market downturns through savvy stock selection, investing is always a risk.

Miton also invests primarily in equities; while it will allocate money to bonds and other assets within its multi-asset range it does not have any pure bond funds which arguably heightens the risk.

It may also lose star fund managers, which happened when Georgina Hamilton and George Godber left in 2016. The departure of the overseers of the UK Value Opportunities Fund resulted in a 30% share price fall at the time for the parent group. (DS)

BROKER SAYS: 1 0 0

The investment trust to help you navigate choppy markets

Highly-diversified portfolio and considerable expertise are highly valuable in current market conditions

In times of market strife it can pay to use the services of a highly experienced investment professional. Having been through 150 years of market ups and down, investment trust **Foreign & Colonial (FRCL)** should certainly know how to navigate current choppy market conditions.

It has a stellar track record and offers truly diversified global exposure with around 95% of the portfolio made up of overseas investments. The investment trust has achieved 10.3% annualised return over the past decade.

Its portfolio includes exposure to private equity which has a track record of beating listed equity over the long term. Its longevity should also help it to place current challenges, like the threat of a trade war between the US and China, into perspective.

The fund invests more than £3.5bn in several different strategies either internally at investment group F&C Management or through third parties. It has around 500 different underlying holdings either directly or indirectly. This diversity should help it smooth out the ups and downs of the market.

FOREIGN & COLONIAL INVESTMENT TRUST
BUY
(FRCL) 613.5p
Stop loss: 490p

It targets three main types of investment:

- Shares in well-established companies on major stock markets
- Rising stars in developing economies
- Less-liquid investments including private equity

FINDING THE RIGHT BLEND

Foreign & Colonial is managed by Paul Niven who became only the third manager to take the helm over the past four decades in 2014.

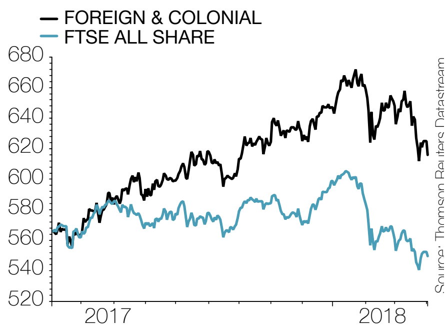
In truth Foreign & Colonial is a multi-manager fund; its US fund is managed by the likes of T Rowe Price, for example, and the private equity component by Pantheon and HarbourVest. Niven helps to find the right blend between different strategies.

Established in 1868 the trust, which wants to change its name to F&C Investment Trust, has increased its dividend every year since 1971. It currently offers an annual yield of 2% and pays dividends quarterly.

In common with other investment trusts, Foreign & Colonial can and does borrow to enhance returns. The maximum gearing rate is 20% and it stood at 7% at the end of February 2018.

Performance has regularly come in ahead of its benchmark, the FTSE All-World total return index, with double-digit returns achieved in four of the last five calendar years.

The shares have traded in a 5.9% to 9.2% average discount to net asset value range over the last one, three, five and 10 years, according to research group Edison. The current discount to NAV stands at 3%. (TS)



HILTON FOOD
(HFG) 800p

Gain to date: 12%
Original entry point:
Buy at 714.5p, 20 April 2017

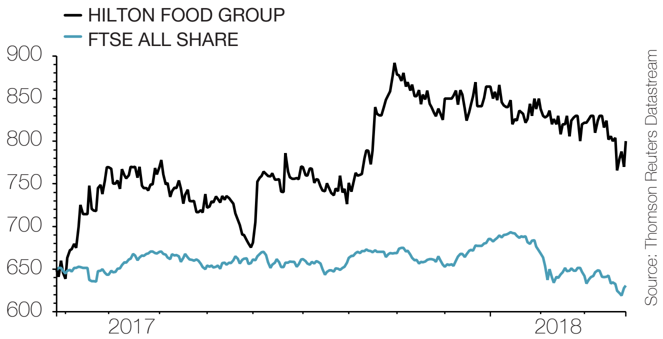
OUR BULLISH CALL on meat packing specialist **Hilton Food (HFG)** is 12% in the money. We remain positive on the investment case given its visible growth pipeline, progressive shareholder reward and an ungeared balance sheet providing firepower to fund new expansion opportunities.

Cash-generative Hilton supplies the likes of **Tesco (TSCO)**, Coop Danmark, Woolworths and Ahold from state-of-the-art plants that use automation and advanced robotics.

Full year results (28 Mar) were better than expected with adjusted pre-tax profit up 12.7% to £37.4m on volumes up 10.4% to 303,811 tonnes and the total dividend raised 11.1% to 19p.

Encouragingly, the £81m acquisition of Seachill has provided a low risk entry into the growing fish protein category and strengthened Hilton's ties with Tesco, while exciting investments in Australia, New Zealand and Central Europe are all progressing to plan.

Stockbroker Numis forecasts pre-tax profit of £43.3m in 2018 and £45.6m in 2019.



SHARES SAYS:
We're fans of Hilton Food, a relatively defensive pick with tasty growth potential and a cash generative business model. Keep buying. (JC)

BROKER SAYS: 4 2 0

BILLINGTON
(BILN:AIM) 260.55p

Gain to date: 3.4%
Original entry point:
Buy at 252.2p, 24 August 2017

GIVEN THE VOLATILE performance of the wider market, the fact our positive call on structural steel specialist **Billington (BILN:AIM)** is in positive territory at all is some achievement.

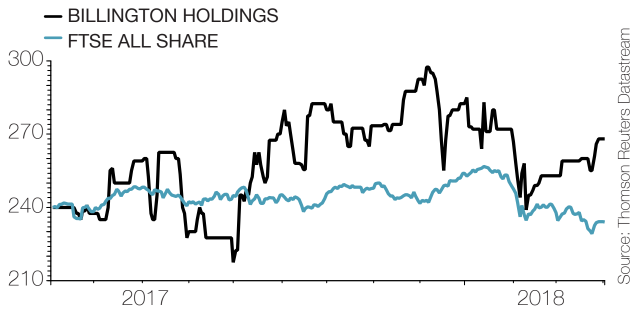
Full year results (27 Mar) revealed a 16% increase in pre-tax profit to £4.4m in 2017 and a maintained margin performance. The company also has a strong forward order book and boosted its dividend by 15% to 11.5p.

Crucially the company was largely unaffected by the fall-out from the collapse of Carillion with a hit of just £106,000.

The cost of structural steel sections, the main raw material for the business, has risen 40% in the last two years but management are hopeful prices will now begin to stabilise. The completion of improvement works at its Shafton site, acquired in 2016, should help it control costs.

Profitability has been somewhat pressured as contract decisions are delayed thanks to the uncertainty created by Brexit.

A small number of projects were completed in mainland Europe in 2017 and the company is pursuing further opportunities outside its core UK market.



SHARES SAYS:
Encouraging results and while Billington faces macro-economic headwinds these are reflected in a cheap forward price-to-earnings ratio of 8.9 times and dividend yield of 4.5%. Keep buying. (TS)

BROKER SAYS: 1 0 0

MONDAY 9 APRIL

FINALS	
Frenkel Topping	FEN
Keywords Studios	KWS
ECONOMICS	
UK	
Halifax HPI	
BRC Retail Sales Monitor	

TUESDAY 10 APRIL

FINALS	
Card Factory	CARD
MP Evans	MPE
INTERIMS	
Nanoco	NANO

WEDNESDAY 11 APRIL

FINALS	
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Tesco	TSCO
INTERIMS	
ASOS	ASC

SMALL CAP OIL and gas firm Serica Energy (SQZ:AIM) is set to announce its 2017 results on 10 April.

The focus is likely to be less on the numbers themselves and more on the performance of the collection of fields it is acquiring from BP (BP.).

Look for an update that the £300m transaction is on schedule to complete in the third quarter as planned.

Once it has gone through, Serica's production is projected to increase seven-fold to 21,000 barrels of oil equivalent per day, 85% of which will be natural gas.

VIDEO GAME SERVICES provider Keywords Studios (KWS:AIM) reports its 2017 full year results on Monday 9 April.

The company has already stated its revenue and profits will be comfortably ahead of market expectations but as other highly rated growth stocks have seen, the slightest wrinkle in the results or outlook could have a big negative impact on the share price.

Keywords made 11 acquisitions in 2017, taking its total since IPO up to 27. It has further cash available for more acquisitions.

TRADING STATEMENTS	
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UK	
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THURSDAY 12 APRIL

FINALS	
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Saga	SAGA
INTERIMS	
WH Smith	SMWH
TRADING STATEMENTS	
Dunelm	DNLM
Man Group	EMG
Hays	HAS
PZ Cussons	PZC
Quiz	QUIZ

DID STORM EMMA and the Beast from the east give people another reason to shun the shops in March? Investors can find out whether the cold weather affected UK retail sales when the British Retail Consortium (BRC) reveals the latest data on 9 April.

In February, retail sales rose by 1.6%.

EX-DIVIDEND		
BBA Aviation	BBA	$0.1
Begbies Traynor	BEG	0.7p
Costain	COST	9.25p
Equiniti	EQN	2.7p
Esure	ESUR	9.4p
Gresham Technologies	GHT	0.5p
International Personal Finance	IPF	7.8p
ITV	ITV	5.28p
Johnson Service	JSG	1.9p
Merlin Entertainments	MERL	5p
Octopus Titan VCT	OTV2	3p
Paddy Power Betfair	PPB	135p
PPHE Hotel	PPH	13p
Reckitt Benckiser	RB.	97.7p
Rentokil	RTO	2.74p
Smurfit Kappa	SKG	€0.65
STV	STVG	12p
Savills	SVS	15.1p
Savills	SVS	10.45p
Unite	UTG	15.4p
Vesuvius	VSVS	12.5p

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

How does an investment fund survive when a star manager departs?

We look at the impact on asset flows and how replacement managers have to fight back

Loyalty means many people follow their favourite fund manager when they move to a different employer, but investors may not realise the damaging effect this can have on the fund they leave behind.

Funds sometimes become so synonymous with the managers who run them that if he or she departs it can cause an exodus of investors too.

High profile managers such as Neil Woodford and Richard Buxton gain such a loyal following that investors will often follow them to a new fund house.

But experts argue this is not always the best decision. The success of a fund is rarely because of a single person; often a vast team of analysts and researchers contribute to its running and, in the event of a manger resigning, there is generally a long handover period to a new manager to ensure a smooth transition.

RISK OF FUND OUTFLOWS

Brian Dennehy, director at Fund Expert, says: 'I have never known a good fund become a bad fund simply due to a manager change. There are clear processes in place which can be continued even after a manager leaves – we see the lead manager merely as a caretaker.'

Yet funds frequently experience significant outflows when a star manager moves jobs as nervous investors pull their money out.

It's hardly a vote of confidence for the new incumbent, and it also makes it harder for them to outperform as they try to manage a dwindling pool of assets. In the end, what inevitably determines whether a fund can survive after a 'star' departs is its performance.

Ryan Hughes, head of active portfolios at AJ Bell, says: 'It's important to tread carefully when a high-profile manager stops running a fund.

'The rush for the exit door by investors can cause all kinds of problems for the new manager as they try and manage a shrinking fund, which forces them to constantly liquidate their holdings. These outflows can last for months or even years, creating a significant headwind for the new manager.'

EXAMPLES OF STAR FUND MANAGER DEPARTURES

We looked at five funds which have experienced high-profile manager departures in recent years and found that just one is now seeing positive net inflows from investors and has achieved greater returns than its sector average under new leadership.

When Neil Woodford (below) left the £13.8bn **Invesco Perpetual High Income (GB00BJ04HQ93)** fund in 2014 to start up his own firm investors pulled £2.9bn out of the fund in the 12 months after his departure.

Since taking the helm new manager Mark Barnett has delivered a return of 19.4% compared to an average of 24.5% in the UK All Companies sector. Today the fund stands at £9.2bn.

Richard Buxton left the **Schroder UK Alpha Plus (GB00B5L33N61)** fund in 2013 to move to Old Mutual Global Investors where he is now chief executive. The fund lost £2.2bn of its £3.6bn worth of assets in the year after his move and is now down to £899m.

Replacement manager Philip Matthews has delivered a return of 32.3% since taking over compared to an average of 44.9% from the UK All Companies sector over the same period.

> Taking over someone else's fund is not as easy as starting with a blank sheet of paper
> – Andrew Jackson, Miton

But Dennehy at Fund Expert points out that the issue could be the fund's strategy rather than its manager. 'Just because a fund is headed by a so-called star manager it does not necessarily follow that the fund will also outperform.

'Woodford is a current example of this situation – his equity income fund is currently in the bottom quartile of its sector, down 12.9% over the past year compared to an average positive return of 0.3% among its peers,' he explains.

BOUNCING BACK

Some £587m was pulled out of the £868m **Miton UK Value Opportunities (GB00B8QW1M42)** fund when co-managers George Godber and Georgina Hamilton (below) moved to Polar Capital.

The replacement manager Andrew Jackson has seen outflows stop over the past year and the fund has started growing again and is now £393m in size. He seems to have restored investors' faith after delivering a return of 39.8% since taking over in 2016 compared to a UK All Companies sector average of 22.8%.

Departed star manager	Fund	Size when departure announced	6-month outflow	12-month outflow
Neil Woodford	Invesco Perpetual High Income	£13.8bn	£1.8bn	£2.9bn
Richard Buxton	Schroder UK Alpha Plus	£3.6bn	£1.8bn	£2.2bn
George Godber, Georgina Hamilton	Miton UK Value Opps	£868m	£520m	£587m
Paul Marriage	Schroder UK Dynamic Smaller Cos	£620m	£206m	N/A
John Wood	JO Hambro UK Opps	£1.7bn	£524m	N/A

Jackson at Miton says: 'Taking over someone else's fund is not as easy as starting with a blank sheet of paper. It's like moving into a house where you need to do some redecorating – you go in and make some initial changes and other things you get around to over time.'

He gave himself three months to get the portfolio in shape, changing around a third of the holdings.

The manager sold UK consumer stocks such as **Dixons Carphone (DC.)** and a housebuilder, bringing in industrial companies such as metering and control business **Spectris (SXS)**.

But revamping a portfolio is hard when you're experiencing a mass of investor redemptions.

'Managing an expanding fund is definitely easier and more fun that managing a contracting one, but it does force you to constantly re-evaluate the portfolio and how it is going to make money,' Jackson explains.

> I have never known a good fund become a bad fund simply due to a manager change. We see the lead manager merely as a caretaker
> – Brian Dennehy, Fund Expert

RECENT EXAMPLES OF STAR MANAGERS LEAVING A FUND

Philip Rodrigs: The small cap fund manager left River and Mercantile earlier this year amid claims of misconduct.

He was highly respected in the market as a small cap stock picker, best known for running the **River and Mercantile UK Equity Smaller Companies Fund (GB00B1DSZS09)**.

His departure prompted several investment platforms to remove this fund from their top picks list, including AJ Bell Youinvest and Hargreaves Lansdown.

Financial data provider Morningstar downgraded the fund to a 'bronze' rating; having previously awarded it a 'silver' rating based on several factors including Rodrigs' experience and qualitative input into the investment process.

'The manager change has created some uncertainty, but we believe that the fund still has investment merit with (new fund manager) Dan Hanbury at the helm,' says Morningstar.

Talib Sheikh: A well-known name in the multi-asset funds industry, Sheikh quit JPMorgan in February this year to head up Jupiter's multi-asset business.

He had been due to become one of the lead managers on the **JPMorgan Multi-Asset Trust (MATE)** which floated on the stock market in March.

Sheikh co-ran several funds at JPMorgan including its €24bn flagship global income fund. (DC)

FINAL POINTS TO CONSIDER

Investors should make sure they understand the structure at a fund before they invest in it – including who makes the decisions and whether it is run on a team-basis or by a key individual.

Understanding the investment process will make it easier to make an informed decision about whether or not to stick with the fund in the event that there is a manager change.

So-called 'key man risk' may be more prevalent at smaller investment firms where there is less resource and teams may be smaller. (HB)

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ARE YOU RETIREMENT READY?

Come to the **Retirement Money Show** to find out more about retirement planning.

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The Scottish Investment Trust takes a different approach

Contrarian investor Alasdair McKinnon seeks to avoid the 'madness of crowds'

Trading at an 8.5% discount to net asset value, **The Scottish Investment Trust (SCIN)** may interest investors who want an investment trust that doesn't chase the latest hot fads or so-called 'story stocks'. Instead, this product is more interested in finding real value in the market.

Independently managed, the trust, which targets both income growth and above-market capital returns, has increased its regular dividend for 34 consecutive years.

The Scottish has delivered just under 10% annualised total return over the last three years. Ongoing charges are a relatively modest 0.49% a year and the trust has also announced a step-change in its dividend policy, increasing the regular distribution in preference to specials and moving to quarterly dividends. It has a 2.5% historic yield.

HIGH CONVICTION, GLOBAL CONTRARIAN

Contrarian investors look for companies whose potential for share price growth or recovery has been overlooked by the market. This style requires steely nerves; humans have evolved to like to belong to a group or feel a part of something bigger, so taking a contrarian stance is uncomfortable and you have to be patient as the investment case unfolds.

The Scottish's fund manager Alasdair McKinnon and his team are firmly in the contrarian camp. They employ behavioural finance techniques to exploit investors' tendency to 'follow the crowd'. By focusing on stocks that are very unloved, those with operational improvements that have been overlooked, and more popular stocks that can continue to do better, the managers build in a margin of safety.

GOING AGAINST THE GRAIN

Patient portfolio builder McKinnon seeks to avoid the 'madness of crowds', investing away from the herd and scouring the globe for undervalued, unfashionable companies that are ripe for improvement.

He runs a portfolio of global best ideas with 56 names held in the trust at last count; the largest sector exposure is to financials, where holdings include banks in the US, Europe and Japan.

Ever willing to go against the grain, McKinnon's picks fall within three categories. 'Ugly ducklings': unloved shares most investors shun, among them large caps such as **Tesco (TSCO)**.

'Change is afoot' stocks that have endured prolonged poor operating performance but have recently demonstrated improving prospects; examples include Dutch bank ING and Brazil-based beer brewing behemoth Ambev.

Last but not least are McKinnon's 'more to come' ideas, sound businesses boasting decent prospects yet where scope for further improvement has yet to be fully recognised, such as **Rentokil Initial (RTO)**.

BACKING BRICKS & MORTAR

McKinnon's unwaveringly contrarian ethos has lead him away from the 'second internet bubble' – you won't find a 'FANG' name or a cryptocurrency here – and into areas such as oil companies, banks and retailers.

Meeting with *Shares* recently, McKinnon enthused: 'We quite like US retail and we've got some Macy's, GAP and a relatively new holding in Target. And we've also got some UK retail in Marks & Spencer and Tesco.'

He adds: 'Everyone thinks the internet is killing US department stores and malls, but actually, what's killing US department stores has been the rise of off-price retail,' referring to the likes of Ross Stores and TK MAXX across the pond.

'We think people have become infatuated with the internet and its wonders. The internet retailers are valued as if they are going to dominate the world and everything they do is seen as a good, even when it is slightly eccentric, like buying a physical retailer like Whole Foods Market or a door bell manufacturer.

'People have written off the physical retailers, whereas what's really hurt them has been the economy. There hasn't been money in people's pockets, but Trump's tax bill has put money in people's pockets and they've got more money to spend in the shops,' he says.

A positive contributor to the trust's 2018 performance, Macy's is the largest fashion retailer and department store chain in the US, operating under three banners: Macy's, Bloomingdale's and luxury beauty products retailer Bluemercury.

'The company has seen declining store traffic as customers have been tempted away by discount and online retail,' says McKinnon, 'and it fits into our ugly duckling category.'

Under a credible management team, 'the company is working to address its challenges'.

Tellingly, the canny stock picker adds that 'the balance sheet is underpinned by a portfolio of real estate assets with an estimated total real estate value of \$12.5-\$13bn.

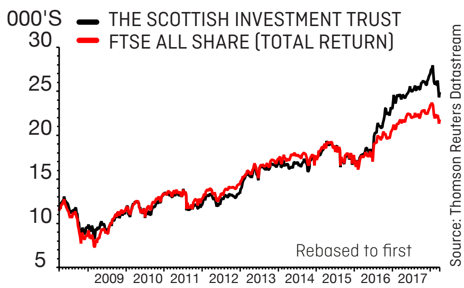
'The value of these assets arguably does not appear to be reflected in Macy's valuation, due largely to concerns about the outlook for traditional retailers,' but 'Macy's is a leading brand in the US, is cash-generative and pays a covered dividend of over 7%.'

McKinnon believes the UK retail sector is interesting because of a likely increase in spending power as inflation falls and minimum wage increases come through.

This is one his bull points for Marks & Spencer, 'in essence, a play on the UK middle class which has been squeezed, but that is just starting to turn the corner.'

Fresh from a one-on-one sit-down with M&S chairman and turnaround expert Archie Norman, McKinnon concedes 'they are definitely over-spaced, but they know that and they are closing stores.

'They just need the top line to improve and they are making lots of efforts to make that happen. We think they've got a good chance of turning it round.' (JC)



Follow from the front

INVESTING THROUGH THE GENERATIONS

THE BEST WAYS FOR PEOPLE OF DIFFERENT AGES TO BUILD WEALTH

The start of a new tax year is a great time to review your investments and ensure you're building up money in the most efficient way possible.

Thanks to the wide range of tax wrappers available, it's possible for every generation to shelter their hard-earned savings from the taxman – and benefit from some generous Government allowances.

This easy-to-read article will help you to determine which investment strategy will help you to reach your financial goals. Simply skip to the relevant section that matches your age and/or that of your children or parents if you want to invest on their behalf or give them some guidance.

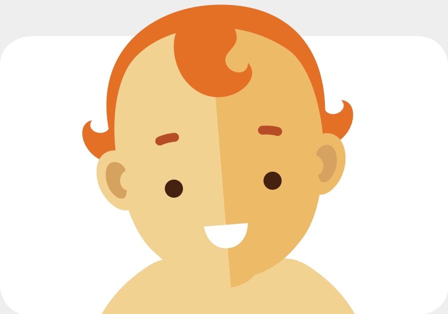
A WALK THROUGH THE GENERATIONS

GENERATION NAME	BIRTHS START	BIRTHS END
The Silent Generation	1925	1945
Baby Boomer	1946	1964
Generation X	1965	1979
Xennials	1975	1985
The Millennials	1980	1994
iGen	1995	2012
Gen Alpha	2013	2025

Sources include: Career Planner, Pew Research. Harvard, US Census Bureau

GEN ALPHA

(APPROX. AGE 1-5)



IT'S NEVER TOO EARLY TO START PLANNING FOR YOUR CHILDREN'S FUTURE. THERE ARE SPECIFIC TAX WRAPPERS AIMED AT CHILDREN WHICH MAKE IT POSSIBLE TO BUILD UP A DECENT SIZED NEST EGG WITHOUT PAYING ANY TAX.

You can open a Junior ISA as soon as your child is born and pay in up to £4,260 each tax year under the 2018/19 allowance.

'This is tax efficient as the pot will grow tax-free and can then be used for a variety of goals including university fees or a house deposit,' says Anna Sofat, managing director at financial advice firm Addidi Wealth.

DIFFERENT TYPES OF JUNIOR ISAS

There are cash Junior ISAs and stocks and shares Junior ISAs. A stocks and shares Junior ISA enables you to invest in the stock market and benefit from market growth. Your child can't access their money until age 18, which means there is plenty of time to ride out any market volatility.

> If you open a **Junior ISA** at birth and invest **£355 a month** (£4,260 a year), the portfolio would be worth **£112,035** by the time the child reaches 18

If you open a Junior ISA at birth and invest £355 a month (£4,260 a year), the portfolio would be worth £112,035 by the time the child reaches 18, assuming an annual growth rate of 4%. Even investing £50 a month is worth it, as this would produce a pot worth £15,780 at that level of growth.

Another way of investing for your child's future is through a Junior SIPP (self-invested personal pension), which they can access after age 55 under current rules.

You can pay in up to £2,880 into a Junior SIPP each tax year and the Government will add tax relief of 20% to make this up to £3,600.

Because the investment time horizon is so long, you may want to consider investing in higher-risk assets such as shares in smaller companies or an emerging market fund containing shares in companies from such countries as Brazil, India and South Korea. These types of assets could potentially generate higher returns than lower-risk assets.

BEST CHILDRENS SAVINGS RATES

THERE ARE SOME DECENT RATES IF YOU WANT TO KEEP YOUR CHILD'S SAVINGS IN CASH

REGULAR SAVINGS	RATE
Halifax (1 year)	4.50%
Saffron	4.00%

TOP EASY ACCESS	RATE
Santander	3.00%
Nationwide (up to £50,000)	2.50%

CASH JUNIOR ISA	RATE
Coventry Building Society	3.50%

Source: Moneysavingexpert, 28 March 2018

IGEN
(APPROX. AGE 6-23)

CHILDREN IN THE IGEN GENERATION STILL HAVE A LONG INVESTMENT TIME HORIZON, WHICH MEANS EQUITIES SHOULD TYPICALLY BE THE FOCUS OF ANY INVESTMENTS.

'Equities have the potential to deliver the strongest returns over a long period and the time allows the impact of short term volatility to be less relevant,' explains Ryan Hughes, head of active portfolios at AJ Bell.

'By having a long time period, it also makes it viable to save on a regular basis, perhaps through a monthly savings approach, which can be very effective even if you can only afford to save a small amount each month.'

"Once your child turns 16 the Junior ISA becomes their property, but they can't withdraw money until age 18. At this point, there is nothing stopping your child blowing the lot"

TAKING THE PASSIVE ROUTE

A tracker fund or exchange-traded fund could be one way to start investing for the iGen generation, acting as a core investment which is another way of saying it is one of the backbones of a portfolio.

A product like **Fidelity Index World (GB00BJS8SJ34)**, which tracks the MSCI World Index, would provide exposure to the biggest and best known companies in the world. This broad-based market exposure would act as the core, so you can then think about adding more opportunistic holdings alongside it in the future.

As your child gets older, reducing their Junior ISA's equity exposure and moving towards cash could be a wise move if they want to use the money for something specific.

Switching to cash in the period close to the point at which they need to access the money effectively locks in any gains and eliminates the risk of the portfolio losing value should there be a period of stock market weakness.

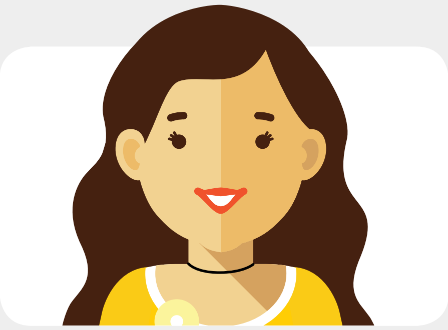
However, you would have to consider the impact of inflation on any cash savings eating into the real value of the money. And they would also lose out on any market gains in the period in which the money is held in cash.

Once your child turns 16 the Junior ISA becomes their property, but they can't withdraw money until age 18. At this point, there is nothing stopping your child blowing the lot.

'Putting an investment into trust gives much more flexibility and control to the parent/grandparent as they are able to control when the child receives the money,' says Hughes. 'This also enables them to give money in phases which could be helpful for funding university fees, a deposit for a house or maybe a gap year.'

FIDELITY INDEX WORLD: KEY FACTS
Tracks the MSCI World index which aims to represent c85% of the global developed equity market
The charges are very low at 0.13%
You get a slight overweight in large caps versus small and mid-caps
The accumulation version of the fund has achieved 11.6% annualised return over 5 years

MILLENNIALS
(APPROX. AGE 24-38)



REACHING YOUR MID-20S IS AN EXCITING BUT DAUNTING TIME. YOU HAVE COMPLETE FREEDOM OVER YOUR LIFE CHOICES, BUT IT'S LIKELY YOU'LL NO LONGER BE ABLE TO RELY ON YOUR PARENTS TO BAIL YOU OUT.

Most millennials are focused on paying off debts and other short-term objectives like financing next year's holiday and building that important emergency cash fund.

As you move towards the end of your 20s, getting on to the property ladder, marriage and having children are common life goals for many people.

HOW THE LIFETIME ISA WORKS

The Lifetime ISA can be an attractive way of saving up for your first home. Anyone aged between 18 and 39 can open an account.

You can invest up to £4,000 a year and benefit from a 25% bonus from the Government until you turn 50. Once you turn 50, you can't make additional contributions but your savings will still earn interest or investment returns.

If you don't use the money to buy your first home, you can keep it as a retirement fund and withdraw money once you hit 60.

There is a 25% charge to withdraw cash or assets from a Lifetime ISA if you withdraw money before aged 60 with the exception of buying your first home or if you are terminally ill.

> "You can invest **up to £4,000** a year and benefit **from a 25%** bonus from the **Government** until you turn 50 years old"

Some popular funds among Lifetime ISA investors are **Fundsmith Equity (GB00B41YBW71)**, **Scottish Mortgage Investment Trust (SMT)** and **Vanguard Lifestrategy 100% Equity (GB00B41XG308)**.

Even if buying a house is your priority, it's a good idea to think long-term as well.

'Millennials should ideally also be focusing on longer-term financial objectives, such as saving for retirement,' advises Patrick Connolly, certified financial planner at Chase de Vere, a financial advice firm.

'As a minimum this should involve joining a company pension scheme; even if they can't afford to make large contributions it is important to get started. The days when people can rely on the State or their employer to look after them as they get older are largely gone.'

HOW TO USE THE DIFFERENT SAVINGS ACCOUNTS

The ideal approach would be to invest in pensions for retirement planning, a Lifetime ISA to get on the property ladder, a stocks and shares ISA for short to medium term financial goals, and cash savings for day-to-day emergencies.

Most people probably won't have enough money to invest in all of these, so you may need to make some compromises.

The great thing about investing for retirement is that you have a long investment time horizon and so can afford to take on risk. While this may mean investing mostly in equities, don't be tempted to take unnecessary risks.

Connolly suggests opting for equity-based funds that spread your money across different sectors and geographies, rather than individual shares or specialist funds.

FUNDSMITH EQUITY: KEY FACTS
Morningstar says: 'This is one of the strongest options for investors seeking exposure to high quality global equities'
The fund's objective is to achieve long-term growth in value, investing in shares of companies on a global basis
It likes quality businesses which are resilient to change, particularly techological innovation
Current holdings include PayPal, Microsoft and Amadeus IT
The accumulation version of the fund has achieved 17.96% annualised return over 5 years

XENNIALS
(APPROX. AGE 33-43)

ONCE YOU'VE GOT YOUR FOOT ON THE PROPERTY LADDER, YOUR THOUGHTS MAY NOW TURN TO BUILDING UP MONEY TO PAY FOR YOUR CHILDREN'S EDUCATION.

A stocks and shares ISA is a great vehicle to use because it shelters your money from tax, including any growth and dividend payments you receive. You can withdraw money whenever you need it without paying tax.

You're currently allowed to pay £20,000 each tax year across all the different types of adult ISAs (stocks and shares, cash, Innovative Finance and Lifetime).

INVESTMENT GOALS

Your 30s and early 40s are also an ideal time to start thinking seriously about your retirement. 'It might seem early to start thinking about retirement but we see all the time the benefits of starting to save for this earlier rather than later,' says Matthew Coppin, manager, financial advice at Castlefield Advisory Partners.

'The impact of compound growth over the longer term on regular pension savings is profound, if the investment strategy is suitable.'

Pensions are a great way of saving for retirement. Your money is protected from income tax and capital gains tax, and you'll get 20% tax relief on your contributions.

This means that if you're a basic rate taxpayer and want to contribute £100 to your pension, it would only actually cost you £80. The Government adds an extra £20, which is the amount that you would have paid in income tax.

Higher-rate taxpayers can claim an additional 20% tax relief through their self-assessment tax return, meaning they only need to pay £60 into their pension to achieve the same £100 of pension contributions.

In addition to workplace pensions, it's possible to save for your retirement through a SIPP (self-invested personal pension). SIPPs give you complete control over which investments you want to make.

> **Higher-rate taxpayers** can claim an additional **20% tax relief** through their self-assessment tax return, meaning they **only need to pay £60** into their pension to achieve the same £100 of pension contributions

THE BENEFITS OF INVESTMENT FUNDS

'Diversification is important in managing risk and volatility and by using investment funds you gain exposure to a wide range of companies in one investment product,' suggests Coppin.

'These can be used to build a diverse portfolio holding a wide range of assets – equities, bonds, property, cash and so on.'

Some funds you may want to research further include **Vanguard Lifestrategy 80% (GB00B4PQW151)**, **Jupiter European (GB00B5STJW84)** and **Stewart Investors Asia Pacific Leaders (GB0033874768)**.

VANGUARD LIFESTRATEGY: KEY FACTS
There are five versions of Vanguard's Lifestrategy funds, offering a different blend of shares and bonds
The 20% and 40% equity versions are aimed at investors with shorter-term goals
The 60% equity version may interest someone with medium-term goals
The 80% and 100% equity versions are relevant for someone with longer-term goals
Each fund invests in wide range of sectors and is regularly rebalanced

GENERATION X

(APPROX. AGE 38-53)

GENERATION X IS THE GROUP BORN BETWEEN APPROXIMATELY 1965 AND 1980. YOUR CHILDREN, IF YOU HAVE ANY, ARE LIKELY TO BE GROWING UP AND MAY HAVE MOVED OUT AND GOT THEIR FIRST JOB, FREEING UP MORE OF YOUR MONEY.

If you're still working, this could be a good time to start saving for your lifelong dream – whether it's a conservatory or even a Harley Davidson motorbike.

If you save £230 a month over three years you could build a savings pot of £10,000, assuming an annual return of 2%.

Saving over a longer period can make these monthly payments a lot more manageable. For example, you could save £75 a month over 10 years to build the same £10,000 nest egg, again assuming a 2% annual return.

INVEST IN CASH OR THE MARKETS?

ISAs are a great way to save for shorter-term financial goals because you can withdraw money whenever you like. We would suggest keeping your savings in cash if you want to hit a specific goal in a period of three years or less, so as to avoid the risks of negative stock market performance which could damage the value of your savings.

> “ISAs are a great way to save for **shorter-term financial goals** because you can **withdraw** money **whenever you like**”

A longer savings horizon does warrant putting your money into the markets. Indeed, if you're at the peak of your earnings power – which many Gen X-ers are – this is a great time to make full use of the £20,000 annual ISA allowance.

It's also worth maximising your pension contributions to benefit from Government tax relief. Each year you can make contributions from UK earnings of up to £40,000, which applies to all contributions – by you and by your employer.

The rules are more complicated if you earn over £150,000.

INVESTMENT IDEAS

'For a medium risk investor, looking to European equities could be interesting,' says Ryan Hughes at AJ Bell. 'The European economy has been recovering strongly during 2017 with every sign that this is likely to continue through 2018 as corporate earnings continue their good momentum,' he says.

One of his top picks is **CRUX European Special Situations (GB00BTJRQ064)**.

Higher risk investors could look towards Asia, which has been a strong performer in recent years as Chinese growth fuels demand in the region.

Invesco Perpetual Asian (GB00BJ04DS38) looks to outperform the MSCI AC Asia Pacific Ex Japan Index, predominately through a bottom-up research process focusing on contrarian ideas.

For lower-risk investors, Hughes suggests opting for a multi-asset solution with an absolute return mind set. For example, **Troy Trojan (GB00B01BP952)** looks to deliver growth over the long term and focuses on protecting capital.

BEST BUY CASH ACCOUNTS

EASY ACCESS ISA	RATE
Nationwide Building Society	1.30%

FIXED TERM ISAS	RATE
OakNorth Bank (1 year)	1.47%
UBL (3 years)	1.87%

EASY ACCESS SAVINGS ACCOUNTS	RATE
Tesco Bank	1.30%

CURRENT ACCOUNT	RATE
Nationwide (1 year, up to £2,500)	5.00%

FIXED-RATED BONDS	RATE
OakNorth (1 year)	1.82%
Paragon Bank (2 years)	2.09%
Vanquis Bank (3 years)	2.30%

Source: Moneysavingexpert, 28 March 2018

BABY BOOMER

(APPROX. AGE 54-72)

WHETHER YOU'RE A YOUNG BABY BOOMER WHO IS 10 YEARS AWAY FROM RETIREMENT OR ALREADY IN RETIREMENT, PENSION PLANNING SHOULD BE AT THE FOREFRONT OF YOUR MIND.

Peter Chadborn, director at financial advice firm Plan Money, says your investment strategy should be primarily driven by your risk appetite – and less so by your time horizon.

If there is a specific date by which you need capital, such as funding a home move or buying an annuity, then your equity weighting should be gradually reduced as the end-date nears.

'If the investment objective is changing from capital growth to income provision, but is still going to stay in the same investment vehicle, then there should be only modest change to the equity weighting,' says Chadborn. 'This is because the investment is not ending and income is then derived from the continued capital growth; the profit going forward.'

> "Once you **reach age 55** you can start withdrawing money from your pensions. You can **withdraw 25% of your pension pot tax-free** and the remaining 75% is subject to income tax."

ACCESSING YOUR PENSION

Once you reach age 55 you can start withdrawing money from your pension. You can withdraw 25% of your pension pot tax-free and the remaining 75% is subject to income tax.

When you're planning withdrawals it is worth bearing in mind that spending in retirement isn't usually linear.

Chadborn says many people want a higher income in their early years of retirement so they can enjoy an active lifestyle while permitted by their health. The advantage of income drawdown over annuities is you have complete flexibility over how much money you withdraw and when.

ISAs can also play an important role in funding your retirement. There are no age restrictions, so if you want to stop working before age 55 you can withdraw money tax-free from your ISA instead.

Don't forget that you'll also be entitled to the State Pension once you hit the State Pension age, which is currently 63 for women and 65 for men.

AGE-RELATED BENEFITS

Other benefits after age 60 include free prescriptions and eye tests; a free Oyster travel card if you live in London; and a free bus pass if you live in Scotland, Wales or Northern Ireland.

In England, women can get a free bus pass when they reach State Pension age, while men qualify when they reach the female State Pension age.

If you were born before 5 January 1953, you could be eligible for the tax-free Winter Fuel Payment.

SILENT GENERATION

(APPROX. AGE 73-93)

ONCE YOU REACH AGE 70 IT'S TIME TO START THINKING ABOUT DE-RISKING YOUR INVESTMENT PORTFOLIO. THIS IS BECAUSE YOU POTENTIALLY HAVE A SHORTER INVESTMENT TIME HORIZON.

Zulekha Abdulla, consultant at Mattioli Woods, a wealth management firm, says this is more difficult than in the past because gilts (UK Government bonds) and other forms of sovereign debt have moved from offering risk-free returns to offering 'return-free risk'.

'We recommend a diversified, multi-asset portfolio to navigate this unconventional market backdrop,' she says.

PASSING ON YOUR WEALTH

Your 70s are also an ideal time to start thinking about estate planning, so that you don't burden your family with a large inheritance tax (IHT) bill when you die.

> "Unlike ISAs, **pensions don't count as part of your estate for IHT purposes.** If you die before age 75, your beneficiary can access the pension via a lump sum or by taking income tax-free"

INHERITANCE TAX FACTS

IHT is payable on the value of your assets that exceed the threshold of **£325,000**

It is charged at **40%**

An additional allowance for people's main residence is also being phased in

It applies where the recipient of the home is a direct descendant and is set at **£125,000** for the 2018/19 tax year, rising by **£25,000** each year until 2020.

'IHT planning can be as simple as gifting your assets to your beneficiaries during your lifetime to insuring your IHT liability,' says Abdulla. 'Or it can be as elaborate – from investing in stocks and shares that benefit from IHT relief to trust planning.

'Each method can be used together or in isolation, and is dependent on the individuals' estate and their personal circumstances.'

Unlike ISAs, pensions don't count as part of your estate for IHT purposes. If you die before age 75, your beneficiary can access the pension via a lump sum or by taking income tax-free. If you die after age 75, the lump sum or income is taxed at the beneficiary's marginal rate of tax.

One perk to look forward to once you reach age 75 is a free TV licence, saving you £150.50 a year. (EP)

DISCLAIMER: Editor Daniel Coatsworth has personal investments in Fundsmith Equity and Scottish Mortgage referenced in this article

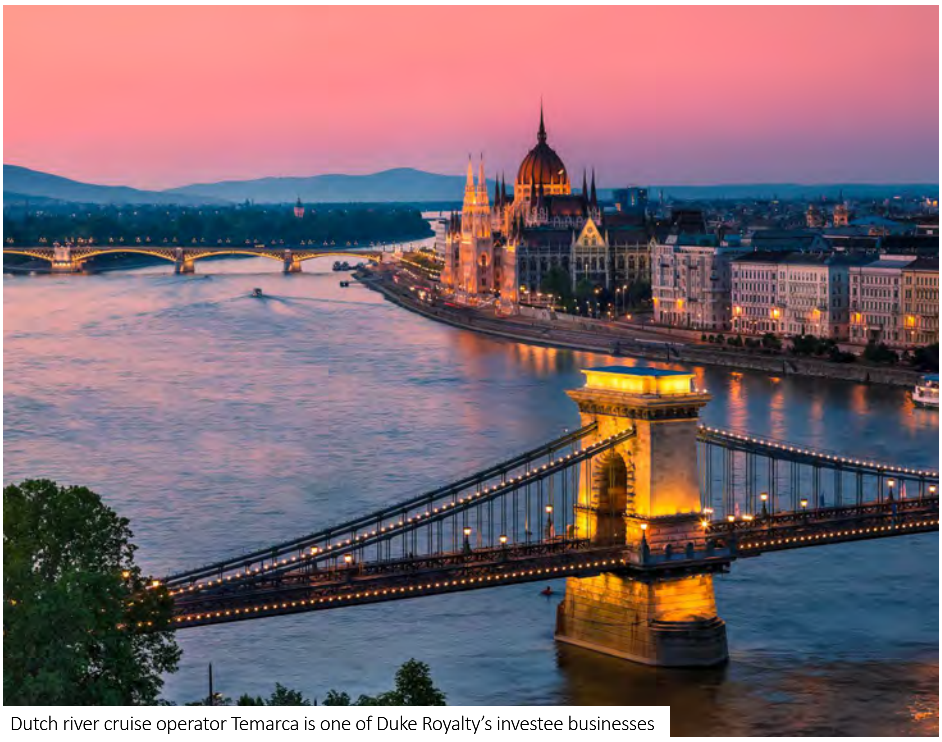
A novel way to earn income with Duke Royalty

Picking companies to invest in can be risky but if you were guaranteed some of their revenue every year, it might be well worth it

Traditionally when a company needs financing but wants to retain control of its fortunes there are limited options available to it. Bank loans are probably the most popular but high street banks are still cautious in lending small to medium size enterprises (SMEs) cash despite government initiatives aimed at boosting business.

Step in **Duke Royalty (DUKE:AIM)** which lends businesses money in return for a slice of the investees' revenues. The terms of this agreement can be as long as 30-40 years and it doesn't matter if the company goes through some tough times. As long as it's still generating some sales, Duke Royalty gets paid. Companies can pay back the initial loan after several years with a fee although CEO Neil Johnson describes the deal as a 'corporate mortgage'. Benefits of keeping the agreement running include extra financing when needed.

The company has an annual reset of the money it will take back as repayment that is reflective of the movement of the investees' revenue in the last 12 months. The reset is restricted to plus or minus 6% of the original deal agreed between the two parties. Therefore, although the company is not impacted by the investee's profit figure, it has the ability to help out when times are tough.



Dutch river cruise operator Temarca is one of Duke Royalty's investee businesses

Johnson says it's a 'fundamental promise' that companies retain control of their finances. There's never a need to refinance debt as often happens when companies can no longer stick to their banking covenants.

Duke Royalty takes the annuity-like royalty income it receives from its investee companies and returns some of the cash to its shareholders in the form of dividends. Stockbroker Cenkos forecasts an attractive dividend yield of around 8% for 2019 and 2020 due in part to the low headcount and lean operating model of the business.

DUKE'S BACKGROUND

Relatively unknown in the UK, royalty financing has been used in Canada and the US for years with its roots in the commodity sector, especially mining. It has also been used in the biotech sector although neither area is of particular interest to Johnson.

He doesn't want to invest in these types of businesses as they may have a finite lifespan. Mines will eventually run out of things to dig up and biotech companies will lose their patents on drugs after several years. In both these hypothetical situations a dramatic fall in earnings is implied.

FINDING THE WINNERS

When choosing a company, it's vital that the right sort of business is found as Duke Royalty is exposed to equity risk. However, even in the worse-case scenario of a default or liquidation, Duke has senior security on assets so should be able to recoup some of its losses.

Further examples of types of businesses Johnson avoids include the company behind mobile phone game *Angry Birds*, Rovio Entertainment. Any hint that the product is a fad and not going to be around for the foreseeable future means that it won't receive investment from Duke Royalty.

'We avoid high obsolescence companies that run the risk of becoming outdated or obsolete and those with high customer concentration,' says Johnson.

Duke Royalty also has a comprehensive checklist of investee criteria which includes the company having an established track record with at least 10 years of predictable and visible revenue.

It prefers to come on board with an existing management team with a track record of delivering. It also likes businesses with little or no debt; in some cases Duke Royalty will replace the existing debt with its own financing.

Examples of companies where Duke Royalty has made an investment include Dutch river cruise business Temarca. It invested €8m into a company that has been around for 20 years and has sold out the next two sailing seasons so has clear visibility of revenue.

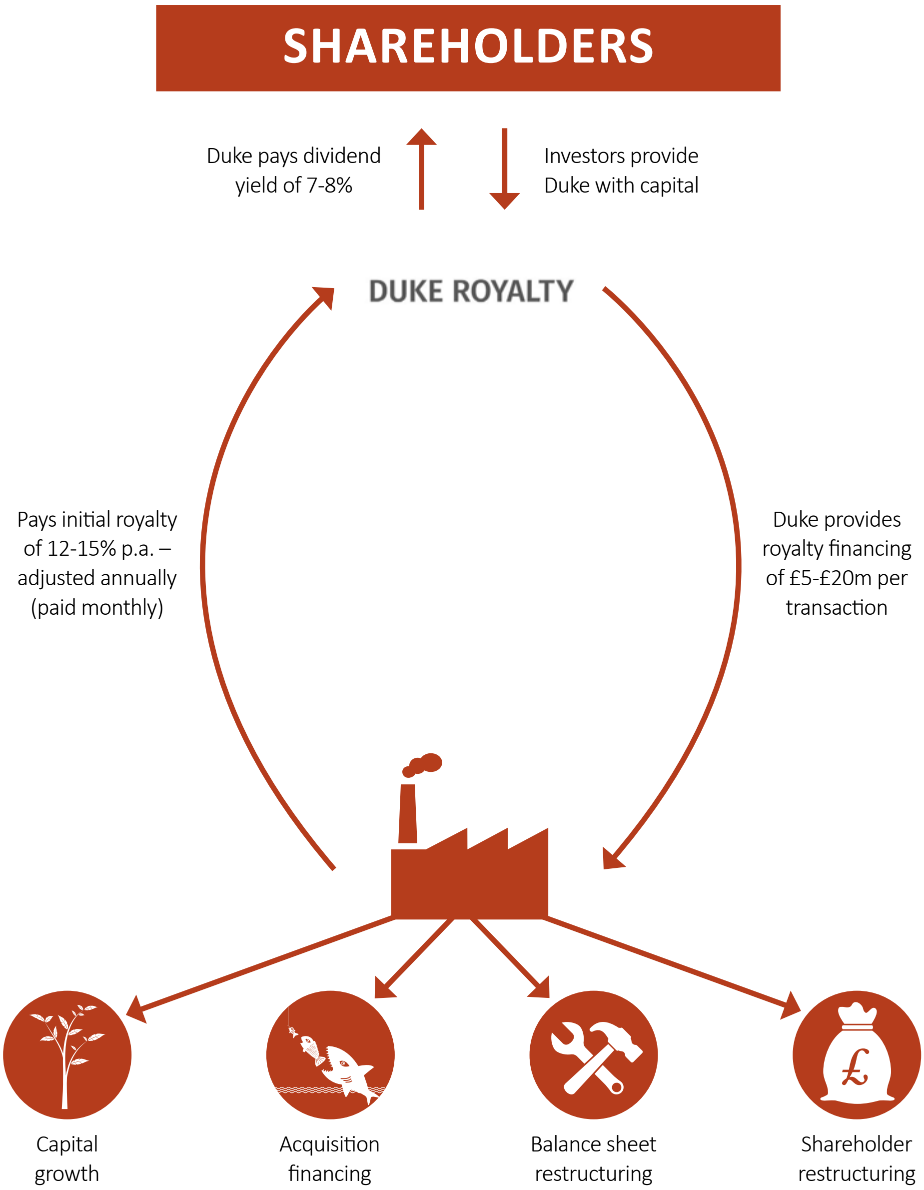
Another of Duke Royalty's investments is Trimite, a Birmingham-based specialist coatings manufacturer. It has committed £9m to Trimite to fund its 'anticipated future organic sales growth'. Duke Royalty expects £1.2m annual royalty payments.

HOW DOES IT FIND OPPORTUNITIES?

To find potential targets, Duke Royalty is aided by an exclusive partnership with consultancy firm Oliver Wyman, which Johnson describes as an 'expert in every field'. According to broker Mirabaud, Wyman adds 'extensive expertise in due diligence' to Duke Royalty's target acquisition.

In total, Duke Royalty has three royalty investments and has signed non-binding terms on a fourth deal.

The company raised around £20m through issuing equity at the end of last year to ensure it has the firepower to make further deals. It has also used some of the funds to top up pre-existing loans, for instance investing a further £3m into Temarca. (DS)



Four lessons to draw from 18¼ years of precisely zero from UK stocks

There are various ways in which a investor could have achieved a better return than simply tracking the FTSE 100

A potential takeover bid for a fourth FTSE 100 stock this year is helping the index to try to cling on to the 7,000 mark, as Takeda's plan to consider an offer for drug manufacturer **Shire (SHP)** adds to the offers for **GKN (GKN)**, **Smurfit Kappa (SKG)** and **Sky (SKY)**.

But that 7,000 mark is still awfully close to the 6,930.2 mark reached on 31 December 1999. At the time, the latter level represented a new all-time high for the FTSE 100 and turned out to be the very peak for the benchmark index, as air promptly started to leak out of the technology, media and telecoms (TMT) bubble.

Comparing that level to today's position, the UK's premier index has effectively gone nowhere for just over 18 years. At its year-to-date closing low on 26 March of 6,889 it had even contrived to record a small loss over that period.

For patient portfolio builders, that could make for depressing reading, but even in the face of such apparent adversity it is possible to draw four valuable lessons when it comes to portfolio construction and asset allocation.

1. THE PRICE PAID FOR AN INVESTMENT REALLY DOES MATTER

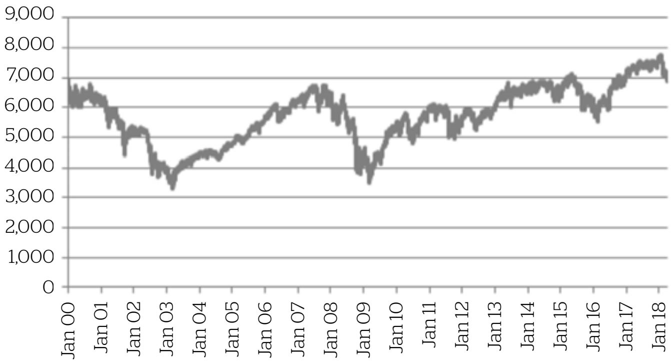
Since 31 December 1999 high of 6,930, the FTSE 100 has seen two bear markets (2001-03 and 2007-09) and two bull markets (2003-07 and 2009 onwards).

Having lost that peak, it took the benchmark until 2015 to reach it again and on 26 March 2018 it stood around half-a-percent below it at 6,889.

The message here is three-fold. At first glance, this makes 'buy-and-hold' strategies look a bit sick (but more of that in a moment).

Those investors who eschewed 'buy-and-hold' could have got into even worse trouble, if they did not resist the powerful temptation to be dragged in at the top (when all seems rosy) and flee at the bottom (when all seems bleak) which can be awfully hard to resist.

FTSE 100 IS ALMOST UNCHANGED RELATIVE TO ITS TECH-BUBBLE PEAK OF 31 DECEMBER 1999.



Source: Thomson Reuters Datastream

Those investors who did try to time the market therefore needed to heed Warren Buffett's aphorism about being 'fearful when others are greedy and greedy when others are fearful'.

When greed is dominant, valuations are likely to be bubbly and sitting at unsustainable levels. When fear is dominant, valuations are likely to be cheap and build in a margin of safety.

So the price paid for an investment really is a key determinant of the long-term return, where it is an index, fund or individual stock or bond.

2. PICKING STOCKS CAN PAY OFF (BUT IT ISN'T EASY)

Another way to try and get around the poor headline capital return from the FTSE 100 would be to try and pick individual winning stocks and dodge the losers (or pay a fund manager to do it for you, if the time and research effort involved are simply too much).

The good news is this could have paid off handsomely. No fewer than 56 of the 100 firms that made up the FTSE 100 in 1999 recorded a better return than the broader index.

The bad news is that only 51 still survive to this day and of those only 32 have offered a positive capital return since the end of 1999.

And of the 100 firms in total, 22 fell by more than 50% and seven by more than 90%, inflicting real pain on any fund manager or investor who picked out those as the new millennium dawned.

In other words, spotting the winners (that either survived or were taken over for a fat price) was no easier than avoiding the disasters (that went broke, dished out profit warnings and share price collapses or were snapped up at lower prices following wider market declines).

PATIENCE CAN STILL BE REWARDED

Thankfully patience can get its reward and it comes

BEST AND WORST 10 PERFORMERS AMONG THE 51 FTSE 100 MEMBERS AT THE 1999 PEAK THAT ARE STILL ON THE LONDON MARKET TODAY

No.	Company	Performance since 31 Dec 1999
1	British American Tobacco	1,008.7%
2	Reckitt Benckiser	921.5%
3	Associated British Foods	597.5%
4	Imperial Brands	528.1%
5	Rolls-Royce	485.5%
6	Whitbread	473.6%
7	Diageo	372.8%
8	BHP Billiton (Billiton)	330.7%
9	Hays	317.9%
10	Unilever	265.0%
41	Vodafone	(39.2%)
42	DMGT	(40.0%)
43	Barclays	(48.6%)
44	Aviva (Norwich Union)	(50.5%)
45	Pearson	(57.9%)
46	RSA (Royal & Sun Alliance)	(62.8%)
47	BT	(79.4%)
48	Lloyds (Lloyds TSB)	(81.8%)
49	Dixons Carphone	(84.5%)
50	Royal Bank of Scotland	(90.9%)

Source: Thomson Reuters Datastream. No data available for Compass prior to 2001 merger with Granada, though stock was a FTSE 100 member on 31 December 1999. Covers period to 26 March 2018.

BEST AND WORST 10 PERFORMERS AMONG ALL OF FTSE 100 MEMBERS AT THE 1999 PEAK

No.	Company	Performance since 31 Dec 1999
1	**British American Tobacco**	1008.7%
2	**Reckitt Benckiser**	921.5%
3	South African Breweries	619.7%
4	**Associated British Foods**	597.5%
5	**Imperial Brands**	528.1%
6	**Rolls-Royce**	485.5%
7	**Whitbread**	473.6%
8	**Diageo**	372.8%
9	**BHP Billiton (Billiton)**	330.7%
10	**Hays**	317.9%
86	Invensys (BTR Siebe)	(83.3%)
87	**Dixons Carphone**	(84.5%)
88	Halifax	(89.5%)
89	**Royal Bank of Scotland**	(90.9%)
90	Logica	(92.2%)
91	CMG	(93.7%)
92	Colt Telecom	(98.0%)
93	Telewest	(99.8%)
94	Energis	(99.8%)
95	Marconi	(99.9%)

Source: Thomson Reuters Datastream.
Companies still in the FTSE 100 highlighted in **BOLD**. Covers period to 26 March 2018.
*No data available for Bass owing to break-up of company as Six Continents in 2003 (spawning Mitchells & Butler, InterContinental Hotels and ultimately Britvic).
*No data available for CGU, which merged with Norwich Union to form CGNU, which became known as Aviva in 2002.
*No data available for Compass before 2001 merger with Granada.
*No data available for Granada owing to 2001 merger with Compass and subsequent demerger of Granada Media, which then merged with Carlton to form ITV in 2004.
*No data available for Great Universal Stores, which demerged Burberry in 2005 and the split into Experian and Home Retail in 2006, the latter being acquired and broken up by Sainsbury and Wesfarmers in 2016.

in the form of dividends. These precious payments mean that holding a passive index tracker can pay off, as can operating a buy-and-hold strategy (providing investors' portfolios are capable to withstanding the ups and downs in capital values in between).

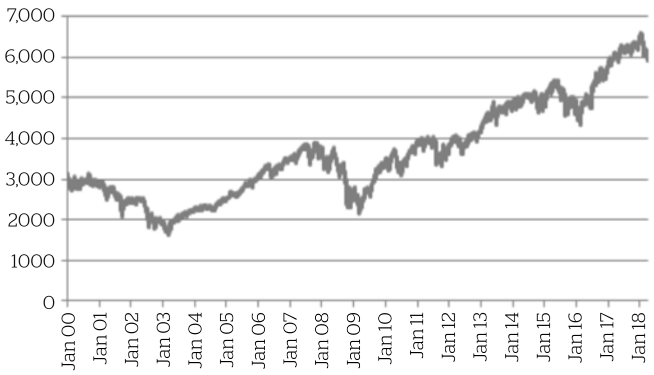
This can be demonstrated by looking at the performance in the FTSE 100 in purely capital returns and total return terms. In the latter case, dividends are harvested and then reinvested.

The difference is startling – but again, it must be remembered that even the total return index suffered two large falls during the 2001-03 and 2007-09 bear markets, even if they were not as pronounced as the declines in the headline index.

	FTSE 100 price index	FTSE 100 total return index
31-Dec-99	6,930.2	3,140.7
26-Mar-18	6,888.7	5,902.5
Change	**(0.6%)**	**87.9%**

Source: Thomson Reuters Datastream.

EVEN THE FTSE TOTAL RETURN INDEX HAS SUFFERED DIPS, DESPITE THE ADVANTAGES OF DIVIDEND REINVESTMENT



Source: Thomson Reuters Datastream

BEWARE HOME BIAS

One way of getting around the UK's disappointing headline performance since the end of the 1990s bull-run would have been to fight any natural home-leaning bias and diversify by looking overseas.

In capital terms the UK has lagged all major overseas geographies in local currencies.

A drop in the pound over the period has further boosted returns from overseas arenas (although none of these trends are guaranteed to repeat themselves in the future).

UK HAS DONE BADLY RELATIVE TO KEY OVERSEAS MARKETS SINCE THE END OF 1999

The UK's generally superior dividend yield helps a little in total return terms but the showing relative to international options has still generally been poor.

CAPITAL RETURNS SINCE 31 DECEMBER 1999

Local currency		In sterling	
Latin America	170.5%	Latin America	348.6%
Eastern Europe	142.8%	Eastern Europe	175.1%
Asia Pacific	117.3%	Asia Pacific	146.2%
US	80.9%	US	102.7%
Japan	9.7%	Western Europe	34.6%
UK	(0.6%)	Japan	21.1%
Western Europe	(4.3%)	UK	(0.6%)

Source: Thomson Reuters Datastream. Covers period to 26 March 2018

UK HAS DONE BADLY RELATIVE TO KEY OVERSEAS MARKETS SINCE THE END OF 1999 EVEN ALLOWING FOR ITS SUPERIOR DIVIDEND YIELD

TOTAL RETURNS SINCE 31 DECEMBER 1999

Local currency		In sterling	
Latin America	377.3%	Latin America	440.8%
Eastern Europe	309.3%	Eastern Europe	364.0%
US	157.6%	Japan	209.3%
Japan	144.0%	US	191.8%
Asia Pacific	117.3%	Western Europe	146.2%
UK	87.9%	Asia Pacific	146.2%
Western Europe	78.3%	UK	87.9%

Source: Thomson Reuters Datastream. Covers period to 26 March 2018

Russ Mould, *investment director, AJ Bell*

First quarter update on our

2018 SHARE PORTFOLIO

We're hopeful of a better performance as the year progresses

Our top picks for 2018 are lagging the broader market at the end of the first quarter. Our portfolio of 10 stocks has an average loss of 8.4% versus a 6% decline from the FTSE All-Share.

While this is a disappointing start, our selections were designed to be held for at least a year, so we remain hopeful that some of the laggards will pick up as the year progresses.

Before we look at the individual constituents, it is worth considering the state of the market as a whole.

Our selections were made on the eve of a stock market correction, so we've been battling negative investor sentiment almost from the start.

The market has also punished highly rated stocks with the slightest bit of bad news, which is relevant to several of our selections.

Investors in general currently seem to be nervous about buying stocks that have fallen in value, so we haven't seen any widespread 'bottom fishing' since the market correction earlier this year.

STOCKS IN FOCUS

Half of our portfolio has outperformed the stock market, albeit only three of these stocks are in positive territory.

Charter Court Financial Services (CCFS) is up by 16.9% to 294.5p, helped by the strength of the buy-to-let mortgage lending market and more investors becoming aware of the stock.

Full year results published on 20 March showed a 128% increase in pre-tax profit to £111.7m; its loan book up 42% to £5.4bn; and 28.6% return on equity.

Investec analyst Ian Gordon believes niche banking companies like Charter Court offer 'materially better value' than the more 'structurally challenged' FTSE 100 banks.

***SHARES'* 2018 PORTFOLIO**

Company	Entry price (p)	Price now (p)	% gain / loss
Charter Court Financial Services	251.88	294.5	16.9
Alliance Pharma	61.38	68.8	12.1
Johnson Matthey	3066	3074	0.3
AB Dynamics	942.5	935	-0.8
Dixons Carphone	190.35	185	-2.8
Future	394.88	361	-8.6
DotDigital	97	84	-13.4
Sage	785.5	645.6	-17.8
Biffa	253.38	201	-20.7
Dignity	1691.5	863.5	-49.0
AVERAGE			**-8.4**
FTSE All-Share	**4146.97**	**3896.87**	**-6.0**

Entry prices taken 19 Dec 2017. Latest prices taken 29 March 2018

ALLIANCE PHARMA LOOKING GOOD

Alliance Pharma (APH:AIM) is gaining traction as strong international sales growth drives its impressive performance. Underlying pre-tax profit increased by 8% to £24m in 2017.

Its shares are up by 12.1% to 61.38p since we said to buy last December and we expect them to end the year even higher.

The shares aren't expensive at 14.9 times forecast earnings for 2018 given that analysts predict 12% compound annual growth in earnings per share for the next three years.

A FEW STOCKS SITTING QUIETLY

Johnson Matthey (JMAT) and **AB Dynamics (ABDP:AIM)** are sitting close to our entry level on each stock. The latter recently issued a decent trading update and said its new chief executive should start in the summer. It is bringing in someone new to drive corporate development.

Dixons Carphone (DC.) is down 2.8%, roughly half the decline in the broader market, which isn't bad considering ongoing negative sentiment towards retail stocks. Its trading update in January was fairly decent and the share valuation is already discounting a tough market. A new chief executive and a new finance director bring some excitement to the investment case.

Media group **Future (FUTR)** is down 8.6% but we certainly don't expect the stock to remain in the red. Research group Edison recently commented: 'The share price has drifted back from recent highs and we consider that the current rating does not fully reflect the opportunity.' The shares currently trade on 15.6 times forecast earnings for the year to September 2019.

THE DISAPPOINTING FOUR

The market reacted negatively to **DotDigital's (DOTD:AIM)** half year results in February. A mere 1.5% pre-tax profit growth called into question the company's share valuation. Prior to the figures the shares traded on 32 times forecast earnings for the current financial year. Such a rating would normally warrant faster earnings growth.

There were some delays to customers buying services from DotDigital ahead of new data regulations called GDPR which come into force in May. That's something to watch closely in the near-term in case the regulations lead to a short-term drop in email marketing activity (and thus demand for DotDigital's technology) as companies have to rebuild their marketing databases.

A weak first quarter update in January from **Sage (SGE)** served to pull down its share price. It suffered some revenue delay due to sales personnel receiving, in aggregate, around two weeks' training time on the new 'Sage Business Cloud' product suite, as well as a poor show from its French operations. A stronger second quarter update could be the catalyst to revive the share price.

Biffa (BIFF) was trading on 11.9-times forecast earnings for the year to 31 March 2019 on the eve of its disappointing trading update last month. Ongoing restrictions for exporting paper recyclates to China prompted an 8% downgrade to the March 2019 financial year's earnings per share (EPS) estimate.

The shares have fallen by more than twice the EPS downgrade, down 19% to 201p. They now trade on 10.4 times forecast earnings which seems unjustified given its core business is still trading well and earnings forecasts now assume zero financial contribution from exports to China for at least the next two years.

A planned bottle and can deposit return scheme in England could even create more recycling volumes, benefiting collection companies like Biffa.

And finally we have **Dignity (DTY)** which has halved in value since we said to buy. The business model has completely changed since our original article. A major overhaul of its pricing structure radically changes its potential earnings capability and thus the investment case.

We see better opportunities elsewhere in the market and believe now is the time to cut your losses on Dignity. The risk is another profit warning; the potential reward is a private equity takeover. We don't think the risk/reward balance favours keeping the shares. (DC)

Dignity shocked the market in January with a radical change to its business model

How to use past performance figures wisely

Historic data can be a useful way of comparing funds – as long as it's put in context

Fund managers always warn investors that past performance is not a reliable indicator of future performance. But past performance figures can be really useful when comparing funds and assessing how managers cope in different market conditions.

So how do you use the figures wisely? We spoke to three experts to find out.

WHAT'S WRONG WITH RELYING ON PAST PERFORMANCE?

It's tempting to look at short-term past performance figures and buy funds that are riding high in the tables.

The problem is that funds which are at the top of the tables don't stay there forever. A fall could be just around the corner, whereas funds that are at the bottom could be in line for a revival.

'The risk for investors, who place too much emphasis on past performance, is that they buy funds just as they are peaking and when strong investment gains have already been made,' says Patrick Connolly, certified financial planner at financial advice firm Chase de Vere.

The risk for investors, who place too much emphasis on past performance, is that they buy funds just as they are peaking and when strong investment gains have already been made

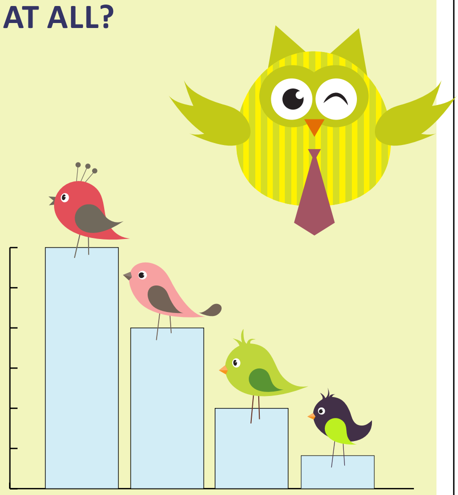
'And they sell funds which have performed badly and so crystallise their losses just as performance is set to improve.'

Even star fund managers with a long, positive track record can fall into difficulties. It's very unlikely that a fund will be able to consistently outperform through different market cycles.

'Veteran fund managers that have been held with the highest regard in the industry have all experienced tough times,' says Simon Molica, active portfolios fund manager at AJ Bell. 'Names that come to mind include Richard Buxton, Neil Woodford and Anthony Bolton.

'When market conditions change this can present fund managers with either a headwind or a tailwind to their investment process. For instance, we have recently experienced a market environment which has been very supportive of growth investing and hence value as a style has been out of favour for some time now.'

SHOULD I USE PAST PERFORMANCE FIGURES AT ALL?



It's difficult to assess funds without looking at their past performance, but you shouldn't let historic data be the sole basis of your investment decisions.

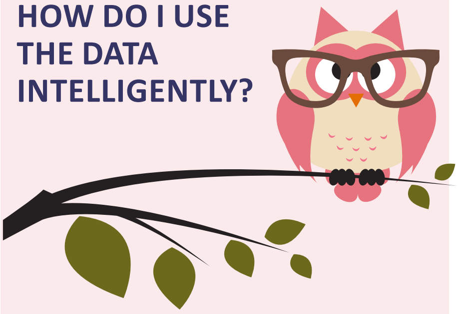
Darius McDermott, managing director at Chelsea Financial Services, says: 'When I compare fund managers I will look at past performance, but it's not the only thing I assess. I'll analyse how volatile performance is, and how managers perform when markets go down as well as up.'

McDermott says fund managers who can perform well in declining markets tend to be the good ones.

You should never base your investment decisions on short-term data, as this won't give you any indication of how the fund reacts to different market cycles.

Chase de Vere's Patrick Connolly says investors should look for funds that are most likely to produce long-term consistent returns, rather than those you think might produce short-term stellar returns.

HOW DO I USE THE DATA INTELLIGENTLY?



It's important not to look at past performance data without thinking about the external factors that could have skewed the figures.

Try to understand why the fund is outperforming or underperforming – and then consider if anything might change in the future.

To do this you need to have a good understanding of the investment team running the fund and the approach they take.

In some cases the fund may have grown too large.

Some funds may simply be at the top of the tables because their style or sector is currently in favour. If the style or sector becomes out of favour, their performance could soon go into reverse.

'Many successful fund managers have experienced periods of underperformance at some point during their careers,' says Molica. 'For instance, with a contrarian investment process the point is to go against the crowd – this requires patience and therefore by design will deviate heavily against an index and peers.'

Whenever you're comparing data, it's crucial to compare funds in the same sector so that you can get a good idea of how well a fund has done relative to its peers.

WHAT ELSE SHOULD I LOOK AT?

There are lots of different factors to look at when deciding whether to invest in a fund.

Molica recommends analysing the experience of the individual or team involved in running the strategy; the robustness and repeatability of the investment process driving the fund; and the costs.

'The industry is more transparent today than ever before, with information being widely available from the fund groups' websites,' he says. 'Documents such as fund factsheets, Key Investor Information Documents (KIIDs) and fund prospectuses should be useful tools when considering an investment.'

Some commentators suggest investors should select funds based on cost rather than past performance. But McDermott says investors should never let costs drive their investment decisions.

'The FTSE 100 is at roughly the same level as it was 18 years ago, so if you'd bought a low-cost tracker your return would be entirely based on dividends,' he argues. 'A more expensive product with lots of good fund managers would probably have made higher returns.'

McDermott points out that past performance figures are always shown net of all fees, so you can see for yourself whether the costs are worth it. (EP)

The Canadian lottery conundrum: $1m today or $1,000 a week for life?

Many UK workers face a similar decision with regards to taking a lump sum or keeping their defined benefit pension

What would you do if you were offered a choice of £1m today or £1,000 a week, tax-free for the rest of your life?

This was exactly the conundrum facing 18 year-old Charlie Lagarde, from the province of Quebec, when she won the Canadian lottery recently. Well, almost – her choice was between C$1m (about £550,000) or C$1,000 tax-free a week.

After speaking to a financial adviser (Charlie is clearly a very sensible teenager) she opted for the income option rather than the lump sum. But was she right? And what retirement planning lessons can we learn?

KEY CONSIDERATIONS

Whether or not Charlie made the 'right' decision depends on her own personal needs and circumstances. If she had significant credit card debts racking up interest or an expensive mortgage to pay off, for example, it might have made sense to take the lump sum in order to rid her of this burden.

Assuming this isn't the case, however, it appears she has made the right call. Let's start with the simplest example, ignoring the impact of inflation and assuming the money is stuffed in a 0% paying bank account.

In this scenario, it will take Charlie just 19 years to hit the C$1m tipping point, and if she lives until age 82 – the average life expectancy in Canada according to the World Bank – she'll receive a total prize worth over C$3.3m by taking an income.

Even assuming average inflation of 3% steadily erodes the value of her income payments, she would still be better off in real terms by her late 40s.

Alternatively, Charlie might decide to invest all her winnings in order to protect it from the ravages of inflation and benefit from some market growth. Assuming investment returns of 5% after charges, she would again be better off taking the income prize option – but only once she reaches the age of 68. By the age of 82, she would have C$24.9m compared to C$23.8m by investing the lump sum.

'HYPERBOLIC DISCOUNTING'

The key factor in Charlie's case is her age – because she is so young, the weekly payments work out to be more valuable (provided she lives to somewhere near average life expectancy).

When you reach retirement, while there might be less time on your side, you should still think very carefully if you are offered the option to swap a guaranteed income stream for cash.

Let's imagine Darren, a healthy 60 year-old steelworker with a 'defined benefit' pension offering a guaranteed income for life from age 65 of £10,000 a year. The pension comes with valuable inflation protection baked in too.

Darren's former employer might offer him £100,000 in cold, hard cash to give up his pension. Many would be tempted to take such an offer because, as human beings, we often naturally prefer a smaller amount of money today over the promise of a larger amount tomorrow. This is known as 'hyperbolic discounting'.

However, provided Darren lives into his 80s, the retirement income would be much more valuable – particularly because inflation risks eating away at the fund if he chose to cash in.

If you're lucky enough to be in a similar position to Charlie – no matter what your age – be sure to consider the overall value of a secure income stream, and don't make a rash decision based on the lure of a large lump of money right now.

Tom Selby, senior analyst, AJ Bell

Phoenix could be the best income stock you've never heard of

One analyst reckons its shares should trade on a higher rating, implying capital gains alongside generous income for investors

Phoenix (PHNX) is the UK's largest consolidator of closed life assurance funds or insurance policies that are no longer open to new business.

It may seem a pure income play, offering a prospective dividend yield of 6.8% for 2018.

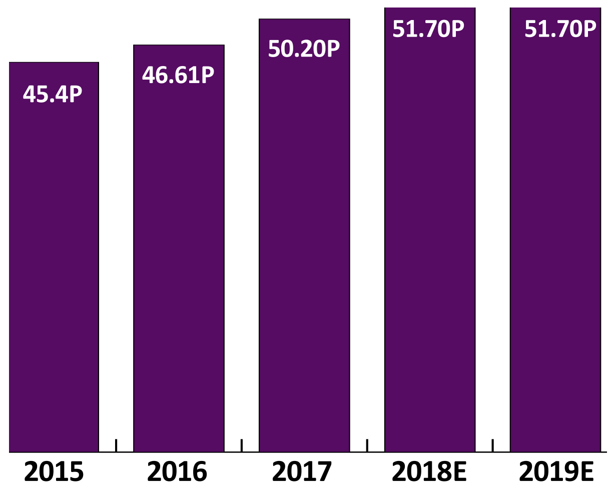
That makes it the 35th largest dividend yield in the UK after Phoenix's £3.2bn acquisition of **Standard Life Aberdeen's (SLA)** Assurance business in February, according to analysts.

But many income investors may never have heard of Phoenix, despite its solid history and promising future of dividend payments.

Investment bank Berenberg analyst Trevor Moss says the market still doesn't 'appreciate the merits of closed book consolidation and therefore Phoenix in particular'.

However, he adds the yield is too high, saying it should reflect a business ready to grow its dividend while writing new business, rather than 'one that is closed forever and running off to zero'. Essentially, he thinks the shares should trade much higher than their current price, as that would help bring the yield down.

PHOENIX'S DIVIDEND PROFILE



Source: Berenberg, Company data

IS THE BUSINESS GROWING?

For Phoenix, the Standard Life Aberdeen Assurance deal is a gamechanger, as its business relies on scale for returns on capital and costs.

The deal extends Phoenix's reach beyond the £380bn potential market in the UK to £540bn of potential assets across the UK, Germany and Ireland.

This sort of extra scale represents an additional £5.5bn of cash flows over time, with £1bn expected before 2022. This extra cash will drive future dividend payments.

The integration of the Assurance business will take time, at least two years but Berenberg's Moss believes it could eventually launch Phoenix into the FTSE 100 index.

CHANGING BUSINESS MODELS

The life insurance sector is changing. Standard Life Aberdeen wanted to become a 'capital light' asset manager hence why it decided to dispose of its 'capital intensive' Assurance business.

Similar examples of change in the life insurance model include companies looking to cut costs by outsourcing non-core activities and concentrate on what they're good at. Phoenix can pay attractive prices for businesses that no longer fit into a group's model.

Phoenix's expertise with closed funds allows it to provide a scalable platform for further funds and its scale gives it the ability to be more efficient.

The company recently announced it is in an exclusive agreement over another annuity transaction, demonstrating its ambition to build on the Assurance deal. (DS)

Destiny Pharma targets $1bn US market with anti-microbial resistant drug

The company's anti-infective XF-73 could have the potential to kill bacteria within 15 minutes

Clinical stage biotech company **Destiny Pharma (DEST:AIM)** is taking on antimicrobial resistance with its anti-infective XF-73 treatment in hopes of taking a share of the $1bn US market. Antimicrobial resistance occurs if a micro-organism is able to stop an antimicrobial, including antibiotics, from working against it.

Destiny Pharma joined the stock market in September 2017 and is planning to start a Phase IIb trial later this year for its lead candidate XF-73, with data expected in mid-2019.

HOW DOES XF-73 WORK?

XF-73 is an exciting drug product designed to rapidly bind to bacterial membrane, making it porous and forcing the bacteria to leak out, killing it within 15 minutes.

Destiny Pharma is targeting superbug MRSA. XF-73 shows early promise as the bacteria did not demonstrate any resistance after 55 repeat exposures.

WHY XF-73 IS 'SIGNIFICANTLY DE-RISKED'

Investing in pharmaceutical firms can be risky due to the possibility of clinical trial failure or the company running out of money in the early stages where it is generating limited or no revenue.

CLINICAL TRIALS COMPLETED ON XF-PLATFORM (XF-73)

Antibiotic	Number of subjects	Dosing period	Dose	Safety
XF-73A01	23	5 days	Low (0.075mg/g)	Yes
XF-73B01	45	5 days	Higher (0.5mg/g)	Yes
XF-73B02	32	5 days	Higher (2mg/g)	Yes
XF-73B03	60	2 days	Lower viscosity gel	Yes
DMID-11-0007*	56	5 days	Lower viscosity gel	Yes

Source: FinnCap
* All funded by Destiny Pharma except DMID-11-0007 (funded by US gov)

Destiny Pharma is fully funded for its Phase IIb trial, with FinnCap analyst Mark Brewer forecasting it has enough cash until the end of 2020.

'Additional funding will be required to take XF-73 into a Phase III trial should the company elect to do so, by which point we expect a licence/partnership deal to have been signed for Western markets,' says Brewer.

The anti-infective is significantly de-risked after five successful Phase I/IIa clinical trials proved it was safe. Investors should note these trials make it more likely the upcoming data will be positive, but this is not guaranteed.

Last month, Destiny Pharma announced XF-73 has been designated a Qualified Infectious Disease Product by the US Food and Drug Administration (FDA). Essentially this means the FDA will fast track its review and provide an additional five years of marketing exclusivity.

WHY IS ANTIMICROBIAL RESISTANCE SO DANGEROUS?

Antimicrobial resistance is becoming a huge threat, prompting urgent calls for treatments from the likes of the World Healthcare Organisation.

In 2016, economist Lord Jim O'Neill estimated 700,000 deaths globally could be attributed to anti-microbial resistance every year.

He warned the number of deaths associated with antimicrobial resistance will outstrip deaths from cancer and diabetes combined by 2050.

Brewer says antimicrobial resistance is being taken more seriously, flagging financial penalties in the US for hospitals with consistently high levels of MRSA.

A US launch for Destiny Pharma's potential blockbuster drug has been targeted for between 2020 and 2021. (LMJ)

KEY

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