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ARE THESE STOCKS TOO PRECARIOUSLY BALANCED?

RUSSIAN STOCKS COLLAPSE

BEST PERFORMING INVESTMENT TRUSTS IN Q1

YOUR PENSION LUMP SUM OPTIONS DISCUSSED

The succession issue

WPP line up replacements for under pressure CEO Martin Sorrell

Press speculation suggests FTSE 100 advertising business **WPP (WPP)** is lining up several candidates to replace current chief executive Martin Sorrell amid an investigation into his personal conduct.

This is something the company would have to confront soon anyway given Sorrell turned 73 earlier this year but, as AJ Bell investment director Russ Mould observes, 'it is hard to know what the company would look like under different leadership'.

Sorrell has been in charge since the business was Wire and Plastic Products – a wire shopping basket maker which he used as an acquisition vehicle to build the world's leading ad company. He made his first significant move with the $566m hostile takeover of New York based agency J. Walter Thompson just over three decades ago.

The succession issue at WPP is one an increasing number of FTSE 100 companies could face. Research from recruiter Robert Half carried out in 2017 showed there were just eight CEOs under 50 among the constituents of the index compared with 33 back in 2010.

There can be advantages to having an older CEO – principally that they have experienced more business and stock market cycles and will therefore, in theory at least, be in a position to make better-informed judgements on current economic conditions.

The drawback is obviously that they are likely to be closer to the point at which they have to be replaced.

This is more of an issue with chief executives, like Sorrell, which have been in situ for an extended period and/or are particularly dominant in the running of a business.

THE RISK WITH DOMINANT CEOs

There are benefits to having an entrepreneurial leader at the helm but material risks too. Fred Goodwin at **Royal Bank of Scotland (RBS)** is perhaps the ultimate example of how it can go badly wrong.

As revealed in a December 2011 report from the Financial Standards Authority (FSA) (now replaced by the Financial Conduct Authority) Goodwin was shown a draft correspondence the FSA was preparing to send the board in 2005 and he asked the regulator's staff to water down written concerns about risk management policies.

In a clear instance of regulatory failure he got his way and without proper oversight Goodwin went on to pursue the disastrous €71bn acquisition of ABN Amro in 2007. The deal was timed to coincide with the beginning of the credit crunch and the bank remains in state ownership to this day.

Legendary investors Peter Lynch and Warren Buffett have both remarked that it is better to invest in a business that's doing so well an idiot could run it, because sooner or later, one will.

We plan to look at the role of the CEO and the difference management change can make to a business in an upcoming issue of *Shares*. (TS)

55
The average age of a FTSE 100 CEO
Source: Robert Half

ABOUT MARTIN SORRELL

1975
YEAR JOINED SAATCHI & SAATCHI

$566M
COST OF THE 1987 HOSTILE TAKEOVER OF J. WALTER THOMPSON

2000
KNIGHTED IN THE 2000 NEW YEAR HONOURS

33 YEARS
THE LONGEST-SERVING CEO OF ANY FTSE 100 COMPANY

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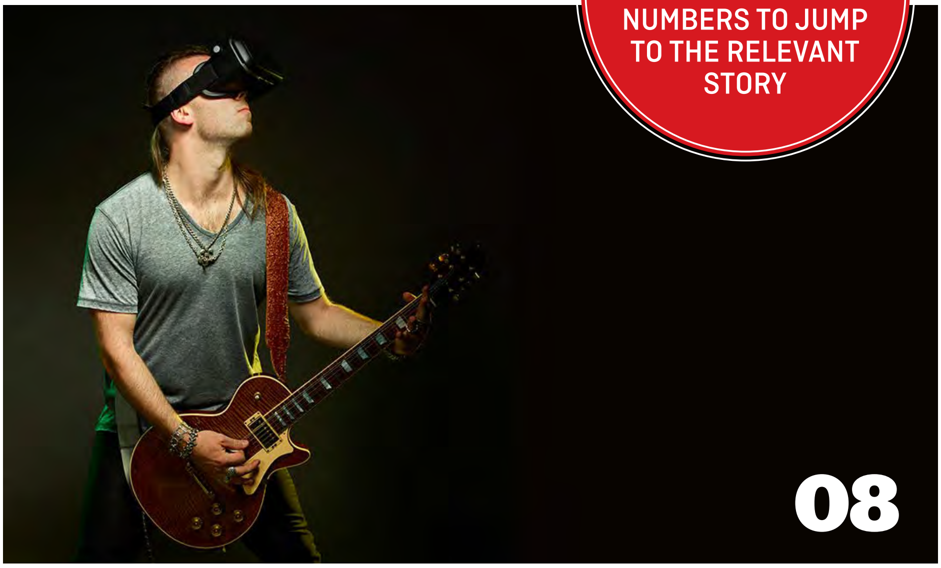

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EDITOR: Daniel Coatsworth @SharesMagDan

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

REPORTER: David Stevenson @SharesMagDavid

REPORTER: Lisa-Marie Janes @SharesMagLisaMJ

CONTRIBUTORS Emily Perryman, Tom Selby, Holly Black

MANAGING DIRECTOR Mike Boydell

PRODUCTION
Head of Design Rebecca Bodi
Designer Darren Rapley

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

CONTACT US: support@sharesmagazine.co.uk

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

BROKER RATINGS EXPLAINED:

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

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

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

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

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

Clearer skies eyed for airline sector

UBS turns positive on sector bellwether Lufthansa

Investment bank UBS is warming to Germany's largest airline Lufthansa and has outlined robust sales growth forecasts for its European peers.

The airline industry has endured a volatile spell as intense competition led to a price war, somewhat mitigated by the demise of weaker rivals Monarch and Air Berlin in 2017, and as rising oil prices have translated into higher fuel costs.

There have also been warnings from the likes of **Ryanair (RYA)** and Jet2 owner **Dart (DTG:AIM)** that ticket prices over the peak summer period may be subdued.

Lufthansa, whose shares have been falling since the start of 2018, is generally seen as a good benchmark for the wider sector.

UBS is turning positive on Lufthansa, moving its recommendation from 'neutral' to 'buy' and arguing its share price weakness is 'overdone'. It is forecasting an increase in earnings this year once the impact of higher fuel costs is stripped out.

READY FOR TAKE OFF?

'We think volume growth will help drive profits and that underlying profits will be greater than in 2017 - our forecasts are ahead of consensus,' says UBS analyst Jarrod Castle.

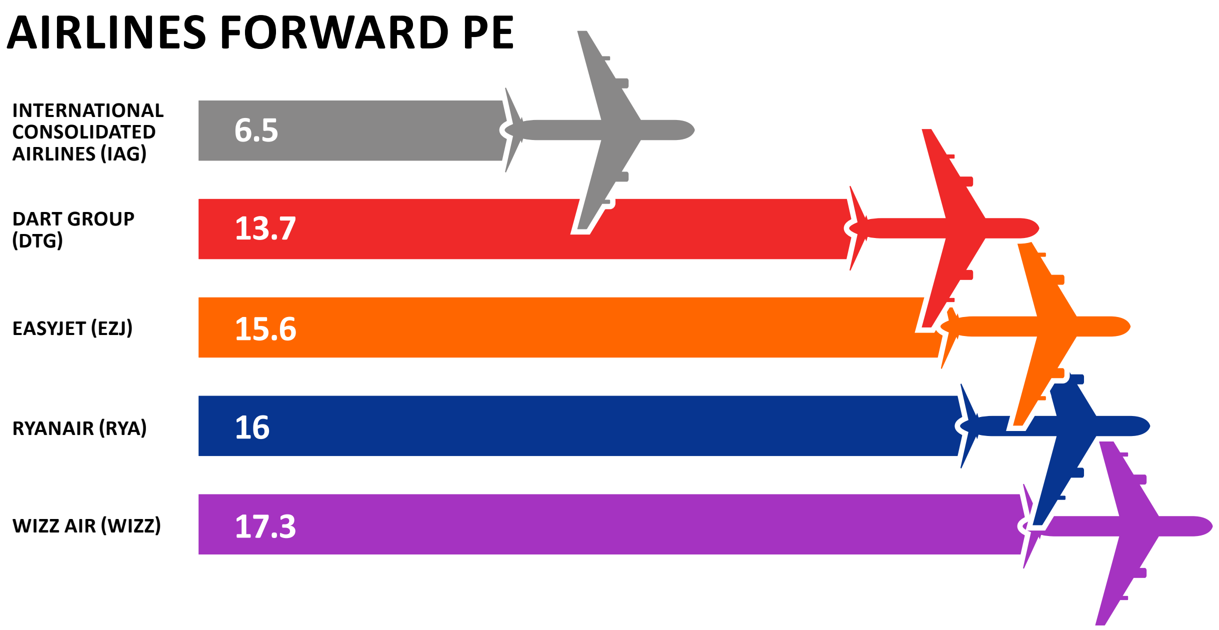
Castle believes Lufthansa will not be the only airline to experience growth in 2018, he forecasts all six European airlines under UBS coverage will grow sales in aggregate by more than 7% in 2018 and 2019.

Specifically this list includes British Airways owner **International Airlines Group (IAG)**, budget airlines **EasyJet (EZJ)** and Ryanair, Hungarian airline **Wizz Air (WIZZ)**, Lufthansa and Air France-KLM.

Over the last year, UK-listed airlines have experienced some turbulence. While shares in Wizz Air have nearly doubled and EasyJet has advanced 55.6%, International Airlines made smaller gains of 17.7% and Ryanair is up just 6.9%. (LMJ)

Company	Three-year share price performance (%)
Dart Group	114
EasyJet	-13.7
International Consolidated Airlines	2.2
Ryanair	45.2
Wizz Air	136

Source: SharePad, 10 April 2018



Russian stocks slammed as US imposes sanctions

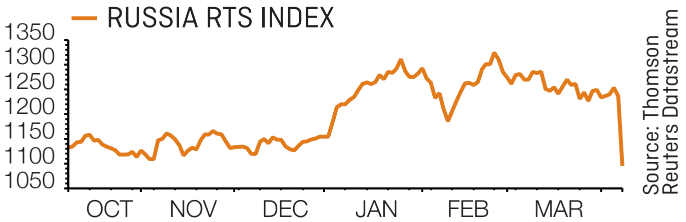
UK-listed names also affected by crackdown

The Russian stock market endured its biggest one-day drop in four years on 9 April after the US Treasury imposed sanctions on several Russian individuals and companies.

UK-listed names were caught up in the move, which threatens Western investment in Russia. Steel producer **Evraz (EVR)** and gold miner **Polymetal (POLY)**, both based in the country, suffered large double-digit declines while sector peer **Glencore (GLEN)** was also hit.

It has an 8.75% stake in one of the companies directly affected by the sanctions – Russian aluminium producer Rusal.

The price of aluminium spiked as Rusal is the largest supplier outside China and reportedly commodity traders have been advised to stop buying from the company. (TS)



RUSSIAN EXPOSED STOCKS SUFFER

Company	EPIC	Share price performance 9 April (%)
Evraz	EVR	-14
Glencore	GLEN	-3.4
JP Morgan Russian Securities	JRS	-9.6
Polymetal	POLY	-18
Raven Russia	RUS	-3.2

Source: SharePad, 10 April 2018

Ideagen makes smart US move with Medforce deal

First acquisition Stateside provides platform for faster growth

RED TAPE AND compliance software supplier **Ideagen (IDEA:AIM)** has made its first acquisition in the US. We believe this is a significant stepping stone that could realise substantial value for the company and shareholders.

New York-based Medforce provides productivity and legal compliance solutions that help streamline processes for healthcare organisations and prepare them for auditing.

Healthcare is one of the most highly regulated industries in the world. Ideagen is paying $8.7m for Medforce, or about £6.1m at current exchange rates.

There are several things to like about the purchase. First, it gives Ideagen a firm base across the pond. About half of new business currently being won by the company is in the US. Medforce is also profitable, chalking-up about £0.7m of earnings before interest, tax, depreciation and amortisation (EBITDA) on rough £3.4m revenue in 2017.

A high proportion of those revenues are recurring in nature, 82% according to Ideagen.

Paid out of cash and debt facilities, that means no new shares are being issued so there is zero dilution to existing Ideagen shareholders.

While analysts raised forecasts for the full year to 30 April 2019 to £11.4m of pre-tax profit on £42.8m revenue, we believe there is scope to outstrip those estimates.

SHARES SAYS:
Ideagen remains a high quality business that deserves its premium 2019 price to earnings multiple of 24.1

Volatility causes big exodus from equity funds

UK's appetite for equity funds wanes

February's market sell-off led to the first net outflows from equity funds in the UK since January 2017, with £136m being taken out of funds according to data from the Investment Association.

The worse performing sector was UK equity, which saw investors redeem £510m in February. Global and North American equity funds also saw outflows, investors taking out £66m and £31m respectively.

The old adage of 'equities down, bonds up' appeared to be ignored as there was correlation between the two asset classes. Fixed income funds also experienced net outflows of £235m in February with both sovereign and corporate bond funds losing investor confidence.

Other figures from Thomson Reuters' Lipper revealed that in February BlackRock sold the most equity funds across Europe as a whole, bringing in €4.2bn during the month. The asset manager also sold the second most bond funds behind investment bank UBS, which took in €3.2bn.

US equity funds were the most popular with sales of €4bn and the best-selling fund across Europe for February was **Sarasin Endowments (GB0003119400)**, a multi-asset product launched that month. (DS)

Could French Connection return to the dividend list?

High street fashion label sells non-core business

EMBATTLED FASHION retailer **French Connection's (FCCN)** planned sale (9 Apr) of its 75% stake in women's clothing-to-homewares brand Toast has been well-received.

The shares had advanced to 52p as *Shares* went to press. The disposal will sharpen French Connection's focus on its core brand and could drive a resumption of dividend payments from the clothing and accessories label.

Conditional upon the nod from shareholders, the £23.3m sale of Toast to Denmark's BESTSELLER will yield £13.9m in net cash proceeds for French Connection and support the £47.5m cap's return to sustainable profitability.

If the sale is approved, French Connection says it will seek to reinstate the shareholder reward, shelved back in 2012, once the group has been successfully returned to profitability.

Retail industry conditions are tough, especially in the UK, yet the north London-based fashion house's underlying operating loss narrowed by £3.1m to £600,000 in the year ended 31 January.

During the year, French Connection received an unsolicited bid from an unnamed US group, but the suitor ultimately walked away from a deal.

A honed focus and further turnaround progress could potentially attract other predators, although founder, chairman and CEO Stephen Marks holds sway with a 41.6% stake and Mike Ashley's **Sports Direct International (SPD)** has built up its stake to a smidgeon over 27%, just shy of the 30% threshold requiring a bid. (JC)

Spotify shares off to an impressive start

SHARES IN MUSIC streaming group Spotify jumped by 25.7% on their first day of dealings to $165.90, compared to its $132 initial reference price. They've since eased back to around the $147 level.

The company is similar to Netflix in that they both charge a monthly subscription to access media content digitally.

Spotify has a key difference in that users can access its services for free as long as they watch or listen to an advert on a regular basis. Netflix is only available to fee-paying customers.

EVR's long-delayed virtual reality app closes in on launch

VIRTUAL REALITY (VR) music content business **EVR Holdings (EVRH:AIM)** is at long last close to launching its smartphone app, *Melody VR*. That's almost two years after the company joined the stock market.

This will come as a relief to the AIM-quoted company's fan base of investors. Beta testing started on Christmas Eve 2016.

EVR's market value has soared from about £12m to the current £155m. The company has raised £23.4m of growth funding since it has been listed, most recently £15m in October 2017.

Large number of investors request to cash out of Miton's micro-cap investment trust

A SURPRISINGLY large number of investors have requested to exit **Miton UK Microcap Trust (MINI)** as part of it is annual redemption offer.

The investment trust says investors accounting for 10.8% of its share capital have asked to cash in all or part of their holding at net asset value (NAV) less costs, significantly higher than the 1.12% figure from a year ago.

Investment trust experts at stockbroker Numis say Miton UK Microcap Trust's performance has been 'respectable' since launch three years ago, however they note the performance has lagged the FTSE AIM index since markets started to recover following the Brexit vote sell-off in June 2016, with NAV total returns of 33% compared with 46% for the benchmark.

Catalyst for an Eckoh re-rating

Strong results and new business point to material upside

The market mood over technology stories remains pretty bleak given recent controversies at global giants like Facebook, Amazon and others. But this is masking positives elsewhere, particularly among smaller companies.

We believe **Eckoh (ECK:AIM)** is a great example. A further deterioration in sentiment towards the tech sector is a risk but we feel the negative tide can be turned.

Full year to 31 March 2018 results sometime in late May/early June could provide the first of several catalysts for an advance in the share price.

Analysts that follow the stock reckon 60p to 65p levels are likely over the next 12 months or so, implying up to 60% upside on a best case scenario.

ECKOH BUY
(ECK:AIM) 40.5p
Stop loss: 32p

Market cap: £102m

TRANSFORMING THE BACK OFFICE

Eckoh provides secure payment products that remove personal and payment data from contact centres and IT environments.

It also runs an automated platform aimed at customer contact solutions that enable enquiries and transactions to be performed easily and quickly from any personal device – phone, PC, tablet, smartphone etc.

This is valuable to large organisations, particularly those where customer service is one of the chief ways to win new customers and keep existing ones happy.

Think energy and broadband providers for example. Customers include a litany of corporate giants, such as **Vodafone (VOD)**, Thames Water and **Lloyds (LLOY)**.

It's been serving UK clients for more than 15 years but it is expansion into the US a couple of years ago that is really driving growth. US revenues in the first half rose 36% (or nearly 60% if you strip out closed business lines and FX) to more than a third of the £14.8m total. Encouragingly, there is significant headroom to bolster gross margins in the US (58% versus 84% UK).

COMPLIANCE-FRIENDLY PAYMENTS

But perhaps most exciting is Eckoh's fully PCI-DSS accredited secure payments solutions. This allows secure credit and debit card payments over the platform, with all the compliance, accountability and regulatory boxes ticked.

US organisations are well behind those in Europe on this, you may be surprised to learn. This makes Eckoh's sales proposition compelling and bolsters its opportunity across the pond.

There are execution risks around the pace of US organisations embracing improved payments and contact centre support. Future acquisitions, of which we would expect some, also need careful handling. But new business has been very strong in recent months both in the US and UK.

A 31 March 2019 price to earnings multiple of 20.3 is not dirt cheap but nor is it hugely expensively given the opportunities ahead for Eckoh. (SF)

BROKER SAYS: 2 0 0

Why you can trust in Merchants

Above average yields farmed from FTSE 100 picks do the business for dependable Merchants

Investors whose confidence in the markets has been rocked by the return of volatility might hunker down in **The Merchants Trust (MRCH)**. This is an investment trust with pedigree in offering a high yield and paying out a growing dividend that has outpaced inflation over the long haul.

Most of the fund is in safer, income-generating larger companies and this has underpinned an impressive track record of dividend growth, increasing its payout for 36 years on the spin.

At 491p it offers a generous yield of 5.1%.

MERCHANTS TRUST
BUY
(MRCH) 491p
Stop loss: 392.8p

DIVIDEND HERO

Established back in in 1889 by some of the leading financiers and lawyers of the day, Merchants has navigated a variety of market conditions and several world wars during its storied history.

Managed by value-oriented stock picker Simon Gergel of Allianz Global Investors, Merchants is one of the Association of Investment Companies' (AIC) 'Dividend Heroes', an elite group of investment trusts that have hiked their shareholder rewards each year for 20 years or more.

A focused portfolio of 40-60 shares, Merchants provides an above average level of income and income growth, together with long term capital growth by investing mainly in higher yielding UK large caps. Merchants cites compelling historical evidence that, on average, companies paying high dividend yields have delivered above average total returns, alongside the higher income stream.

Results (29 Mar) for the year to January revealed a 14.5% net asset value total return, ahead of the 11.3% total return from the FTSE All-Share benchmark.

Merchants also proposed a 2.5% total dividend hike to 24.8p. Last year, Merchants also carried out a debt refinancing which will give the board the flexibility to grow the dividend faster.

MERCHANTS' MAGIC FORMULA

Gergel mainly puts money to work in FTSE 100 and to a lesser extent the FTSE 250 for stocks with strong franchises, copious cash flows and fortified balance sheets and he looks to pay a reasonable price for the shares that pepper the portfolio.

Merchants' blue chip picks range from mining giant **BHP Billiton (BLT)** and **BAE Systems (BA.)** to **Royal Dutch Shell (RDSB)**, able to generate substantial cash flows over the oil price cycle and fund a high dividend.

Other positions include **Meggitt (MGGT)**, the engineer specialising in the aerospace, military and energy markets, property developer **Land Securities (LAND)** and **Bovis Homes (BVS)**, a turnaround tale under new management. (JC)

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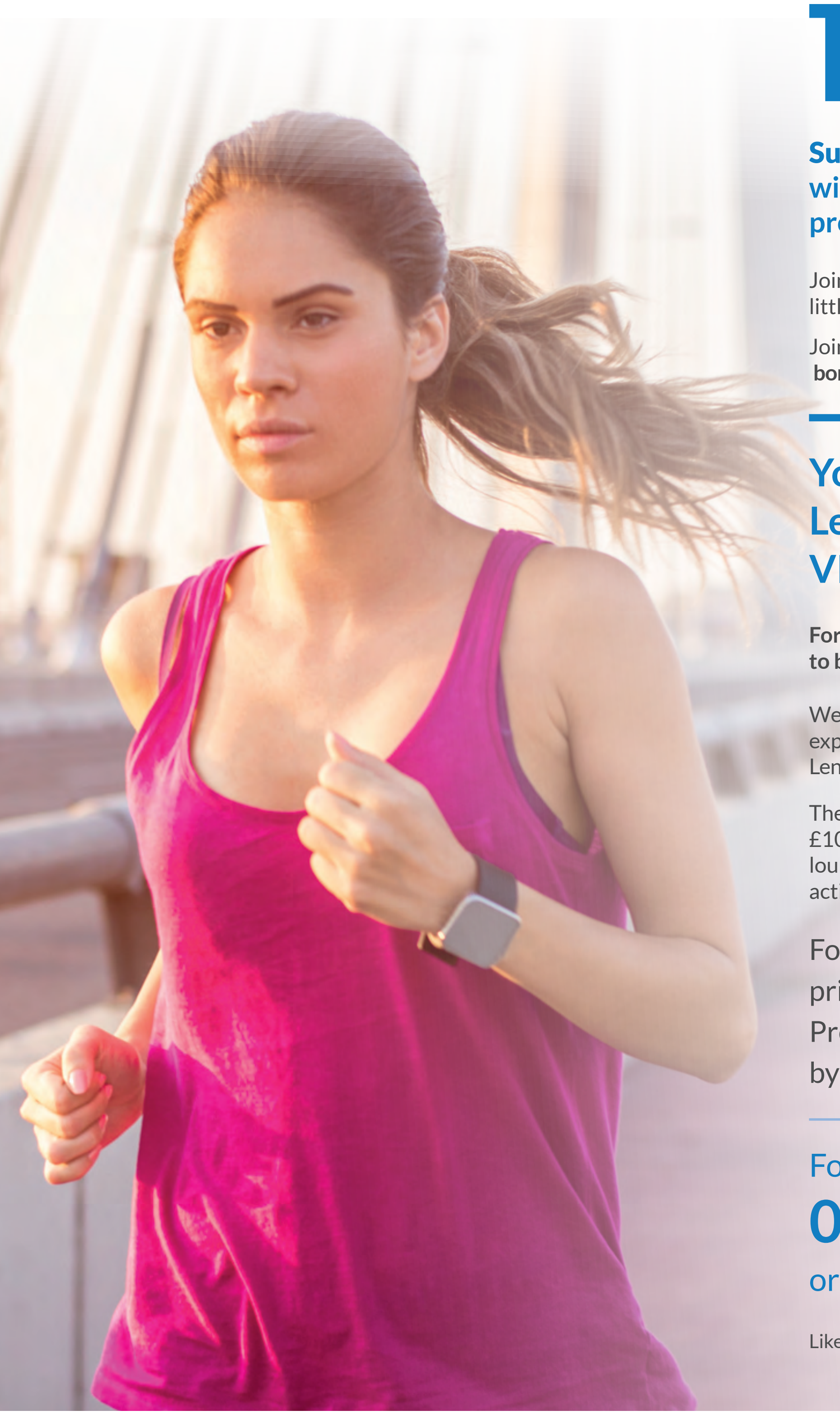

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FOCUSRITE
(TUNE:AIM) 460p

Gain to date: 42%

Original entry point:
Buy at 324p, 30 November 2017

OUR POSITIVE CALL on global music and audio products group **Focusrite (TUNE:AIM)** is 42% in the money, buoyed by a positive first half trading update (9 Mar) flagging year-on-year growth in revenue, profits and cash and bumper Christmas demand.

Shares believes Focusrite can become a much bigger business. Developing and marketing hardware and software used by amateur musicians and audio professionals, we see significant upside to come from new product launches and further global audio production market share gains.

We're also encouraged to see Focusrite has been added to the highly successful **CFP SDL UK Buffettology Fund (GB00B300FJ66)**, validating our bullish stance.

In his April factsheet, manager Keith Ashworth-Lord flags Focusrite's well established brands and managers 'steeped in the industry'.

Ashworth-Lord, a highly picky manager who applies the methodology of 'Business Perspective Investing' championed by Buffett, says: 'Compound annual growth over the last five years has been: sales 21.2%; operating profits 29.2%; EPS 22.8%.'

SHARES SAYS: ↗
Keep buying (JC)

BROKER SAYS: 1 0 0

IMPAX ASSET MANAGEMENT
(IPX:AIM) 162.5p

Gain to date: 28.4%

Original entry point:
Buy at 126.6p, 21 September 2017

OUR BULLISH STANCE on sustainable investment specialist **Impax Asset Management (IPX:AIM)** is reinforced by an update on the firm's assets under management (AUM). Impax's AUM stood at £11bn on 31 March 2018.

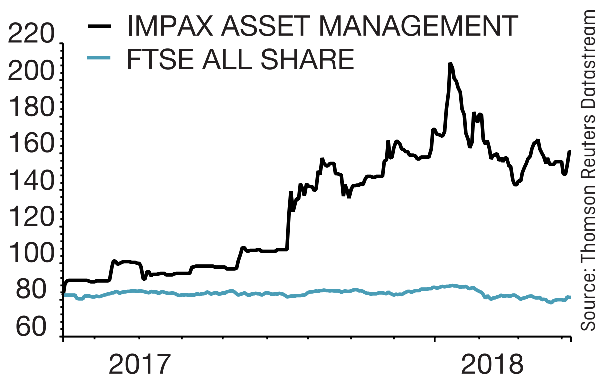
This bodes well for first half results expected from the company on the 5 June.

The boost to its assets is due to both its acquisition of US asset manager Pax World Management as well as £1bn in net new money in the first half of its financial year.

The company has beaten its own projections for AUM following the acquisition which completed in January. Targeted growth of 42% implied assets of £10.3bn. During the quarter to 31 March Impax enjoyed inflows of £331m into its products.

This comes despite a recent increase in market volatility, suggesting there's a real appetite for funds offered by Impax.

Impax now has added capabilities in the US following its acquisition of Pax, with US equity funds, smart beta and fixed income part of the company's offering.



SHARES SAYS: ↗
We like Impax, a great specialist asset manager which now has more mainstream products and a foothold in the US. (DS)

BROKER SAYS: 2 0 0

JOHNSON MATTHEY
(JMAT) £32.62

Gain to date: 6.4%
Original entry point:
Buy at £30.66, 21 December 2017

SPECULATION THAT an activist investor is building a stake in chemicals business **Johnson Matthey (JMAT)** has revived talk of a break-up of the business and helped drive the shares higher.

The argument is that Matthey should split its prized vehicle batteries arm from the pressured exhausts catalyst division. While the former is seen as a beneficiary of a switch to electrical vehicles, the latter is seen as a victim of this trend.

When we flagged the stock as one of our picks for 2018 we argued that sentiment towards the catalyst business was overly weak, pointing to forecasts from investment bank Morgan Stanley which suggested it could continue to grow for at least another decade.

However, we also recognised that the real excitement is generated by its battery technology. In a nutshell it requires less cobalt than other solutions, which is a major plus point given pressures on supply of that material.

The company may address the clamour for a corporate shake up when it announces its results for the year to 31 March 2018 on 31 May.

SHARES SAYS: ↗
We remain fans of the company in its current form but note movement on a restructure might act as a catalyst for the share price.

BROKER SAYS: 10 3 1

BIG OPPORTUNITIES IN MEDIUM-SIZED AND SMALLER COMPANIES

Medium-sized and smaller companies can offer greater scope for capital growth than businesses that are already very large and may have their best days behind them. But not every acorn grows into an oak and higher risks may accompany the potential for higher rewards when seeking the corporate winners of tomorrow.

Active stock selection by experienced professional fund managers can help to identify medium-sized and smaller companies with sustainable competitive advantages trading at discounts to their intrinsic value. Whether these funds focus on stock markets in Britain, Continental Europe or the USA, they may be held within individual savings accounts (ISAs) to generate tax-free capital gains – and some also provide tax-free income.

The closed-end structure of investment trusts may help medium to long-term investors withstand fluctuations and volatility in stock market sentiment and valuations during the economic cycle. For example, The **Mercantile Investment Trust plc** is more than 130 years old and now manages over £2bn for its shareholders who receive quarterly dividends. **JPMorgan Mid-Cap Investment Trust plc** is another fund focussed in the UK All Companies Sector, seeking capital growth and steady dividends from businesses outside the FTSE 100 index of Britain's biggest shares.

Investment opportunities do not end at Dover and investment trusts offer a convenient and cost-effective way to gain exposure to markets overseas. For example, **JPMorgan US Smaller Companies Investment Trust plc** focuses solely on capital growth from North American smaller companies and **JPMorgan European Smaller Companies Trust plc** seeks a mixture of both income and growth in Continental Europe, excluding the United Kingdom.

ACTIVELY AIMING FOR GROWTH

Stock market indices, such as the FTSE 100 or the Standard & Poor's 500, are based on size or stock market capitalisation – the total value of shares in issue by each constituent company – and so they inevitably tend to be dominated by the corporate winners of the past. However, past performance is not necessarily a guide to the future and so these shares do not necessarily offer the best bargains for buyers today or the greatest growth prospects for tomorrow.

Tracker funds that passively follow the FTSE 100 Index or S&P 500 Index automatically had high exposure to technology shares by the time the dot.com bubble burst in 2000 and had also invested heavily in banks and insurers before the global financial crisis began in 2008. This demonstrates the risk of investing by auto-pilot or algorithm in yesterday's winners in much the same way that it is dangerous to drive by only looking in the rear-view mirror.

By contrast, experienced professional fund managers seek to mitigate the risks inherent in investment through active stock selection, aiming to identify companies that have sustainable competitive advantages while shunning over-priced shares that may be fashionable today but might fall from favour tomorrow. Investment trusts enable individual investors to share the cost of active stock selection which aims to buy low and sell high to generate capital growth.

WHERE TO FIND THE WINNERS OF TOMORROW

Just as trees do not grow all the way to the sky, diseconomies of scale can impose limits on the growth of very large companies. Corporate monoliths sometimes become difficult to manage and may lack entrepreneurial zeal. Senior executives and their remuneration incentives can diverge from the interests of customers, shareholders and staff. Some or all of these factors played their part in the decline of corporate giants including Carillion, British Home Stores and Woolworths.

Medium-sized and smaller companies may be nimbler and more readily able to rapidly reflect changes in consumer demand and stock market conditions. However, it is important to remember that these companies can be higher risk than their larger rivals because they are less likely to have substantial reserves or diversified businesses to help them survive economic shocks or other setbacks.

So great care must be taken when considering potential opportunities among shares listed on stock market indices that include mid-cap (companies with a market capitalization between $2 billion and $10 billion) or smaller companies (companies with a market capitalization between $300 million and $2 billion), such as the FTSE 250 Index or the FTSE All Share Index. Dedicated professional fund managers are able to visit potential investments to 'kick the tyres' and interview these businesses' senior executives in a way few individual investors could do for themselves. The idea is to identify companies with sustainable competitive advantages, priced at a discount to their intrinsic value with senior executives who are capable stewards of shareholders' capital.

INVESTING EFFECTIVELY FOR THE MEDIUM TO LONG TERM

It is important to remember that share prices can fall without warning and you may get back less than you invest in the stock market. One way to reduce the risk inherent in stock markets is to invest money you can afford to commit for five years or more, as this will substantially diminish the danger of selling when prices are temporarily depressed.

For example, one of the most comprehensive and longest-established analyses of investment returns found that shares reflecting the changing composition of the London Stock Exchange beat cash deposits over 75% or three quarters of all the periods of five-consecutive years since 1899[1]. However, if shares were only held for two years their historic probability of outperforming cash fell to 68%.

WHAT'S SPECIAL ABOUT INVESTMENT TRUSTS?

Diversification is a tried-and-tested way to diminish risk. The principle is the same as not putting too many eggs in too few baskets. Pooled funds, such as investment trusts, automatically put this into effect by spreading individual investors' money over dozens of different companies' shares to reduce their exposure to the danger of setbacks or failure at any company. However, diversification does not guarantee investment returns and does not eliminate the risk of loss.

Investment trust shareholders also enjoy another important advantage over investors in other forms of pooled funds – such as unit trusts or open-ended investment companies - because investment trusts are closed-end funds. This means their managers are never forced to sell underlying assets to raise cash to meet redemptions if sentiment changes, as it often does at different stages in the economic cycle. By contrast, open-ended fund managers may be forced to dispose of whichever assets can be sold when confidence falls, share prices decline and short-term speculators wish to get back into cash.

HOW IT WORKED IN PRACTICE: BIG RETURNS FROM MEDIUM-SIZED AND SMALLER COMPANIES INVESTMENT TRUSTS

According to the Association of Investment Companies (AIC)[2] the average total return from all investment trusts – excluding specialists such as Venture Capital Trusts - over the last five years was 99%. Over the last decade, the average return from all AIC members on the same basis was 199%.

The past is not necessarily a guide to the future. However, these historical facts do demonstrate how medium-sized and smaller companies investment trusts have delivered big returns and may be worth considering as part of a diversified portfolio for investors seeking growth and income or a mixture of both in future.

Investors should remember that share prices can fall without warning and they may get back less than invested. However, investment trusts seek to diminish the risk inherent in stock markets by diversification and professional fund management. There are hundreds of investment trusts to choose from.

For more details see the Association of Investment Companies: www.theaic.co.uk

RELATED PRODUCTS

JPMorgan European Smaller Companies Trust plc

The Mercantile Investment Trust plc

JPMorgan US Smallers Companies Investment Trust plc

JPMorgan Mid Cap Investment Trust plc

[1]Barclays Equity Gilt Study 2017, page 145: figure 8.

[2]Association of Investment Companies as at February 2018

What changes to fund rules mean for investors

We look at the big questions raised by new FCA regulations

New regulations are likely to lead to a significant shake of the asset management industry with implications for anyone who invests in funds.

The Financial Conduct Authority, a UK regulator, wants to make investing in funds better value for money. In a policy statement released on 5 April it outlined several measures to help it achieve this aim which includes:

- A ban on 'box profits' – i.e. stopping asset managers from keeping as profit the difference between the bid (the price at which the provider buys back fund units) and offer (the price you pay to buy in) on a fund.
- An end to the practice of taking performance fees based on a fund's gross performance; instead these added charges will be based on performance net of other fees.
- A requirement to publish a report annually that proves the value for money a fund delivers to investors. This will be based on elements such as whether charges are reasonable relative to costs incurred, the quality of service provided and the robustness of the internal investment process. Corrective action will have to be taken if a fund is not providing value for money.
- Fund managers will also have to appoint at least two independent directors to their boards.
- Automatically moving investors into the cheapest share class when it is in their interests.
- Requiring an explanation of why a fund manager uses a particular benchmark.
- A proposed all-in fee for funds disclosed in pounds and pence.

> **"The majority of the population simply don't understand percentage-based charging, the impact charges have over the long term, or whether their investments are value for money"**

Back in June 2017 the FCA noted the industry's high level of profit was an indication that investors were not 'achieving value for money'.

It noted that the average asset manager had an operating margin of 36% and some as high as 45% in a sample of company results over the last six years. These margins are significantly higher than those generated by most other industries.

This is a good illustration of a risk faced by firms which enjoy abnormally high margins, that ultimately either competition or, in this case, regulation will intervene to bring profitability down to more grounded levels.

WHEN WILL THE CHANGES TAKE EFFECT?

Firms have 18 months to implement the rules on assessment of value and appointment of independent directors and 12 months for the rules related to the way in which fund managers profit from investors buying and selling their funds.

WHAT DOES IT MEAN FOR INVESTORS?

Anything which reduces costs and increases the level of transparency is in theory a good thing for fund investors. Investment consultant The Lang Cat describes the new FCA rules as a 'huge change for asset managers, and one which should benefit all investors'.

A report from the FCA ahead of these changes, published in 2017, suggested that £6bn worth of assets were in so-called expensive trackers, essentially funds which simply offer the performance of the market at an inflated price.

A whopping £109bn was held in 'closet trackers'. These are actively managed funds which deviate so little from their benchmark that they effectively just track the performance of the market.

'The majority of the population simply don't understand percentage-based charging, the impact charges have over the long term, or whether their investments are value for money,' The Lang Cat adds.

'This allows providers to hide potentially expensive products in plain sight. Something had to change. And the final rules now published should help with that.'

However, Martin Bamford, managing director of financial planning group Informed Choice, believes the changes announced do not necessarily go far enough, noting there is no ban on trail commissions.

These were payments made to advisers and platforms out of the performance of a fund as an alternative to charging an upfront fee.

Trail commissions have been barred on the sale of products since the Retail Distribution Review was introduced at the beginning of 2013, being a set of rules aimed at introducing more transparency and fairness in the investment industry.

'The FCA decision not to ban legacy (pre-Retail Distribution Review) trail commission was a missed opportunity to modernise the fee structure for all investors, ensuring money isn't unnecessarily taken out of investment charges on funds sold before the end of 2012.'

HOW IS THE INDUSTRY RESPONDING?

The body which represents fund managers – the Investment Association – has welcomed the changes.

Chief executive Chris Cummings says: 'Our industry is committed to demonstrating, and delivering, good value to the millions of people who entrust their savings to us. We welcome the FCA recognising that people judge their asset manager by investment performance and service, as well as cost.'

Some figures from within the industry have been more critical, arguing they will add costs which will ultimately be passed on to investors. (TS)

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Polar Capital is a specialist, investment led, active fund management company, which is 35% owned by its Directors, founders and employees.

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For more information visit:
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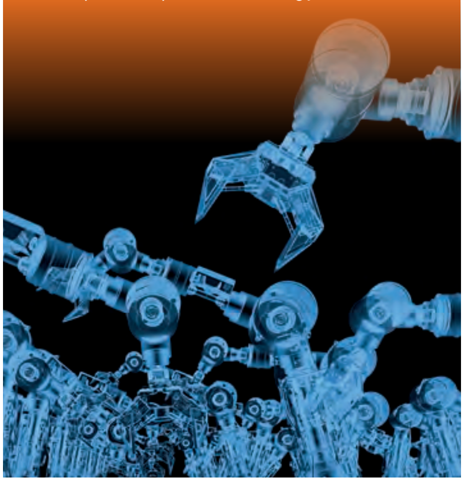

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"Opportunity is missed by most people because it is dressed in overalls and looks like work" **– Thomas A Edison**

When the Polar Capital Global Financials Trust plc ("PCFT") was launched in July 2013 - to provide a lower risk way for investors to gain exposure to the financials sector - for many the sector at the time was still, but not without good reason, uninvestable; it was also too complicated and hard work. The fact that the financials sector has delivered 68.7%[1] in the intervening period and the Trust 70.6%[2], is at odds with the perception of the sector. Including what UK banks have paid out in PPI redress in recent years, banks have in total paid out over $450bn in fines since 2008. Post financial crisis regulation has lifted capital requirements and compliance costs much further than anyone envisaged, the latter by six-fold for many U.S. institutions. Last year the impact of low and negative interest rates raised the prospects of profitability of the sector being crushed.

But the easy mistake is to look at the sector through the lens of the failings of a very small number of large banks or to extrapolate short term macro trends too far into the future. The financial sector is the largest sector globally representing between 18.1% and 21.2% of global indices, depending whether one includes real-estate investment trusts. It is not only about banks which have many different guises from private banks to commercial banks and large so-called universal banks which represent the largest part of the sector. It also includes insurance companies, life assurance companies, insurance brokers, stock exchanges, asset managers and wealth managers as well as the more esoteric such as gold lenders and so on. There are therefore significant opportunities within it to find attractive investments.

It pays to remember that, for the most part, the financial sector does well when the economies and financial markets in which they operate are performing well. But in contrast to previous economic cycles it is also a beneficiary of rising interest rates. As interest rates have remained low since the financial crisis so margins of banks have come under pressure. We have started to see the reverse happen as US interest rates have started to rise which has led to stronger earnings expectations and share prices. If the Eurozone economy continues to improve then their banks too will be significant beneficiaries. In Asia and Emerging Markets, longer term structural drivers from the much lower levels of consumer debt and higher savings ratio offer significant growth potential long term.

There are eight fund managers and analysts in the financials team at Polar Capital, one of the largest if not the largest team's investing in the sector managing $2.3bn of assets. The increased capital requirements and regulation since financial crisis has significantly lowered the risk of the sector. With many companies trading on undemanding valuations it offers the potential to continue to surprise to the upside.

For further information please visit:
www.polarcapitalglobalfinancialstrust.co.uk

Author: **Nick Brind, Fund Manager,**
Polar Capital Global Financials Trust plc.

Disclaimer:

[1]Financials Sector: MSCI World Financials + Real Estate Index. 1 July 2013 to 30 November 2017. Total Return in GBP terms. [2]PCFT NAV Total Return. Since launch: 1 July 2013 to 30 November 2017. Total Return in GBP terms. Source: Polar Capital, December 2017 - This is not and does not constitute an offer or solicitation of an offer to make an investment into any Fund or Company managed by Polar Capital. Polar Capital Global Financials Trust plc is an investment company with investment trust status and its ordinary shares are excluded from the FCA's (Financial Conduct Authority's) restrictions which apply to non-mainstream investment products. All opinions and estimates constitute the best judgement of Polar Capital as of the date hereof but are subject to change without notice and do not necessarily represent the views of Polar Capital. Performance is stated net of fees and expenses and includes the reinvestment of dividends and capital gain distributions. Past performance is not a guide to, or indicative of, future results. A loss of principal may occur. The following benchmark is used: MSCI World Financials and Real Estate Index (£ adjusted). This benchmark is a broad based index which is used for comparative/illustrative purposes only and reflects reinvestment of dividends and, where applicable, capital gains. Investment results and volatility of the Fund may differ from the Benchmark. Please refer to www.msci.com for further information on this index.

ARE DIRECTORS' INTERESTS *REALLY* ALIGNED WITH SHAREHOLDERS?

The failure of drinks distributor **Conviviality (CVR:AIM)** has highlighted a growing problem with UK smaller companies, namely the misalignment of interests between shareholders and executive management.

I am shocked how large institutional investors are prepared to throw vast sums at small companies embarking on an acquisition strategy yet demand little real financial commitment from executive management of those companies.

To make matters worse, many institutions also seem happy to approve excessive pay packages uncorrelated to 'real' returns.

WHY CONVIVIALITY'S INVESTMENT CASE CHANGED

My own firm used to hold shares in Conviviality but were compelled to sell in October 2016 having reassessed its acquisition strategy, management remuneration and their absence of 'real' equity ownership.

While Conviviality's share option scheme meant there was plenty of incentive for management to increase the share price, up until March 2018, the chief executive had never actually acquired any shares in the business, despite being richly rewarded and having plenty of opportunities through numerous fund raises.

I would have expected institutional investors to have demanded real equity participation from the chief executive in the fund raises.

This state of play is prevalent throughout AIM and, I would suggest, increasingly linked to sub-par performance.

It's worth reflecting that the best performing small companies are generally led by entrepreneurial founders who have made a material capital commitment to the business and retain a large equity stake.

ENFORCED DIRECTOR SHARE OWNERSHIP MAY ENSURE EXECUTIVE MANAGEMENT TAKE MORE CONSIDERED ACTIONS

POOR MANAGEMENT ALIGNMENT IN AN EARLY STAGE BUSINESS

ITM Power (ITM:AIM), the energy storage and clean fuel company, has struggled to make much progress since listing in 2004 when it raised £10m at 50p per share. Fast forward 14 years and numerous fund raises later, the share price stands at 32p.

The latest interim results saw income of £4.4m and a loss of £2.9m, bringing cumulative losses to nearly £62m.

The board of directors of this cash-consuming business numbers a seemingly excessive eight people, including four non-execs. Chief executive Graham Cooley has been in place since 2009 and holds approximately 0.35% of the shares.

Directors' remuneration of £1m in 2017 included £389,000 for Cooley, who has been awarded aggregate remuneration of £1.68m over the past five years. This appears excessive for a loss making business that has raised £42.9m from shareholders over the same period.

I note Cooley acquired 176,470 shares in 2017 at 17p (£30,000) but this is apparently the only share purchase he has made since 2013.

The chief executive's generous package also seems at odds with the remuneration of other employees, including the chief technology officer, all of whom are the key drivers to the future success of ITM.

I am surprised that a cash consuming business like ITM offers such generous remuneration to a single person, seemingly uncorrelated to the real performance of the business and its share price.

BETTER SHAREHOLDER ALIGNMENT, IF SLIGHTLY ONE-SIDED

Lakehouse (LAKE:AIM), the asset and energy support services group, has had a challenging time since floating on the Main Market in 2015 and subsequently moving to AIM in 2017.

In July 2016, shortly after announcing dreadful interim results for the period ending 31 March 2016, and the share price sinking to 25p, Bob Holt was appointed executive chairman.

The board of Lakehouse believed Holt's expertise in support services and his track record of turning around underperforming companies would be invaluable to the group.

In connection with Holt's appointment, the board put in place a revised directors' remuneration policy and adopted a new share incentive scheme.

STRONG REPUTATION

Holt comes with a good reputation and was instrumental in growing **Mears (MER)** to a market capitalisation of over £360m (at 3 April 2018).

Although, it's worth noting that the market capitalisation of Mears has fallen approximately £180m in value since April 2017, which is broadly twice the fall in value of Lakehouse since it listed. A harsh comparison perhaps, but suggestive that LAKE's problems may also be partly sector related.

Holt receives basic remuneration of £225,000 per annum at Lakehouse and the share incentive scheme could see him receive approximately £4.5m in shares should the share price rise above 98.40p by end January 2019.

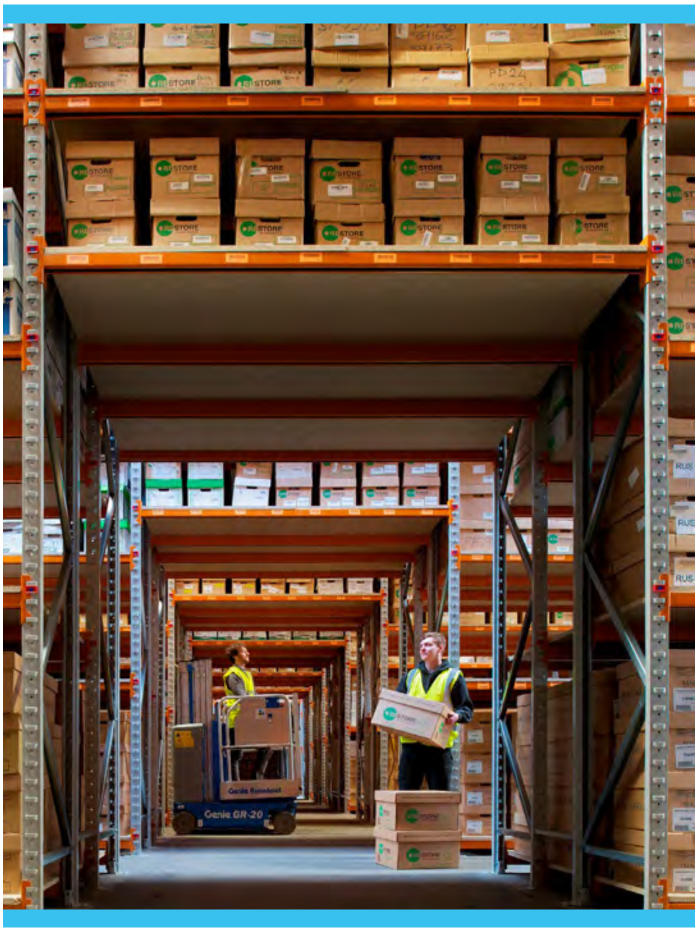
Two fellow directors are also beneficiaries of the new incentive scheme, although not to the same extent as Holt. It's not clear how long the directors will need to hold the shares and Holt has not purchased any shares in the company since joining.

While the awards are based on share price performance (which admittedly needs to be pretty spectacular), and therefore ensures a large degree of alignment with shareholders, the performance period is very short and seems to have little regard for the longer-term success of this business.

More significantly, I question how one individual is assumed to be of such high value relative to others in a people business of this nature. If anything, an award of such magnitude surely risks breeding resentment among the real workforce which is essentially working for Holt.

WHY AREN'T DIRECTORS BUYING SHARES?

In similar vein to Conviviality, **Restore (RST:AIM)**, the records management and commercial relocation provider, whose shares my firm used to hold until recently, is another acquisition driven business,



however, that's where the comparison ends.

Unlike Conviviality, Restore has, up to now, been a resounding success under chief executive, Charles Skinner who joined in 2009.

Skinner showed his commitment to the future of the company by acquiring an aggregate £132,000 of shares in 2010 which brought his total holding to 511,415 shares.

I acknowledge this purchase represented a meaningful commitment, however, it's disappointing to note that since then Skinner doesn't appear to have participated in any equity raises supporting Restore's numerous acquisitions, despite being well remunerated.

In May 2016, having been granted just over 2m shares through exercising options Skinner immediately sold 1.6m shares resulting in a holding of just over 1m shares, all of which were now effectively option based.

In 2016 Skinner received 3,518,145 nil cost share options after achievement of performance hurdles, which were a rather modest share price performance exceeding 10% annualised growth in market capitalisation of the company, adjusted for dividend payments and new equity raised.

Upon this hurdle being achieved participants may receive 10% of the value created above the hurdle.

In April 2017 Skinner exercised further option shares lifting his holding to 1,538,560 shares (1.36% of the equity), all now nil cost option based.

I believe the CEO and other executive directors could certainly give more confidence to shareholders by supporting future equity raises, backing the acquisition strategy with their own hard-earned money.

RAISING STANDARDS

In general, it's about time large institutions stipulated that executive management participate in fund raises, up to an agreed minimum.

Executive management should also be obliged to retain a minimum number of shares, outside any option scheme.

Such an approach would ensure more thought is given to acquisitions, achieve better alignment with all shareholders and hopefully help avoid Conviviality-like disasters.

Chris Boxall,
joint founder of Fundamental Asset Management

PRICED FOR PERFECTION

THE STOCKS WHICH ARE PRECARIOUSLY BALANCED THANKS TO PREMIUM VALUATIONS

It is fair to say that 2018 is shaping up to be a difficult year for investors. Stocks are volatile, and the market is in very unforgiving mood with even the hint of bad news prompting big falls in company share prices.

Already this year funerals provider **Dignity (DTY)** announced a complete change to its business model which sparked an immediate halving of its share price while technology firms **Sophos (SOPH)**, **Alfa Financial (ALFA)** and, in perhaps the most dramatic example, **Micro Focus (MCRO)** have also been heavily punished for their own disappointing updates.

So what have these companies all got in common? It's simple: they all had high price-to-earnings ratios (PEs) relative to the wider stock market at the point of issuing disappointing news.

As a case in point, Alfa Financial was trading on around 40-times forward earnings when its 8 March update sparked concern about the timing of new contracts. However, a 20% fall in the share price compared with just a 5% reduction in the earnings forecast by stockbroker Numis.

PRICED FOR PERFECTION

For companies on high PE ratings a profit warning or earnings disappointment typically has a double whammy effect. The shares fall to reflect a reduction in earnings expectations and the company is also de-rated to a lower PE as investors react to a more uncertain growth picture.

FP Octopus UK Micro Cap Growth Fund (GB00BYQ7HN43) manager Richard Power says managing expectations is a key element of running a business in the public markets. 'When newer companies are heading for IPO (initial public offering) there's a temptation to put out stretch forecasts to the market because you're in that shop window.

'However, it is much better to put a 50% revenue growth forecast into the market and beat it than start off with a 100% target which leaves little margin for error.'

Power says as a typically long-term, supportive shareholder it's a conversation he has had with a number of companies.

NO MARGIN OF SAFETY

The father of value investing, the late Benjamin Graham, described the difference between the price you purchase shares and their intrinsic value as the 'margin of safety'.

Investing in a highly rated growth stock means investing without a margin of safety and can leave you exposed if something emerges to undermine the anticipated growth.

UNDERSTANDING A HIGH PE IN CONTEXT

By Bruce Stout, manager of **Murray International Trust (MYI)**

The PE multiple on a company often carries the full spectrum of opinion from those who believe it is the Holy Grail of stock valuation to those who discredit the ratio as being nothing more than unpredictable supposition.

Perhaps it should be considered more in context than in absolute. If a company can guarantee earnings growth every year of 25% and trades on a PE of 100-times, then it's a bargain!

If a company projects it can grow earnings by 25% every year and trades on a PE of 100-times, then it's extortionate!

Why? Substitute the word 'guarantee' with the word 'projects' and the risk to earnings growth takes on a completely different complexion. So, for us, PE should always be a factor of risk adjusted prediction.

Consider the following case for Murray International. Shares in Nestle were recently sold outright having been held for over 10 years.

The reason was the PE has expanded from 14 times to 28 times over the past 10 years, yet earnings growth has decelerated to just 5% per year and five-year dividend growth has slumped to just 3% per year. The high valuation was deemed unjustified relative to the realistic rate of earnings and dividend growth.

Shares in Taiwan Semiconductor remain the largest holding having been held for over 10 years. The reason is that although the PE has expanded from 14 times to 18 times over the period, earnings growth has accelerated to 15% per year and five-year dividend growth has accelerated to 18% per year.

The valuation, although high, is still realistic to what earnings and dividend growth can be delivered. So, for us, PE must always be considered in the context of what is realistically achievable. Nothing more, nothing less.

Shares in Nestle were recently sold outright by Murray International Trust

You need to think very carefully about your investments which are trading on premium valuations.

To illustrate this point, in this article we have identified stocks which are trading on PE ratios of 20-times or more, and we flag identifiable risks which could undermine the share price.

We highlight four names which look particularly vulnerable alongside two examples which, in our view, more than justify their bumper valuations.

It's not just a case of looking at the PE in isolation; you should also be prepared to make your own wider assessment of a company's prospects for cash flow and profit growth and what you are prepared to pay to gain access to them.

'When to sell a company is something we discuss all the time,' says Richard Power at Octopus. He says you need to have a clear view on what the business will look like in three or four years' time and what the journey will look like.

Examples of companies which Power holds despite high earnings multiples include life sciences firm **Abcam (ABC:AIM)**, which he says has 'always looked expensive'; patent translation specialist **RWS (RWS:AIM)** and cyber security play **GB Group (GBG:AIM)**.

Crucially he says, 'for all these firms it is possible to see a much bigger global opportunity'. It is when such potential can no longer be identified that Power considers an exit.

GOODBYE FEVERTREE

'We recently sold out of **Fevertree Drinks (FEVR:AIM)** having got in at IPO,' he says. Having significantly exceeded his expectations with its capture of the premium white spirits mixers market, Power and his team were concerned a step into the dark spirits space could be more difficult.

'It remains an extremely well-managed company but for us the risk/return had shifted as it required a new product range to be successful.'

There are other excellent companies on AIM where the valuation has got ahead of events. Examples include online musical instruments retailer **Gear4Music (G4M:AIM)** which at 679p trades on a forward PE of 60.2-times despite some pressures on margins.

Independent cinema operator **Everyman Media (EMAN:AIM)** trades on a forward PE of more than 40-times at 250p despite a risk the current squeeze on UK consumer spending will damage demand for the premium cinema experience it offers.

You do not have to sell out of a successful position all in one go, as Power notes 'we take some profits along the way across all of our mandates'.

WEIGHING UP THE TECH STOCKS

In hindsight some investors may look back and wish they had taken some profit in runaway US technology stocks earlier this year as a data scandal and the threat of greater regulation weighed on the likes of Amazon and Facebook.

The Scottish Investment Trust's (SCIN) fund manager Ally McKinnon comments: 'Today, shares in Facebook and Amazon cost more than six times as much as they did five years ago. You'd need to pay 12 times more for Netflix shares and even Google costs 2.5 times more than it did in 2013.

'It's certainly possible that these shares will continue to do well, but we see better opportunities elsewhere: in stocks that are arguably valued to reflect a pessimistic view of their prospects and so have much more potential for positive surprises.' (TS)

HIGH PE GROWTH STOCKS

Company	EPIC	Forecast PE	One year forecast EPS growth (%)	Two year forecast EPS growth (%)
EasyHotel	**EZH**	**139.4**	**-42.4**	**287.5**
Gear4music	G4M	97	-38.4	64.3
Mulberry	MUL	73	-7.1	10
ASOS	ASC	71.7	26.2	24.3
Fevertree Drinks	FEVR	62.4	10.3	16.5
Keywords Studios	KWS	60.9	110.9	54.2
Metro Bank	**MTRO**	**54**	**547.4**	**82.9**
Boohoo.com	BOO	51.9	29.6	21.4
Accesso Technology	**ACSO**	**42**	**196.4**	**35**
Hotel Chocolat	**HOTC**	**38.9**	**13.9**	**16.7**
Just Eat	JE.	37	43.3	39.5
Alfa Financial Software	ALFA	29.6	22.9	13.6
IQE	IQE	29.2	99.7	41
Renishaw	**RSW**	**28.1**	**14.2**	**8.1**
Halma	HLMA	26.9	7.4	10.5

Source: SharePad, 6 April 2018

FOUR STOCKS IN THE DANGER ZONE

EASYHOTEL (EZH:AIM) 111P FORWARD PE: 139.4

EASYHOTEL (EZH:AIM) is a classic case of an interesting business trading at the wrong price to warrant buying the shares.

We like its low-cost business model and ability to leverage the EasyGroup brand strength. It is expected to see significant earnings growth over the next three to four years as new hotels are built and extra franchised hotels are added to the estate.

The company has taken advantage of a market gap beneath Premier Inn and Travelodge in price terms by offering a no-frills, purely functional experience. It posted a strong trading update on 11 April.

Unfortunately, investors are being asked to pay for tomorrow's growth today. At 111p, it is trading on a 36% premium to forecast net asset value (81.6p) at the end of its financial year in September 2018.

It is expensive on other valuation metrics: it trades on a PE (price to earnings) ratio of 139.4 for the current financial year, falling to 36 times in the following year based on consensus forecasts.

EV/EBITDA (enterprise value to earnings before interest, tax, depreciation and amortisation) is 40.3-times for the current financial year, falling to 15.5 next year.

You could argue that it deserves to trade on a premium because a low accommodation price point makes it more resilient during tougher economic conditions. However, other hoteliers could cut their prices in more difficult times and there is also a growing competitive threat from Airbnb. (DC)

METRO BANK (MTRO) £34.60 FORWARD PE: 54

METRO BANK (MTRO) has been a darling of the challenger banks, recording record deposit growth to £11.7bn in 2017, a 47% increase on the previous year.

The bank's loans increased by 64% to £9.6bn and its overall assets were up by a similar amount to £16bn. It exceeded its loan to deposit ratio target by 2%, coming at 82%. Also commendable was its maiden £20.8m profit for the year but there are some less positive signs for this highly rated bank.

Its return on equity for 2017 was just 1.2% despite management targeting 14% by 2020. Its fast growth rates in deposits and lending come at a cost, its common equity tier one (CET1) ratio dropped by 2.8 percentage points to 15.3%, a material drop in the bank's ability to withstand economic shocks.

In its fourth quarter of 2017 alone, its record loan growth of £1bn shaved 2.1 percentage points off its CET1 ratio.

> It is also arguable whether the company is truly laying the foundations for future growth having opened just seven new branches in 2017

Ian Gordon, analyst at broker Investec, says without a capital raise its CET1 ratio is 'too low for comfort'. It is also arguable whether the company is truly laying the foundations for future growth having opened just seven new branches in 2017, below its target. It has now downgraded its branch target for 2020 to 100 from 110. (DS)

OCADO (OCDO) 534.8P FORWARD PE: 205 TIMES*

ONLINE GROCER **Ocado's (OCDO)** ludicrously frothy valuation, based on forecasts from Peel Hunt it will remain loss-making until the November 2020 financial year at which point it trades on a PE of more than 200, reflects hype around the business and its potential for growth with international retailers.

A 'marmite' stock often in the sights of short-sellers, Ocado's shares soared in the wake of the inking of agreements to power overseas supermarkets with its technology known as the OSP (Ocado Smart Platform).

These include deals struck with France's Groupe Casino and Canada's Sobeys, building upon CEO Tim Steiner's long-promised first overseas deal with a mystery regional European retailer. While these deals put the squeeze on short-sellers, bears will have the last laugh. An eye-watering valuation leaves Ocado susceptible to sell-offs on any setbacks.

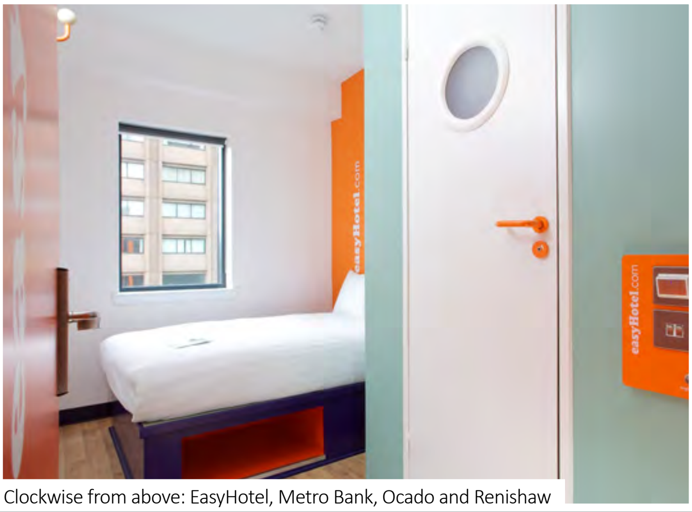
Full year results (6 Feb) revealed a lurch from pre-tax profit of £12.1m to a £500,000 loss, rising net debt, a dilutive placing and a warning 2018 profits will be constrained by ongoing investment to 'accelerate' growth.

Competition in the groceries space remains fierce and Ocado was cold-shouldered again as first quarter retail sales growth of 11.7% to £363.4m disappointed, deliveries impacted by winter storms and investors unimpressed by a 0.4% decline in Ocado's average order size to £110.45.

Shares makes no apologies for repeating the words of Shore Capital's head of research Clive Black from February: 'The placing, also announced today, reflects the magnitude of cash burn for its NASA like projects; high in technological detail but one just never sees their benefit from Planet Earth. Oh to be such a charming company...'. (JC)

> The placing, also announced today, reflects the magnitude of cash burn for its NASA like projects; high in technological detail but one just never sees their benefit from Planet Earth

*For Nov 2020 financial year according to Peel Hunt forecasts



Clockwise from above: EasyHotel, Metro Bank, Ocado and Renishaw

RENISHAW (RSW) £45.48 FORWARD PE: 28.1

SHARES IN precision engineer **Renishaw (RSW)** have rattled along for about two years, roughly doubling to the recent record high of £57.75.

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

Driving demand is uniformly solid, if not spectacular, global growth. Organisations are also investing in technology areas capable of widening and improving their own routes to market while streamlining operating models.

The weakened pound also makes its equipment and services less expensive for overseas customers, hugely important considering 95% of first half revenue stemmed from exports.

That's the optimistic case. Alternatively, it could be argued that Renishaw remains, and has always been, a cyclical business and we are at, or close to, the top now.

Revenue and profits fell in 2009/2010 (partly due to the financial crisis) and diverted from the growth path again in 2016.

The company's expertise is not in doubt but unpredictability remains a long-run problem, with both positive and negative shocks. Management admit little more than six weeks visibility on the order book.

Yet even after January's steep sell-off the stock continues to trade at a hefty premium to peers, about 50% on a price to earnings measure, based on the next 12 months data from Reuters. (SF)

AND TWO WHICH JUSTIFY A PREMIUM

ACCESSO (ACSO:AIM) £22.75 FORWARD PE: 42

A PRICE to earnings multiple of around 40 would normally scare off most investors. But attractions ticketing and queuing software supplier **Accesso Technology (ACSO:AIM)** is no ordinary company.

Since 2012 it has seen revenue soar from $46m to $133.4m, including last year's (2017) 30% jump, and has an equally impressive record on profits. It has been free cash flow positive in every one of those years.

Analysts anticipate future compound annual growth of about 18%, which puts it one track for $215m of revenue by 2020.

Accesso has cleverly worked out how to leverage its technology platform, providing solutions for everything from buying tickets, queue-busting, merchandise purchasing and more. It has some very big-name clients **Merlin (MERL)** and Six Flags, for example) and emerging opportunities across Latin America, the Middle and Far East, including China.

Accesso is also applying its tried and tested solutions beyond its core theme parks to sporting events, music gigs, ski resorts, museums and theatres, of which there are thousands of potential new operators and venues.

Expect a steady stream of acquisitions to continue to bolster increasingly reliable organic growth in the future. (SF)

HOTEL CHOCOLAT (HOTC:AIM) 347.5P FORWARD PE: 38.9

HIGH-END chocolatier **Hotel Chocolat (HOTC:AIM)** trades on a rather rich PE ratio, yet we believe the rating is palatable given the growth being generated across retail stores and digital wholesale, where new accounts partnering with Amazon and **Ocado (OCDO)** hold promise.

Floated at 148p in May 2016, Hotel Chocolat is a high-quality concern with the brand differentiation essential to maintain its customer base and support price increases.

We're fans of its disruptive innovation and vertical integration and see scope for continued market share gains.

Sales, profit before tax and earnings per share all fattened up by 15% in the first half to December, all the more impressive given the tough consumer backcloth. Nevertheless, potential de-rating catalysts are in place, among them a prolonged squeeze on consumers' disposable income and rising interest rates, which could sap spending on posh chocolates.

A highly competitive market place cannot be discounted, while an additional risk factor to monitor is currency, as the increased cost of purchasing some premium ingredients in euros is constraining margins.

On the plus side, improving free cash flow and a strong balance sheet - with net cash of £18.3m at last count - has enabled Hotel Chocolat to hit the dividend trail, only adding to its allure with growth and income hungry investors. House broker Liberum Capital's 410p price target implies there's some 18% near-term upside left on the table too. (JC)

Which investment trusts have beaten the market's first quarter slide?

Smart small cap stock picking puts Lindsell Train at top of performance tree

It has been a difficult start to 2018 for global stock markets. Investors have been rattled by the prospect of rising interest rates, inflationary pressures, geo-political tensions and the threat of an increasingly tense trade war between the US and China.

The UK has been particularly under the cosh during the first quarter. Data shows that the FTSE 100 index has been the worst performing of all the world's major stock markets since the start of 2018. The FTSE 100 has lost about 6.5% based on a closing level of 7,056.61 on 29 March 2018.

The FTSE All Share has performed even more poorly, down 7.8% between January and March.

WEAK FIRST QUARTER GLOBALLY

But if there's an investment cold doing the rounds in the UK, much of the rest of the world has also come down with the strain. Japan's Nikkei 225 declined about 5.3% during the first quarter, the Eurostoxx 50 is 2.5% lower while S&P 500, arguably the best barometer for US equity performance, is off about 1.2%.

Unsurprisingly, given the backcloth, the performance of most of the UK's listed investment trusts have struggled to post positive returns, either in net assets or share prices. The average decline in share price terms for the UK All Companies sub-sector is 5%, according to data from market maker and research house Winterflood.

Yet there are a small number of trusts that have sidestepped the negative runs of wider benchmarks to post positive returns. For example, the **Artemis Alpha Trust (ATS)** saw its shares rise around 2% during the first quarter to 296p. That may not look much in isolation but it represents substantial outperformance versus the performance of the UK's major indices.

Artemis Alpha concentrates

Q1 INVESTMENT TRUST PERFORMANCE – BEST 5

	Share price	Stock % Q1 performance	NAV % Q1 performance	Type
Lindsell Train IT	£10.50	20%	2%	Global Equity
Independent Inv. Trust	718p	8%	-4%	Global Equity
British & American	701p	8%	13%	UK Equity & Income
Baillie Gifford Shin Nippon	954p	7%	9%	Japan
Vietnam Enterprise	488p	9%	10%	Asia Pacific – Single Country

Source: Winterflood, 4 April 2018

on UK-based investment, across the industrial and market cap segments. With a similar investment strategy, **Fidelity Special Values (FSV)** also managed to post a modest positive share price return (1%), while small cap specialists also performed well.

Shares in both the **JPMorgan Smaller Companies Investment Trust (JMI)** and the **Crystal Amber Fund (CRS)** returned 4% in the first quarter. Presumably this is a result of smart stock selection away from the spotlight of the FTSE 100.

JPMorgan Smaller Companies' biggest stakes include mixer drinks runaway success story **Fevertree (FEVR:AIM)** and **Fenner (FENR)**, the conveyor-belt manufacturer that recently accepted a £1.2bn takeover by French tyres giant Michelin.

SMART STOCK SELECTING

Yet the biggest first quarter outperformance has been posted by the relatively small **Lindsell Train Investment Trust (LTI)**, up 20% in share price terms during the first quarter, closely followed by the even smaller **Independent Investment Trust (IIT)**, 15% ahead.

Both of these trusts take stakes in companies from across the globe, although funds of both are predominantly invested in UK companies (74% for Lindsell Train and 93% for Independent). Lindsell Train has hefty stakes in UK stock market stalwarts, such as **Diageo (DGE)** and **Unilever (ULVR)** with overseas market represented by the likes of Japanese computer games firm Nintendo and Heineken, the Dutch brewing group and

Fevertree accounts for 8% of Independent's invested funds

Paypal, the US-based online payments giant.

SMALL CAP DARLINGS

Independent's roster is chock full of smallcap market darlings, such as the previously mentioned Fevertree, where it has 8% of its funds invested. Other sizeable small cap stakes include 8.2% of the trust in robotic automation process technology star **Blue Prism (PRSM:AIM)**, and 6.4% in online holidays booker **On the Beach (OTB)**.

Independent also has 5.3% of its funds tied up in Katie Potts-run smallcap **Herald Investment Trust (HIT)**.

A couple of Japan focused trusts have also substantially outperformed during the January to March period, even in the face of the Nikkei's decline. **Baillie Gifford Shin Nippon (BGS)** chalked-up an impressive 8% first quarter performance.

Many of its investee companies will be little-known to UK investors, such as Outsourcing Inc or Yume No Machi Souzou, although some will have heard of Asahi Intecc, the beer maker.

How to analyse an ETF

While ETF providers may be engaged in a price war, it's important not to forget what these products are best used for

One of the great success stories in investment products has been the exchange-traded fund (ETF). Making its debut in 1993 in the US, today the ETF industry is worth trillions of dollars and new products are constantly being brought to market.

But what should an investor look at when choosing from the vast choice of ETFs on offer?

WHAT IS YOUR EXPOSURE?

The starting point when choosing an ETF is to look at what it provides exposure to and how that lines up with your objectives.

This will mean looking at the index the product tracks and the accompanying documentation such as the key investor information document (KIID).

ETFs can grant investors access to a broad and diversified set of assets depending on the underlying index it tracks.

Hortense Bioy, director of passive fund research at Morningstar, says 'the broader the better. The broader the index the harder it is for an active manager to beat it'.

For this reason she prefers the FTSE All Share to the FTSE 100 due to the greater amount of stocks in the former index.

For an extremely broad-based ETF, one that tracks a global index is a good fit, for example the MSCI World. **Source MSCI World (SCOJ)** and **Lyxor MSCI World (WLDL)** have constituent equities in several developed markets and can be useful as a core building block of a portfolio.

The MSCI World index consists of companies from 23 developed market countries and both of the aforementioned ETFs aim to provide the return of the index.

ETF

- MADE ITS DEBUT IN 1993 IN THE US
- TODAY THE ETF INDUSTRY IS WORTH TRILLIONS OF DOLLARS
- NEW PRODUCTS ARE CONSTANTLY BEING BROUGHT TO MARKET

Given that these plain vanilla ETFs are market cap weighted, they are skewed towards the US. The Source and Lyxor ETFs have 50.5% and 36.9% of their holdings in the US respectively.

ETFs allow investors to express their own view of where the global market is going, in Bioy's words, 'ETFs are a democratic tool as opposed to giving your money to an active manager'.

Before the recent technology sector sell off following revelations about Facebook's use of private data and US president Donald Trump's attack on Amazon's business practices, exposure to tech heavy US equities markets seemed attractive.

Lyxor's recently launched **Core Morningstar US Equity (LCUS)** has the above tech giants in its top ten, as well as its peers Google owner Alphabet and Apple.

One thing to be careful of is duplication as investors may already have exposure to popular stocks such as the US tech companies, dubbed the FANGs (Facebook, Amazon, Netflix, Google). Investors may hold the companies through holdings in the individual shares, in a mutual fund or as part of another ETF that tracks a global index.

Remember, if an index is market cap weighted then the largest companies will constitute a more significant part of it.

A ROUTE TO DIVERSIFICATION

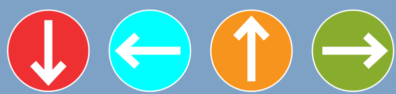
According to figures from iShares, the ETF division of asset manager BlackRock, March 2018 was not great for ETFs. In the final week of the month, $3.7bn was withdrawn from US equity ETFs and $3.4bn from European equity ETFs. Even broad developed market ETFs saw outflows, totalling $1.4bn.

Given the weak performance of major developed markets including the FTSE 100 at the moment, investors may wish to gain exposure to emerging markets instead.

Some might argue that investing in emerging markets is so fraught with dangers that it is unsuitable for passive investing, and is better suited to active managers with stock picking skills.

But Morningstar's Bioy argues a broad emerging market fund will outperform over the long term and these products are best suited to buy and hold investors.

> **When choosing an ETF, low costs are obviously part of the attraction but it would be wrong to base the entire decision on cost. Achieving the right investment outcome should remain paramount at all times**



Vanguard's Emerging Markets FTSE (VFEM) top holdings include Tencent, China Construction Bank and China Mobile. Emerging market ETFs can also offer broad exposure and spread risk away from single countries.

An important point when choosing any ETF is to look at the index provider. For emerging markets, two of the largest index providers, MSCI and FTSE, have different views on South Korea. MSCI classes the country as emerging whereas FTSE views it as developed. Given the size of this market, this difference could have serious implications for returns.

IShares MSCI Emerging Markets (SEMA) is similar to the Vanguard product despite the differing index provider. The most glaring difference is that the top five holdings of both ETFs are identical apart from Vanguard's ETF not including Samsung, a South Korean company.

THE COST FACTOR

When choosing an ETF, low costs are obviously part of the attraction but it would be wrong to base the entire decision on cost. Achieving the right investment outcome should remain paramount at all times.

Adam Laird, head of ETF strategy at Lyxor, says: 'Lower is better although remember that cheap isn't the same as right. A low charge can't compensate for buying something that doesn't fit your circumstances'.

Laird is in a good position to discuss costs, his firm Lyxor launched two ETFs recently that have the lowest fee in Europe at just 0.04%. The aforementioned Morningstar US Equity ETF and its **Core Morningstar UK (LCUK)**.

One part of the cost equation that is often overlooked is trading fees. Less frequently traded ETFs may see a more significant difference between the price at which you buy and sell which can add up over time and have an impact on returns. However, if we assume that ETFs are buy and hold products and investors have a long investment horizon, this impact should be relatively modest.

The low fees for ETFs are also linked to economies of scale. ETF providers are looking to build assets under management (AUM) which then allows them to further lower fees, for this reason it might be sensible to go with larger providers if you can.

PHYSICAL OR SYNTHETIC?

Physical and synthetic replication refer to the method by which an exchange-traded fund achieves its tracking of a market.

Physically-backed products trade directly in the underlying stocks and shares in an index to replicate the performance of a market, while synthetic ETFs employ a swap-based method of replication, buying derivatives contracts offered by brokers and investment banks which artificially provide the performance of a market.

> **You might have heard of tracking error and this is something else that you need to be aware of when choosing ETFs.**
>
> **It measures how far the performance of an ETF deviates from its benchmark**

Synthetic products tend to be used when it is difficult to track a market through physical replication either due to a lack of liquidity or restrictions on foreign ownership.

You might have heard of tracking error and this is something else that you need to be aware of when choosing ETFs, especially index-based ones.

It measures how far the performance of an ETF deviates from its benchmark. As ETFs are products constructed to mirror an index, the tracking difference and tracking error are particularly relevant considerations. The tracking difference is the performance of the index minus the performance of the fund, while the tracking error reflects the volatility of the fund compared with the underlying.

Noting that its **PowerShares S&P 500 (SPXS)** has a charge of just 0.05%, Chris Mellor, head of equity and commodities product management at Invesco PowerShares says: 'There isn't much more we can do to reduce that, so instead we look for ways to incrementally improve the tracking.

'Making sure our ETFs are competitively priced and have low tracking error should result in our investors getting more for their money. In our opinion, that's a better recipe for growing AUM for the long term.' (DS)

What should I do with my 25% tax-free pension lump sum?

Top issues to consider when deciding whether to withdraw the money

Figuring out what to do with your tax-free pension lump sum is a complex but extremely important decision.

If you've built up a sizeable pension pot, your lump sum could be worth more than £100,000 so it's vital to ensure you use it wisely.

WHAT IS THE TAX-FREE CASH LUMP SUM?

You can start taking money from a workplace pension scheme or self-invested personal pension (SIPP) from age 55 under current rules.

Everyone is entitled to withdraw 25% of their pension tax-free, and the rest is taxed according to your income tax band.

You can choose to leave your tax-free cash lump sum invested, withdraw it all in one go or take it in smaller instalments.

Your tax-free amount doesn't use up any of your personal allowance – the amount of income you don't have to pay tax on.

SHOULD I TAKE THE MONEY OR KEEP IT INVESTED?

Unless you have a very specific requirement in mind, such as paying off a mortgage or other debts, leaving the tax-free cash sum untouched is a sensible move.

As long as the money is in your pension, it will continue to benefit from tax-free investment growth.

A lot of people withdraw their lump sum and stick it in a bank account or Cash ISA, but this could severely limit investment growth.

'Withdrawing cash from a pension plan will clearly have an impact on the income you may get later on, and it is wise to think carefully before going ahead,' says Fiona Tait, technical director at Intelligent Pensions.

There are some legitimate reasons why taking the cash sum could be a good idea – principally if you're able to use the money to improve your finances by paying off debts.

This could be especially worthwhile if your borrowings are on a high APR rate of interest, although Tait suggests first considering whether you could reorganise your finances to reduce your interest costs.

'I would also strongly caution against taking money from your pension if you have other sources of finance available to reduce your debt,' adds Tait.

'This is because the money which remains inside the pension will remain invested under favourable tax conditions, and it should also be available outside of your estate in the event of your death, allowing it to be passed on free of inheritance tax.'

WHY SHOULD I CONSIDER TAKING THE LUMP SUM IN INSTALMENTS?

It isn't necessary to take your whole tax-free lump sum in one go, so it makes sense to only withdraw the amount you actually need.

Andrew Tully, pensions technical director at Retirement Advantage, points out that if your pension grows in value, you'll end up getting more tax-free cash by taking it in instalments over time than if you took it in one go.

'Another key reason to think about phasing your tax-free cash is that by taking benefits gradually, rather than all at once, you can delay the impact of any lifetime allowance tax charge,' says Tully.

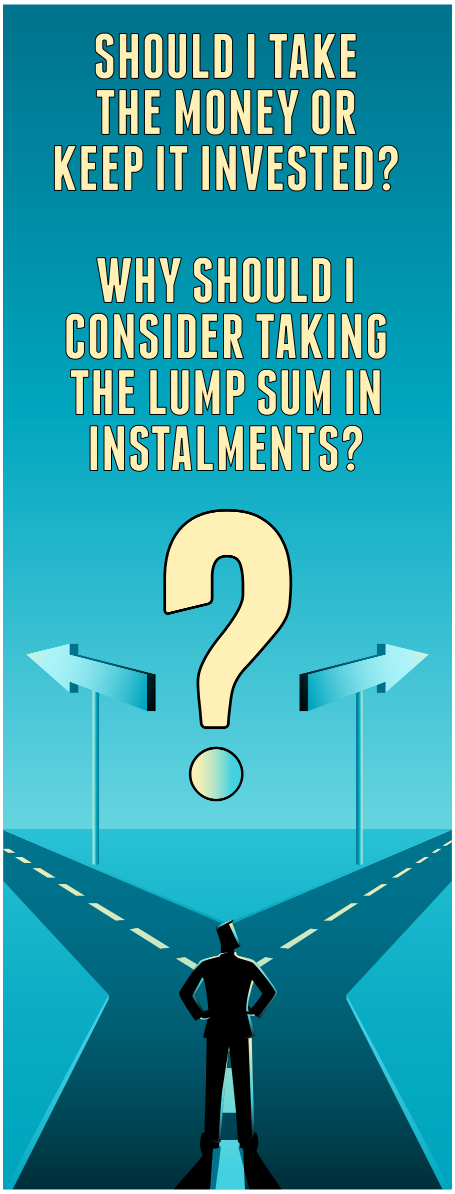
You can choose to take tax-free cash as and when it is needed to top up your income.

'This is tax-efficient and may mean you avoid taking taxable income in years when you have high income from other sources, for example employment if you are thinking about going part-time and easing into retirement,' Tully explains.

WHAT SHOULD I DO IF I'M A HIGHER-RATE TAXPAYER?

If you're a higher-rate taxpayer, the ability to take 25% of your pension pot tax-free and without it adding to your income tax bill is very attractive.

It could even save you money in the long run if you expect to continue to be a higher-rate taxpayer in retirement. This is because the remaining 75% of pension withdrawals are taxed according to your income tax band.



Another perk is that taking the tax-free cash lump sum doesn't affect your annual allowance – the amount you can save into a pension without incurring a tax charge.

The annual allowance reduces from £40,000 to £4,000 a year as soon as you access the remaining 75%, unless it's a small pension pot.

'Just taking the tax-free cash and leaving the remainder of the pension fund untouched allows you to retain the higher annual allowance, giving you the flexibility to continue to pay significant pension contributions,' says Kate Smith, head of pensions at Aegon.

'This can be particularly tax-efficient for higher-rate taxpayers, as they are entitled to 40% tax relief on their pension contributions, or £2 for every £3 paid in.'

I'VE GOT A SMALL PENSION POT – WHAT DO I NEED TO THINK ABOUT?

There are special tax rules for small pension pots where each is worth no more than £10,000.

From age 55, you can cash in up to three small pots to a total of £30,000.

As with other pensions, 25% is tax-free, with the remainder added to your taxable income.

A major advantage is that using the small pension pots rule doesn't affect your annual allowance or lifetime allowance.

'Using the small pot rule allows you to retain the higher annual allowance, giving you the flexibility to continue to pay significant pension contributions,' explains Smith.

HOW WILL THE TAX-FREE LUMP SUM AFFECT IHT?

Any money that stays in your pension remains outside your estate, meaning no inheritance tax (IHT) is due on it when you die.

According to figures from Mattioli Woods, someone with a pension worth £500,000 would increase the value of their estate by £125,000 if they took out their tax-free lump sum.

Assuming their home and personal investments are worth £300,000 each, their IHT bill would rise from £60,000 to an eye-watering £110,000. (EP)

Avoid the pension freedoms emergency tax pitfall

We talk you through the problem and how to sidestep it

As we enter the new tax year, a whole range of savings options and tax allowances once again open up to savvy investors. If you are over 55, you might also use this as an opportunity to review your retirement plans and consider your drawdown withdrawal strategy.

While for many taking a regular income stream and remaining invested will be the right option, others choose to take ad-hoc taxable payments from their fund. This might be to pay a child's tuition fees, fund care for an elderly relative or splash out on a luxury Caribbean cruise.

Whatever your motive, if you're going down this route you need to watch out for a pitfall which could see you hit with an unexpected tax bill running into thousands of pounds.

If you do nothing, you could have to wait 12 months (until the start of the 2019/20 tax year) to get your money back – and even then you're relying on the efficiency of HMRC in sorting out your tax position.

WHAT IS THE PROBLEM

The problem can affect anyone who takes a taxable pension freedoms payment from age 55 – either through drawdown or via an 'Uncrystallised Funds Pension Lump Sum' (UFPLS) withdrawal.

In these circumstances, HMRC will require your pension provider to use an emergency 'Month 1' tax code. This means the Revenue only gives you 1/12th of the usual tax allowances available on the withdrawal, resulting in many savers being severely overtaxed.

For example, someone who makes a £2,000 withdrawal could be overtaxed by over £200, while someone taking out £10,000 could be overtaxed by over £3,000 (see tables).

PENSION FREEDOMS OVER-TAXATION - HOW THE SYSTEM WORKS*

TAX AN INDIVIDUAL WOULD EXPECT TO PAY		
Withdrawal	**Expected tax due**	**Effective tax rate**
£2,000.00	£0.00	0.00%
£5,000.00	£0.00	0.00%
£10,000.00	£0.00	0.00%
£20,000.00	£1,698.20	8.49%
£50,000.00	£8,696.40	17.39%

TAX AN INDIVIDUAL ACTUALLY PAYS ON SINGLE PENSION FREEDOMS WITHDRAWAL		
Withdrawal	**Tax due under 'Month 1'**	**Effective tax rate**
£2,000.00	£208.18	10.41%
£5,000.00	£1,058.03	21.16%
£10,000.00	£3,058.03	30.58%
£20,000.00	£7,385.08	36.93%
£50,000.00	£20,885.08	41.77%

*Source: AJ Bell calculations. All examples assume individual has no other taxable income

HOW TO GET YOUR MONEY BACK WITHIN 30 DAYS

Unfortunately there is nothing you can do to stop HMRC charging you too much tax if you make ad-hoc pension freedoms withdrawals. You can, however, fill out one of three reclaim forms in order to get your money back within 30 days.

How you make a claim for any overpaid tax depends on the nature of the withdrawals you have made from your pension and your personal circumstances.

THE GOVERNMENT WEBSITE STATES:

- If the payment used up your pension pot and you have no other income in the tax year, fill in form P50Z.
- If the payment used up your pension pot and you have other taxable income, fill in form P53Z.
- If the payment didn't use up your pension pot and you're not taking regular payments, fill in form P55. You can only use this form if your pension provider can't refund you.

For more information visit: www.gov.uk/claim-tax-refund/you-get-a-pension

Tom Selby, senior analyst, AJ Bell

What does less than a year until Brexit mean for the FTSE 100?

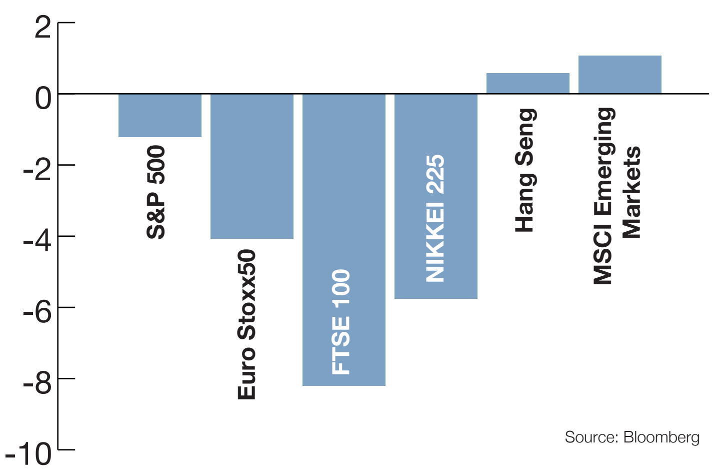
The current UK economic and political situation has prompted foreign investors to seek more stable places to hold their wealth

Investors reared on the quiet calm and steady gains of equity markets over the past few years were given a reminder of that old adage 'investments can go down as well as up' as stock markets globally took a turn for the worse over the first quarter of 2018.

Bottom of the class was the FTSE 100, which – in dropping 9% – took the mantle as the worst performing major market.

We're told that it was the decline of technology related stocks that acted as the dead weight on markets, but it's hard to reconcile that with a UK market showing little in the way of hi-tech representation. We must therefore look elsewhere for answers.

MAJOR WORLD MARKET RETURNS OVER Q1



It can pay to keep an eye on history and politics when considering investments. With less than a year until Brexit becomes a reality, it is perhaps unsurprising to see the UK indices lagging against a backdrop where thorny issues such as the Irish border and future trade deals remain far from resolved.

Add in the implications of a 'meaningful vote' (whatever that means) on the final deal and the remote prospect of a business unfriendly Labour government, it's a wonder FTSE didn't sink to double-digit declines.

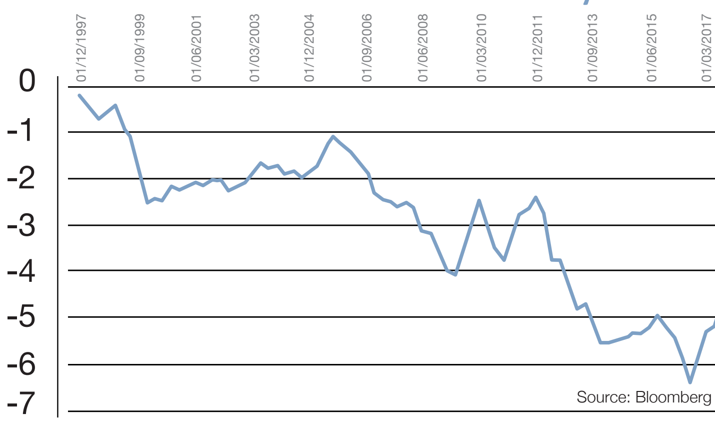
But that's only the known unknowns. Lurking underneath the Brexit surface are the unknown effects it could have on the nation's currency and interest rates.

Collectively, the UK spends more abroad than foreigners spend in the UK. While that's most notable in the trade deficit, even when the trade in services and returns on investments held abroad are taken into account, the UK still managed to spend £83bn more abroad than foreigners spent in the UK.

Coming hard on the heels of the £114bn deficit we racked up in 2016, it's clear to see that demand for foreign goods and services is so insatiable that the only way to keep paying off our tab is to resort to the sale of assets instead.

For example, that might be the sale of our football clubs, vast swathes of the West End, properties that lay dormant or, more mundanely, UK Government debt.

UK Current Account Deficit over last 20 years



While US president Donald Trump would have us believe that a substantial current account deficit puts a nation in a strong negotiating position as the 'customer', the flip-side of the coin is, without the generosity of foreigners to keep on extending credit to us in this way, we will either need to reduce the quantity of things we consume or accept tougher conditions on the deal.

Those tougher conditions could come in many forms. If foreign investors decided not to buy UK Government debt, interest rates would need to head higher still, hurting the economy in the process.

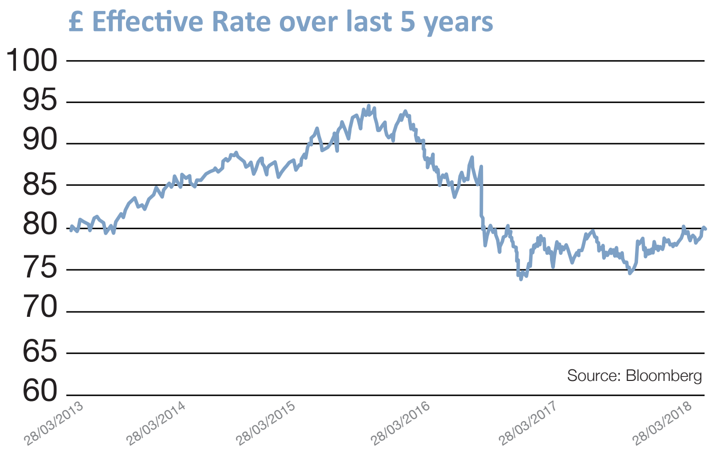
Worse still, if this triggered the sale of their existing positions (which now exceed £300bn); the Treasury could find itself short of cash potentially enforcing further austerity.

If that were not a worrying enough prospect, think of the impact a foreign withdrawal would have on the value of the pound.

Short of the £83bn or so of foreign investment required to balance the books, sterling would undoubtedly plummet in scenes reminiscent of the immediate aftermath of the Brexit vote.

Requiring the nation to work harder just to stand still, any goods that remain imported would rise in price, whilst those that transferred to UK production would serve only to put pressure on an already stretched jobs market.

What's the result? Unquestionably higher inflation, which in turn would create the need for...yes, you guessed it, higher interest rates.



And so, as Brexit approaches and the various camps likely increase their hostilities in the pursuit of a final deal, it would pay investors to remember that we live in a global world, with global values and reliance upon each other which would have been previously inconceivable.

This interdependency has helped forge a prolonged period of peace and a FTSE 100 index where over 80% of earnings are generated on foreign shores.

With this in mind, the decline in the FTSE now seem overdone, but for global investors, the message sent by Brexit may keep them waiting in the wings for now.

Kevin Doran,
chief investment officer, AJ Bell

Is Just Eat share price fall a buying opportunity?

The online food delivery company's investment plans have divided the market

Shares in takeaway ordering specialist **Just Eat (JE.)** have dropped from the all-time high of 890p marked in February by more than 20% to 686.6p (6 Mar).

Is this a buying opportunity or is the company's new investment strategy too risky?

Just Eat generates sales from its online platform, which is used by hungry consumers to find and order takeaway food.

WHAT HAS CHANGED?

One of Just Eat's advantages is its asset-light business model, but this will change as the company moves into handling delivery services for restaurants, essentially following in the foot steps of the likes of Deliveroo.

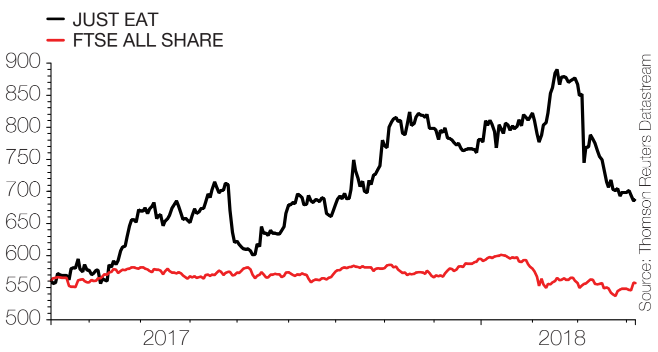
Initially this will involve investment of £50m in delivery services and branding.

The UK, Canada, Australia and New Zealand are the prime targets for delivery services, as well as developing markets.

The move will materially hit earnings before interest, tax, depreciation and amortisation (EBITDA) in 2018 as it absorbs staff and transportation costs. This is anticipated to fall year-on-year from £226m to between £165m and £185m.

WHAT ARE THE RISKS?

JP Morgan Cazenove analyst Marcus Diebel says the delayed move into delivery is bad for Just Eat as Deliveroo and UberEats have taken a significant share of the high/mid-price segment, particularly



outside London.

He argues the company will be exposed to more lower-priced restaurants.

'Given these developments, the UK is less stable than previously anticipated and we now value the UK at £2.4bn vs. £4bn before,' comments Diebel.

REASONS FOR OPTIMISM

There are plenty of bulls in support of Just Eat, one of whom is Peel Hunt analyst James Lockyer.

He forecasts adding delivery services will expand the market size from £23bn to £41bn, helping to drive earnings in the future.

Lockyer forecasts sales in 2018 will rise 5% to £717m and climb 8% higher in 2019, but EBITDA is expected to fall 18% in both 2018 and 2019 due to the investment.

We believe Just Eat's strategic move makes sense but recognise the increased risk in the business that could manifest itself in several ways. The company may need to plug more money into delivery services than expected and there are execution and competition risks.

Just Eat currently trades on 26.7 times earnings per share in 2019, down from 34.6 times in February. We think this is still too expensive until more details are provided on how the delivery services will be rolled out. (LMJ)

Why it is worth grappling with Sumo

Video games champion looks an impressive growth business

Video games developer **Sumo (SUMO:AIM)** looks attractive ahead of maiden AIM results (24 Apr). Positive noises from the Sheffield-based newcomer should be the catalyst for some bullish analyst commentary and potentially lift the stock from recent post-float weakness.

Sumo debuted on AIM in December, having raised £38.45m of fresh funding at 100p, since when the stock has drifted back below the IPO issue price to 93.5p. In our view this represents a good entry point for new investors.

Sumo's pre-close update (1 Feb) sounded confident – calendar 2017 results will be 'at least in line with management expectations' - and the group is geared into growing global demand for creative content.

VIBRANT VIDEO GAMES PLAY

The £143.6m cap's is growing organically as one of the world's leading co-developers of AAA-rated gaming titles and its work-for-hire model means it is not exposed to risks associated with the hit driven nature of a games publisher.

Given its scale and creativity, Sumo appears well placed to capitalise on the forecast growth in the video games industry, the biggest entertainment market in the world.

Core business Sumo Digital is a leading developer of AAA-rated video games operating out of studios in England, India and Canada.

Boasting strong ties with major developers and publishers including Microsoft, Sony and IO Interactive, Sumo Digital has provided development services for hits such as *OutRun 2*, *Hitman* and *Sega & Sonic All-Stars*.

Last year, Sumo Digital released its first own intellectual property title, *Snake Pass*, which has proved a hit albeit this remains a small if developing part of the business.

Shares notes June 2017 acquisition Atomhawk Design has delivered an especially strong performance post acquisition.

A highly complementary addition to Sumo, this visual design expert works with brands including *Amazon*, *Marvel* and *Sony*, projects on its CV including *Guardians of the Galaxy* and *Mortal Kombat*.

BOLSTERED BALANCE SHEET

IPO funds have repaid debt, so that Sumo now boasts 'significant positive cash balances' to help it invest in organic growth and the acquisitions of premium video game service providers and rival games developers.

Institutional backers include BlackRock and Liontrust, appetite among professional fund managers reflecting Sumo's merits and the strong performances of sector peers **Keywords Studios (KWS:AIM)** and **Frontier Developments (FDEV:AIM)**.

Peel Hunt has initiated coverage with a 'buy' rating and 125p price target implying 33.7% potential upside. For 2017, the broker awaits confirmation of adjusted pre-tax profit of £7.1m (2016: £2.1m), forecasting hefty increases to £8.9m and £11.7m this year and next.

SHARES SAYS: ↗

The video games sector has had a deserved reputation for lumpiness, yet Sumo looks an attractive cash-generative growth story. (JC).

BROKER SAYS: 1 0 0

Why Charles Taylor's results were better than the market thought

Insurance services business looking cheap after mixed reaction to results

All told 2017 was a tough year for the insurance industry but this presented opportunities for **Charles Taylor (CTR)**. As the sector struggled with technical innovation, Charles Taylor continued to build its capabilities as a provider of professional services to the insurance industry.

Existing in one form or another since the mid-19th century, Charles Taylor has three main areas of business.

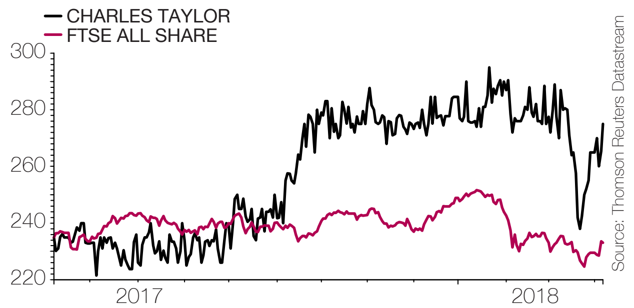
It loss adjusting arm is commissioned by insurers to estimate the costs of pay-outs across aviation, energy and marine markets.

The management services division earns fees for running pooled insurance funds for industry groups. It runs the Standard Club, which insures around 10% of the world's shipping fleets.

The company has recently made major investments into InsureTech, its digital platform. The insurance sector has suffered from a failure to adapt to using technical innovation to reduce costs and increase efficiencies. InsureTech seeks to address this.

The company's CEO David Marrock attributes a 31.3% drop in statutory profit for 2017 to costs arising from the InsureTech investment and acquisitions made during the year. He says these do not 'relate to the underlying performance' of the company and are therefore stripped out.

31.3% drop in statutory profit for 2017



On an adjusted basis, the company's profit was up 3.5% to £15.3m although its share price took a hit after results were released on 14 March.

The company states this was due to confusion over the reasons behind the adjustments and, in this context, it is worth noting a 5% hike in the full year dividend to 11p.

BUILDING OUT THE BUSINESS

Charles Taylor acquired Criterion Adjusters in 2017, a loss adjusting business focused on high net worth individuals.

It also bulked up its US third party administrator business with the purchase of workers compensation claims administrator Metro Risk Management.

It already manages all the workers' claims for its client Signal Mutual, the largest provider of this type of service to the US maritime industry.

The company's acquisition of a closed book of Zurich International portfolio bonds boosted the company's ability to generate fund management revenue and saw it enter the fund administration services market.

The company has also been branching out internationally, It is working with a company called Fadata as part of its tech strategy.

Justin Bates, analyst at broker Liberum, is excited by the company's prospects. He upgrades his 2018 adjusting services profit forecast by 20% to £4.3m with a resulting 2% hike for its 2018 earnings per share forecast to 22.6p.

At 257p and based on this forecast the shares trade on an undemanding price to earnings ratio of 11.3 times. (DS)

MONDAY 16 APRIL

INTERIMS	
Carrs	CARR

TUESDAY 17 APRIL

FINALS	
AA	AA.
Clearstar	CLSU
JD Sports Fashion	JD.
TP Group	TPG
INTERIMS	
Associated British Foods	ABF
APC Technology	APC
Egdon Resources	EDR
TRADING STATEMENTS	
Ashmore	ASHM
Rio Tinto	RIO
AGMS	
Dialight	DIA
MD Medical	MDMG
ECONOMICS	
UK	
RPI	
PPI	
CPI	
HPI	

WEDNESDAY 18 APRIL

FINALS	
AFI Development	AFRB
Be Heard	BHRD
TRADING STATEMENTS	
BHP Billiton	BLT
Bunzl	BNZL
Jupiter Fund Management	JUP
Polymetal	POLY
RELX	REL
Segro	SGRO
AGMS	
88 Energy	88E
Primary Health Properties	PHP
ECONOMICS	
UK	
Unemployment Rate	

ROADSIDE ASSISTANCE PROVIDER AA (AA.) releases full year results on 17 April and investors will be eager to see what new changes CEO Simon Breakwell has in store.

Breakwell shocked the market in February with his new strategy for the company and also slashed the dividend.

He's not been in the job long and has the blessing of Neil Woodford who increased his stake following the update. Will other investors stay on board?

THURSDAY 19 APRIL

FINALS		
Camellia	CAM	
Xeros Technology	XSG	
INTERIMS		
Gattaca	GATC	
Unilever	ULVR	
TRADING STATEMENTS		
Evraz	EVR	
AGMS		
Acacia Mining	ACA	
Essentra	ESNT	
Idox	IDOX	
Science Group	SAG	
Segro	SGRO	
ECONOMICS		
UK		
Retail Sales		
EX-DIVIDEND		
AFH Financial	AFHP	4p
Aggreko	AGK	17.74p
BAE Systems	BA.	13p
Balfour Beatty	BBY	2.4p
Barratt Developments	BDEV	8.6p
Bodycote	BOY	25p
Bodycote	BOY	12.1p
Capital & Regional	CAL	1.91p
Capital & Counties Properties	CAPC	1p
City Merchants High Yield Trust	CMHY	2.5p
Communisis	CMS	1.77p
Croda	CRDA	46p
Drax	DRX	7.4p
Fevertree Drinks	FEVR	7.64p
Global Ports	GPH	20.1p
Greggs	GRG	22p
Informa	INF	13.8p
John Laing	JLG	7.17p
Kerry Group	KYGA	€0.44
Lloyds	LLOY	2.05p
McColl's	MCLS	6.9p
Merchants Trust	MRCH	6.3p
Northamber	NAR	0.1p
Pendragon	PDG	0.8p
Polypipe	PLP	7.5p
Rathbone Brothers	RAT	39p
RPS	RPS	5.08p
Science Group	SAG	4.4p
SCS	SCS	5.3p
Standard Life Aberdeen	SLA	14.3p
Stilo International	STL	0.05p
Taptica	TAP	$0.05
Tyman	TYMN	7.7p
UBM	UBM	18p
Vitec	VTC	20.1p
Wood Group	WG.	$0.23
Zotefoams	ZTF	4.02p

TWO BIG NAMES in the mining industry are set to update on trading over the next week.

Rio Tinto (RIO) will publish its first quarter operations review at 11.30pm on 17 April, a slightly unusual time for a UK-quoted company to issue information explained by it also having a listing in Australia – it will be 8.30am the following day in Sydney when the details come out.

It's a similar situation for BHP Billiton (BLT) when it reports a third quarter operational update late in the UK day on 18 April and 8.30am on 19 April in Australia.

During the second part of March, Rio Tinto announced $4.15bn worth of coal asset sales meaning it has now exited the coal industry completely. The sales should complete in the second half of the year and most of the proceeds are expected to be returned to shareholders.

Click here for complete diary
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KEY

- Main Market
- AIM
- ETF
- Fund
- Investment Trust