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SHARES

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ALSO INSIDE:
AUTO TRADER, INMARSAT, WH SMITH, RIGHTMOVE, QUIZ, PLAYTECH
& MORE

WHY THE G7 AND GLOBAL TRADE TALKS REALLY DO MATTER

Beer seller Fuller's has no choice but to innovate

Sales of its own-brewed products have stalled amid rising competition

Many people associate innovation with using technology to develop new products and services. What's often overlooked is the need for more traditional businesses to innovate in order to stay competitive and not necessarily rely on technology to achieve this goal.

There is a phrase in the world of business which says companies often thrive if they 'stick to what they do best'. Yet this arguably fails to take into account the need for innovation. Sometimes companies have to change so their proposition is relevant in today's market, even if their core products are already top notch.

The reason I'm discussing innovation this week is the result of a conversation with Simon Emeny, chief executive of pubs-to-beer seller **Fuller, Smith & Turner (FSTA)**. The company's latest full year results showed zero growth in total beer and cider sales volumes. That refers to products brewed by Fuller's rather than all the beer and cider including third party products it sells in its pubs.

Fuller's has a core portfolio of excellent beer including London Pride and ESB. Unfortunately for the company, drinkers today want to experiment by continuously trying new products, a trend spawned by the rise of craft beer and many micro-breweries in the UK and beyond. That means some of the classics like London Pride are getting side-lined (perhaps a temporary phenomenon?).

Emeny argues that Fuller's 'Managed Pubs and Hotels' division accounts for 75% of group operating profit and so it isn't disastrous that Fuller's own-brewed products haven't seen any sales volume growth. He says the important factor is for the pubs to be growing sales overall.

'We stock products people want. But if you are a beer producer, there is no doubt we're in a more competitive environment,' says the CEO.

Fuller's response to shifting customer habits has been to crank up product innovation – introduce more own-brewed beers to engage with customers. For example, new Fuller's products using Australian and American hops now compete for pump space in its pubs alongside its classics.

But does it now offer too many products? Emeny doesn't think so. In fact, he says 'today's customer wants variety and innovation'. That comes at a cost.

Fuller's main brewery in Chiswick, West London, has a minimum run of 160 barrels per product which works out at just over 46,000 pints. That raises the risk of a lot of wastage if the new products are a flop with customers.

In response it is going to build a pilot brewery so that it can do shorter runs on new products, thereby enabling it to experiment more and reduce wastage. While that gives the company more flexibility, Emeny admits it will be harder to make money this way. 'We simply have to stay innovating to compete,' he concedes.

We simply have to stay innovating to compete

Fuller's is a classic example of a company that has fine-tuned its business and got its core proposition spot on – the pubs are fitted out nicely, the food is great quality and its classic beer range is very tasty.

I do get the feeling that some of Fuller's innovation is borne out of necessity rather than a desire to keep trying new things. However, the need to innovate also stops management becoming too complacent. It helps to challenge and to invigorate new ideas which ultimately keep the energy flowing around a business. (DC)

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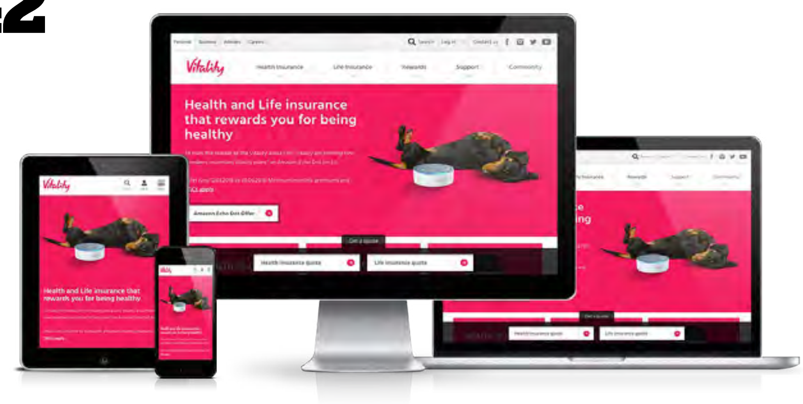

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BROKER RATINGS EXPLAINED:

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

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

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

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

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

This week's most important macro stories

The latest on Trump, world trade and the UK economy

There is plenty of macro news to digest at present; much of it centred around US president Donald Trump.

For now, the markets seem relaxed about the battles being fought with the US and its traditional allies over trade, despite Trump rejecting a communique previously agreed at the G7 summit in Canada on 8 and 9 June.

We discuss these issues in more depth in in this week's *Aequitas* column but the World Trade Outlook Indicator, an index compiled by the World Trade Organisation, implied some softening momentum in the second quarter.

A reading of 101.8 was down from 102.3 for the first three months of the year. The third quarter update is out in August.

Trump's next stopping point was Singapore for a summit with North Korean leader Kim Jong-Un which optically at least seems to have reduced some of the tensions between the two countries.

Closer to home, two key releases revealed some worrying signs for the UK economy. The Office for National Statistics reported the biggest monthly fall in output for the UK manufacturing sector for five years and a widely-followed survey from recruitment firm ManPower showed hiring intentions for UK firms were at their lowest level since 2012.

Resulting pressure on sterling is good news for the overseas focused FTSE 100 but more negative for the FTSE 250 mid cap index which has a greater domestic focus. (TS)

Profit margin fears dog housebuilders

Some companies continue to report pressure on earnings

UPDATES FROM **Bellway (BWY)** and **Crest Nicholson (CRST)** on 12 June are reinforcing concerns about the margin performance of the housebuilding sector.

As AJ Bell investment director Russ Mould observes: 'The industry has enjoyed a bumper period, supported by rising house prices, low interest rates and Government support in the form of the Help to Buy scheme but there are increasing signs this sunny backdrop is clouding over.'

For the time being these issues are concentrated at the top end of the market. In its latest trading update Bellway mentioned offering incentives on premium priced properties while Crest Nicholson has a higher average selling price than its peers.

The housing market is clearly interconnected and margin issues could start to filter down the property chain. This is a key issue to monitor in forthcoming updates from the industry.

We continue to favour **Telford Homes (TEF:AIM)** which operates at the more affordable end of the London market and is expanding in the attractive build to rent space. (TS)

UPCOMING RELEASES FROM THE SECTOR

Berkeley 20 June
(full year results)
Persimmon 5 July
(trading update)
Barratt Developments 11 July
(trading update)
Taylor Wimpey 31 July
(first half results)

Predator may be first of many to circle Inmarsat

Vulnerable satellites firm is facing possible battle for independence

The first shot has been fired in what could become a long and protracted takeover battle for satellite network operator **Inmarsat (ISAT)**.

Inmarsat's share price rallied around 25% to 525p after the company confirmed a preliminary approach from NASDAQ-listed peer Echostar Corporation. The US firm was given short shrift with Inmarsat quickly rejecting the proposal stating it 'very significantly undervalued Inmarsat and its standalone prospects'.

Inmarsat has regularly been mooted in the past as a possible takeover target. Echostar appears to be attempting to take advantage of several challenging years for the UK business thanks largely to difficult maritime markets.

Providing communications to shipping is where Inmarsat makes much of its profit. It recently lost exclusivity in supplying distress signal network operations to sea-going vessels.

Satellite rivals could emerge with bids of their own

Analysts believe that satellite rivals, such as ViaSat, SES and Eutelsat, could emerge with bids of their own, although striking a deal may prove complex because of the steep decline in Inmarsat's share price in recent years. The stock traded at £11.40 just two and a half years ago, a fact that is likely to see management demand a far larger bid premium than the typical 30% to 35%.

SHARES SAYS:

Existing shareholders should use bid talk share price strength to manage an exit from the stock. (SF)

Why Playtech's acquisition of Snaitech is a potential game-changer

Owning the Italian gaming operator gives Playtech a strong position in a market with considerable online growth potential

GAMBLING SOFTWARE supplier **Playtech's (PTEC)** €846m acquisition of Italian gaming operator Snaitech is a game-changer according to broker Numis.

The company says Snaitech will help it establish a strong presence in Italy, which is Europe's largest and growing gaming market with an underdeveloped online presence.

Numis analyst Richard Stuber has hiked his earnings before interest, tax, depreciation and amortisation (EBITDA) forecasts for Playtech by 12% to €400.1m for the year to 31 December 2018 and by 34% to €532.9m in 2019.

Stuber is confident Playtech's acquisition will nearly double group sales and boost regulated market exposure to over 80% of revenue, as well as reduce dependency on Asia to approximately 17%.

These forecasts assume no contribution from Malaysia, which used to be a source of high-margin revenue for Playtech until regulatory crackdowns caused the company to issue a profit warning last November.

Other catalysts for Playtech besides a recovery in Malaysia include the potential demerger of financial division TradeTech. (LMJ)

Jurassic-sized expectations for Frontier Developments

There is a lot riding on the company's latest game being a big hit

High-flying video games creator **Frontier Developments (FDEV:AIM)**'s news that revenue and earnings for the year to May 2018 beat market expectations has helped to revive the share price after recent weakness, lifting it 2.8% to £16.60.

However, we note that stockbroker FinnCap didn't upgrade its earnings forecasts for the current financial year, saying it first needed evidence for how well Frontier's newest game is selling before revisiting its numbers.

The company launched its hotly-anticipated new title *Jurassic World Evolution* on 12 June to coincide with the cinema release of *Jurassic World: Fallen Kingdom*. It will also release another game, *Elite Dangerous: Beyond – Chapter 2*, on 28 June.

The shares trade on a very rich 51 times forecast earnings for the year to May 2019 hence there are high expectations for the *Jurassic World* game to be a big hit. Failure to meet expectations could be devastating for the share price.

Last summer, Chinese internet-to-interactive entertainment titan Tencent invested £17.7m in Frontier in return for a 9% stake, to enable the business to not only attack the gargantuan Chinese market but also to scale-up by increasing the frequency of major releases.

In addition to producing its own games, Frontier now says it will also consider third party publishing to accelerate its growth plan, namely controlling the promotion and distribution of other developers' games. (JC)

Windows upgrade boon for Computacenter

Organisations set to switch to latest operating system as support for older versions closed down

ANALYSTS BELIEVE we are entering a two year Windows software upgrade cycle that could act as a boon for IT services supplier **Computacenter (CCC)**.

The FTSE 250 company supplies and manages PCs, laptops and IT applications for hundreds of businesses in the UK and across Europe.

Analysts at investment bank Stifel believe many organisations have been slow to update IT systems to Microsoft's latest Windows 10 version as they try to milk best value from existing systems. This is likely to change as the US software giant turns off support for older versions, particularly Windows 7.

Computacenter, which trades on a forward price-to-earnings multiple of 19.4 at £14.20, has a reputation as a total returns investment story, including the use of surplus cash to pay special dividends. Its last special payout of 83p per share was actioned in January 2018. (SF)

Earnings upgrade joy for retailer Joules

12%

LIBERUM CAPITAL'S year to May 2018 pre-tax profit forecast for British lifestyle brand **Joules (JOUL:AIM)** is now 12% higher than a year ago. That is impressive given the inclement market conditions for most clothing retailers.

Differentiated brand Joules is in an upgrades cycle. Following another year of double digit growth, it said on 7 June that pre-tax profit would be 'marginally ahead' of analyst expectations, hence why Liberum has lifted its 2018 estimates by 3.3% to £12.8m and nudged up its 2019 forecast by 1.6% to £14.8m.

'Joules has a strong brand, heritage, low fashion risk and wide appeal,' it says. 'It is gaining share in the fast-growing premium lifestyle sector where multiple growth levers exist including stores, online, wholesale and international. Joules is relatively immature versus key peers leaving space for growth.'

TREES, TREES AND MORE TREES FOR TAKEOVER TARGET SMURFIT KAPPA

DID YOU know that Europe's largest paper and packaging firm **Smurfit Kappa (SKG)** owns more than 100,000 hectares of specially planted forest? That's equivalent to 139,000 Wembley pitches, or 70,000 Lord's Cricket Grounds.

Those millions of trees are spread across forests in Colombia, Venezuela, Spain and France, acting as a supersized source of raw material.

Dublin-headquartered and London-listed Smurfit shot into the headlines recently after twice rebuffing takeover approaches from International Paper, the world's largest paper and packaging supplier.

WHY UK CONSTRUCTION FIGURES ARE NOT AS GOOD AS THEY LOOK

THE MAY purchasing managers' index (PMI) IHS Markit survey on the UK construction sector showed a reading of 52.5 against expectations for 52, yet the commentary accompanying this headline did not present such a positive picture.

Any figure above 50 implies expansion and anything below this level implies contraction.

Sam Teague, economist at IHS Markit, notes activity was buoyed by firms playing catch up after unusually poor weather in March and the recovery could therefore 'prove short-lived'.

It is also worth noting that the 52.5 result posted was only in line with the figure recorded for April.

Buy WH Smith for its underappreciated retail strengths

The company is far healthier than you think and has richly rewarded shareholders over the years

WH Smith's (SMWH) ability to keep growing its travel arm despite tough retail conditions begs the question whether the stock has been incorrectly priced. We think it should command a high equity rating and are confident the share price has much further to rise.

The travel arm accounts for 61% of group profit and encompasses its stores in railway stations, airports, hospitals and motorway service stations. These sites benefit from having a captive audience, namely people who don't have the luxury of being able to shop around for a better price.

If you're waiting to get a train, you may only have a few minutes to quickly buy a few snacks, a magazine or book and potentially something for your children, and so you may not grumble about the price. And with a motorway service station there isn't anywhere else to go to buy the products sold by WH Smith so you either spend money in its shop or go away empty handed.

WH SMITH ↗ BUY
(SMWH) £20.20
Stop loss: £16.16

Market cap: £2.24bn

This rare position means it is able to charge more for its products in the travel arm and exploit the captive audience.

SOUNDS FAMILIAR?

This situation is very similar to **SSP (SSPG)**, a multinational company which operates branded catering and retail units at airports and railway stations around the world.

SSP is responsible for many of the food and drink units at these sites including some operating under third party brands such as M&S Simply Food, Starbucks and Leon which it runs as under franchise agreements.

2.6% prospective dividend yield

Investors have flocked to own shares in SSP since it joined the stock market in 2014 to capitalise on its market advantage. Its shares now trade on 25.4 times forecast earnings for the year to September 2019. In contrast, WH Smith trades on a 32% discount with a forward PE of 17.3 for the year to August 2019.

The question to ask is whether WH Smith should command a rating more in line with SSP? Let's consider this situation. First of all, WH Smith does deserve to have some discount to reflect the challenges of having high street stores.

WH SMITH EARNINGS PROFILE

	2017	2018	2019
Revenue	£1.23bn	£1.25bn	£1.28bn
Pre-tax profit	£140m	£146m	£153m

Source: Reuters (analyst consensus view). 2017 is actual, 2018/2019 forecast. 31 August year end.

Approximately 39% of group profit comes from the high street where like-for-like sales have fallen at a 10-year compound annual growth rate of 4%, says Mirabaud analyst Jonathan Fyfe. However, a shift in the type of products being sold and various cost savings initiatives have led divisional margins to double even as revenue has fallen.

'Through cost action and evolution of their offering, divisional margins have increased from 4.6% in 2007 to 10.2% in 2017,' says Fyfe. 'Management have already identified a pipeline of £18m of additional cost savings. Management are also investing to keep their stores relevant.'

The latter comment is particularly important. WH Smith has developed a bad reputation for having shabby stores so spending money to improve their look could be a significant earnings driver.

EVIDENCE OF CHANGE

We note comical Twitter account @WHS_Carpet recently posted pictures of refurbished stores which show a clean, modern retail outlet. That's a far cry from its usual pictures of WH Smith stores with gaffer tape to hold the carpet together and messy displays.

WH Smith said in its latest trading update (6 June) that it continues in invest in new store format trials and its eleventh standalone bookshop has just opened.

WH SMITH VS SSP

WH SMITH
PE (YEAR TO AUG 2019): 17.3

SSP
PE (YEAR TO SEP 2019): 25.4

SOURCE: REUTERS

A move away from DVD and CDs in favour of higher margin products like stationery is proving to be a successful strategy. And adding Post Office counters to its stores is helping to keep the business relevant to local communities, even if it means given up some selling space.

The plan for the high street division is to deliver sustainable profit growth. As such, we don't believe the market should impose a 32% valuation discount versus SSP because of the high street exposure.

DESERVES A HIGHER RATING

We believe WH Smith should trade more towards 20 times earnings given its superior track record in both cash generation and rewarding shareholders.

Anyone investing in its shares five years ago would have made more than four times as much compared to a FTSE 100 tracker in the same period, if all dividends were reinvested.

Over the past 10 years the group has returned £860m of cash to shareholders and reduced the outstanding number of shares by circa 40%.

5 YEAR TOTAL RETURN:
BEATING THE BLUE CHIPS

WH Smith: +200%
FTSE 100: +48%

Source: SharePad. Data to 11 June 2018.

The travel arm has certainly played an important role in WH Smith's underappreciated success. It commands 15.4% margins and has enjoyed 10% compound annual growth in operating profit over the past decade.

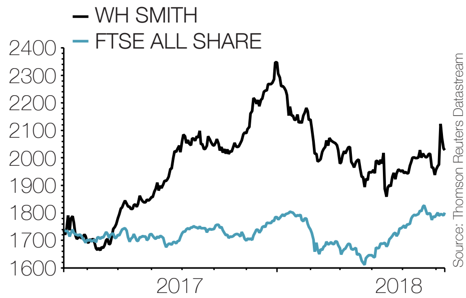
Just over one quarter of the travel stores are located outside the UK, typically in airports. There is competition from incumbents but it does have a pipeline of 40 new concessions that have been won and which are not yet open.

Other growth opportunities include a new format that combines retail with a coffee bar. This should enable it to open stores in smaller regional rail stations which were traditionally too small to justify a standalone shop.

WH Smith has plenty of initiatives underway to drive earnings and while previous efforts haven't all been successful – specialist card shops didn't amount to much – the exit costs have never been material, says stockbroker Numis.

So the next time you go on a plane, train or car journey and bemoan WH Smith's high prices, why not turn the tables and invest in the company in order to benefit from its strong profits. (DC)

BROKER SAYS: 4 4 2



Buy into Meggitt's upwards share price momentum

Two of its addressable markets are going great guns

Aerospace and defence engineering company **Meggitt (MGGT)** is seeing an uptick in demand for its various specialist components, so buy into the current upwards share price momentum.

However, we must stress this is a high risk investment as Meggitt has a history of profit warnings amid unpredictable end markets.

Nonetheless, the current situation looks promising. The civil aviation market is doing well and Meggitt recently signed a $50m deal with airline **Wizz Air (WIZZ)** to supply its Airbus 321neo fleet with wheels and brakes.

Meggitt has also enjoyed the benefits of increased US military spend. In February it received a $26m contract to provide thermal management systems for the US army's M1 Abrams tanks.

The company's global appeal was shown in April when it secured a multi-million dollar contract with Korea Aerospace Industries to supply wheels and high performance carbon brakes for the KF-X multirole fighter jet.

This jet programme is a partnership between South Korea and Indonesia with more than 150 jets being delivered to the countries from the mid 2020's.

On release of its 2017 full year results in February this year, Meggitt chief executive Tony Wood said he expected organic growth in 2018 of between 2%

MEGGITT ↗ BUY
(MGGT) 501.2p
Stop loss: 400p

Market cap: £3.9bn

to 4%. This was reiterated during the first quarter update when Meggitt revealed it had achieved organic revenue growth of 6%, which bodes well for meeting its full year target.

The company has been streamlining by disposing of non-core assets in order to focus on businesses of scale in attractive markets.

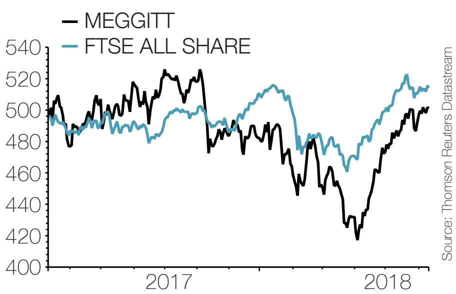
Andrew Follan, analyst at investment bank Berenberg, says 'the long-term growth outlook for Meggitt is positive, with more than 50% of revenues in the growth civil aerospace market and 35% in the improving defence sector. In addition, more than 40% of sales are derived from high-margin recurring aftermarket activities.

'However, earnings and cash progression are still constrained in the short term by ongoing product investment and mix headwinds in civil aerospace and still some softness in energy-related markets. Over time, these trading headwinds will ease and profit growth and cash generation will improve.'

Analysts recently pushed through fairly large earnings downgrades although there is no reason to be alarmed. Earnings forecasts were reset to factor in a new accounting standard called IFRS 15 which affects the way companies recognise revenue from long-term contracts.

The company is trading on a discount to its peer group in the aerospace and defence sector according to data from Reuters which has Meggitt trading on 15.1 times forward earnings. This compares favourably to the peer average of 20-times. (DS)

BROKER SAYS: 7 8 3



AUTO TRADER
(AUTO) 426.1p

Gain to date: 12.8%

Original entry point:
Buy at 377.1p, 17 May 2018

AN IMPRESSIVE set of full year results helps get our positive call on online car listings site **Auto Trader (AUTO)** off to a very decent start.

The numbers on 7 June were slightly ahead of expectations with earnings per share in the 12 month period to 31 March up 15% to 17.76p.

ARPR shows how much the business makes each month on average from the car retailers which use its services.

Although there was no explicit guidance on this alongside the results, the takeaway for at least some analysts was that ARPR could be higher than previously expected.

In March Auto Trader spooked investors by guiding that used car stock would be down with negative implications for ARPR.

When outlining the investment case for the business in our original article we argued that the company had other levers to pull to boost ARPR beyond just having more cars on its site.

Therefore we are encouraged that a new dealer finance product, allowing car retailers to display monthly finance offers on their ads, has enjoyed a strong start.

SHARES SAYS: ↗
These numbers offer early vindication of our bullish view of Auto Trader. Keep buying. (TS)

BROKER SAYS: 12 5 3

IMPAX ASSET MANAGEMENT
(IPX:AIM) 201.5p

Gain to date: 59.2%

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

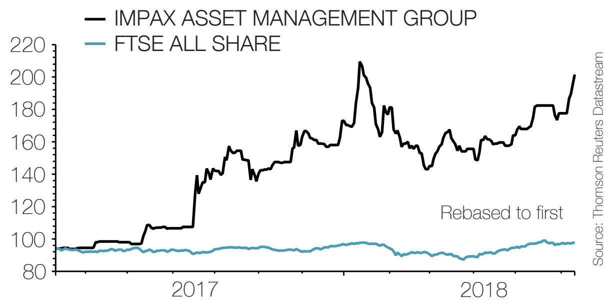
OUR CONFIDENCE in this asset manager has paid off again with a share price rally following half year results to 31 March which were released on 7 June.

The company had already alerted the market to a 51% increase in assets under management to £11bn and further good news followed.

Impax more than doubled pre-tax profit year-on-year to £5.5m. This was from revenue that had risen by almost 85% to £25.7m.

It hiked its interim dividend by 57% to 1.1p per share and also declared a special dividend of 2.6p per share due to the performance of its second private equity infrastructure fund.

Chief executive Ian Simm says asset owners around the world are now seeking higher levels of exposure to ‘companes leading the transition to a more sustainable economy’ and his company is well placed for ‘further profitable growth’.



SHARES SAYS: ↗
Impax is in a market sweet spot given increasing focus on sustainability and we remain fans of the business. (DS)

BROKER SAYS: 2 0 0

If you want to know more about Impax, come to our 20 June investor evening in London where the company will be presenting alongside three other UK-listed stocks. Tickets are free but advance registration is required: **www.sharesmagazine.co.uk/events**

RAMSDENS
(RFX:AIM) 199.5p

Gain to date: 40.5%
Original entry point:
Buy at 142p, 15 June 2017

RAMSDEN DIVERSIFYING away from its historically core pawnbroking operations is one of the key factors behind its success according to its chief executive Peter Kenyon.

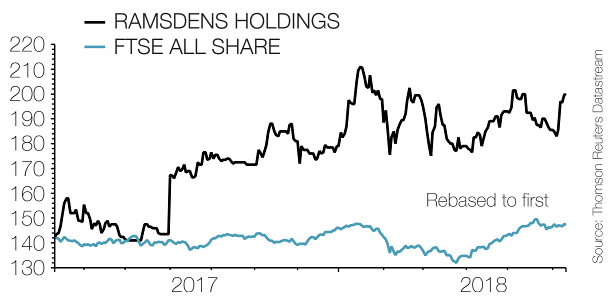
This was evident in the company's results for the 12 months to 31 March 2018. Released this month, they show Ramsdens makes most of its money through its high street foreign currency exchange arm. Gross profit from this segment hit £11.3m compared to £7m from pawnbroking.

The results show a company growing at a fair click on practically all fronts. Revenue grew by 16% to £39.9m with underlying pre-tax profit up 60% to £6.5m. The total dividend per share proposed is, at 6.6p, a huge increase on 2017's 1.3p per share.

The company is also growing by number of stores, which with this type of business is crucial to growing the bottom line. The medium term goal is to grow by 12 stores a year which if it can be maintained, should underpin growth in earnings and cash flow.

Of the 800,000 customers Ramsdens served throughout its financial year, the vast majority were buying money for their holidays, 687,000.

With less reliance on pawnbroking and precious metal sales, the company is not as reliant on a strong gold price. The fact that gold has held up quite well during the time is therefore merely an added bonus.



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

BROKER SAYS: 1 0 0

SOPHEON
(SPE:AIM) 880p

Gain to date: 167%
Original entry point:
Buy at 330p, 22 June 2017

IT IS ALMOST a year since we first flagged the transformation we felt **Sopheon (SPE:AIM)** was embarking on.

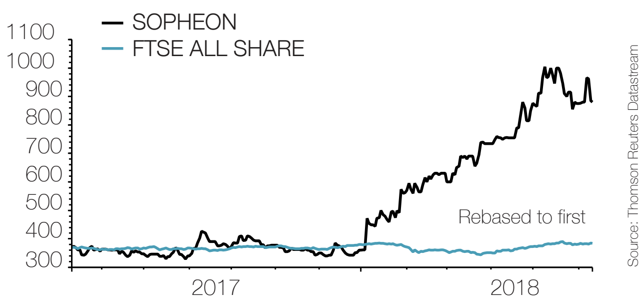
The company has a diverse offering, from process automation products to innovation management solutions that help enterprises manage all aspects of their new product development lifecycle.

The Surrey-based outfit is about as good an example we can think of where a management team has taken a good hard look at its product suite and operating model and moulded it to fit with what customers want.

This has led to more recurring revenues that help even out a sometimes lumpy licence cycle, plus entry into new exciting markets beyond its industrial engineering backyard, such as consumer goods, food/drink and technology.

In May the share price pushed beyond £10.00 for the first time, and while the stock has come back a bit since, it has still performed far beyond the 620p we originally said might be possible.

The shares are still not overly expensive, given implied growth. The full year 2019 price to earnings multiple stands at 21.5 versus 24% forecast earnings growth next year.



SHARES SAYS: ↗
Profit taking will be very tempting but we still see a bright future for Sopheon and its share price. (SF)

BROKER SAYS: 1 0 0

CREATE A PORTFOLIO IN A FLASH

CHOOSE FROM 11 TOP FUNDS FOR EXPOSURE TO IMPORTANT INVESTMENT THEMES

Many people get stuck in their quest to invest because they don't know where to deploy their money. This article aims to give individuals in this situation a head start with five funds that provide diverse exposure to important geographic territories and sectors.

We also highlight a few more funds that are popular with investment experts and retail investors, and/or are rated highly by financial data providers, just to give you a broader selection to research should you not find our core five picks to your taste.

FUND COSTS

The beauty of investing in funds is that you get broad exposure to lots of different companies or other asset classes like bonds and property.

Certain types of funds – namely unit trusts and Oeics – are relatively cheap to buy with dealing fees rarely more than £1.50, although you are likely to incur a small annual custody charge which can vary depending on the value of your portfolio.

Investment trusts and ETFs (exchange-traded funds) will cost you the same as buying individual company shares, typically £9.95, but some platform providers won't charge you a custody fee for this type of investment.

ACTIVE VS PASSIVE FUNDS

There are two main types of funds; active and passive. Active funds are run by a professional fund manager who selects what goes in the portfolio. The aim is to beat a benchmark index and outperform the market, meaning investors in the fund should hopefully get better returns, although ongoing charges will be higher.

Alternatively, you can invest in passive funds, often called tracker or index funds. These aim to mirror the performance of a key benchmark or index, such as the FTSE 100 or FTSE All-Share.

They do this by investing their cash to match the make-up of the benchmark they are tracking. These types of funds are relatively low-cost, although potential returns are highly unlikely to exceed the index they are tracking by a large margin.

There are literally hundreds of funds available to UK retail investors. Some have a wide-ranging investment remit, such as targeting returns that roughly match global growth.

Others are far more specific. They may target a particular geographic market, such as the UK, US, Europe or emerging markets. Or they might focus on particular industries such as technology, infrastructure or renewable energy.

Alternatively, there are funds that focus on certain investment styles such as value shares or companies which pay healthy dividends so they in turn can generate a good income for investors.

OUR FOCUS IN THIS FEATURE

In this feature we have largely left multi-asset funds to one side and concentrated mainly on equity funds because history shows this is where the best returns come from in the long-run. Our article is aimed at someone who has at least 10 years to invest before they need to access the money and someone who can take risks. The selections may not entirely suit someone with a low risk appetite.

If you're looking to build a lower-risk portfolio in a flash, we suggest you look at multi-asset funds or consider some of the ready-made portfolios offered by investment platform providers.

For example, AJ Bell Youinvest has a series of low-cost passive funds split into five different risk appetites including a 'cautious' one. The latter fund – **VT AJ Bell Passive Cautious (GB00BYW8RV97)** – invests mainly in assets like cash and bonds, and sparingly in shares which are deemed higher risk.

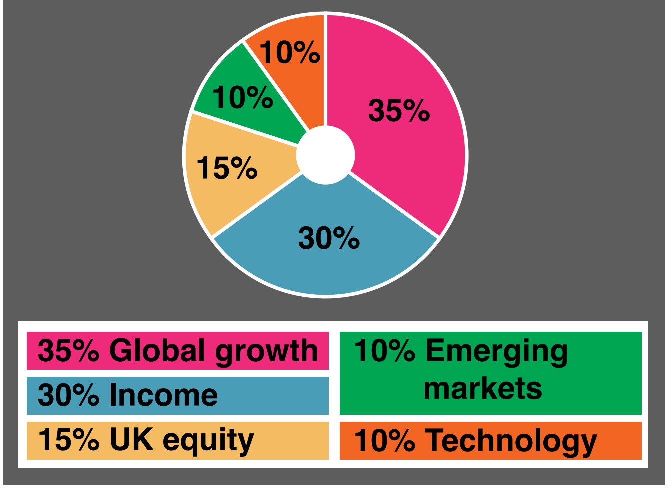
OUR FUND SELECTIONS IN THIS ARTICLE

We're taking a more hands-on approach and have broken the investment universe into five key themes – global growth, income, UK equities, emerging markets and high growth technology.

We've then selected a fund for each theme based on our knowledge of the investment space, the experience of individual fund managers and performance track records.

We would suggest putting a bit more cash in global growth and income and a little less in emerging markets and technology as the former are dominant themes in investing and the latter are higher risk areas.

THIS IS HOW WE SUGGEST YOU WEIGHT YOUR INVESTMENT ACROSS OUR FIVE FUND CATEGORIES



For example, a £10,000 investment could be split into £3,500 in a global growth fund; £3,000 in an income fund (buying the 'acc' accumulation version so dividends are essentially reinvested); £1,500 in UK equity; and £1,000 each in an emerging markets fund and a technology fund.

Hopefully, this article provides a useful guide that helps you create an instant portfolio capable of striking the right balance to cover you come rain or shine over the long-run.

This is not a definitive list as there are other good funds on the market. Yet it does provide a good starting point, one to which you can add your own selections as time goes by and you become more savvy and experienced.

1. GLOBAL GROWTH

OUR FUND PICK:

Lindsell Train Global Equity (IE00B3NS4D25)

5 years annualised return:
Fund: 20.4% / Benchmark: 13.2%

THIS FUND HOLDS a concentrated portfolio of typically between 25 to 35 high quality companies with strong, repeatable cash flow generation. It typically avoids more cyclical businesses whose earnings are highly sensitive to economic swings and roundabouts.

The portfolio includes global brands such as PG Tips-to-Persil owner **Unilever (ULVR)** and drinks giant **Diageo (DGE)**, which owns Guinness, Johnny Walker and Gordon's Gin.

Importantly, the fund's wide investment remit means it can concentrate on finding the best businesses regardless of where they are listed, hence stakes in an eclectic mix of overseas companies, including Heineken, gaming giant Nintendo and Japanese cosmetics firm Shiseido.

The fund management team including Nick Train focus on the longer-term, ignoring short term market noise to get under the skin of their investments' potential for delivering attractive returns.

Lindsell Train Global Equity	
Top 10 holdings	
Unilever	8.52%
Diageo	7.54%
Heineken	7.08%
London Stock Exchange	5.41%
Shiseido	5.30%
Nintendo	5.27%
Intuit	5.24%
Kao	4.84%
PayPal	4.81%
Mondelez	4.80%

Source: Lindsell Train

OTHER FUNDS POPULAR WITH INVESTORS AND EXPERTS

Scottish Mortgage Trust (SMT)

5 years annualised return:
Fund: 27.4%

THIS INVESTMENT TRUST is very popular with retail investors and is one of Winterflood Securities' top picks for 2018. Fund manager James Anderson looks for companies that he expects to grow rapidly and sustainably in the future.

Global internet businesses like Amazon, Alibaba and Netflix are big names in the portfolio, as well as sports cars brand Ferrari.

Newton Global Income Fund (GB00B7S9KM94)

5 years annualised return:
Fund: 11.7% / Benchmark: 10.1%

FUND MANAGER NICK Clay scans the globe for good companies paying attractive and sustainable dividends on top of an ability to create capital growth.

The fund has a 2.9% historic yield and nearly half of its investments are in the US, with UK and select European companies also popular. It is rated as a five-star fund by data specialist Morningstar.

2. INCOME

OUR FUND PICK:

TB Evenlode Income Acc (GB00BD0B7C49)

5 years annualised return:
Fund: 12.8% / Benchmark: 8.4%

ACADEMIC STUDIES SHOW time and again that compounding dividends generate most long-term investment returns, a point not lost on managers Hugh Yarrow and Ben Peters.

Don't be put off by a historic yield only being 2.4%. Evenlode likes to buy asset-light businesses and companies capable of growing dividends year after year. Therefore you should expect decent dividend growth from the fund.

We've selected the Acc version of the fund so your dividend is rolled up to increase your ownership of the fund rather than collect income as cash.

The portfolio is heavily concentrated on UK-listed companies, where Unilever, Diageo and education publisher **RELX (REL)** are currently its top three holdings. Nearly 9% of the fund is invested in US-listed stocks.

OTHER FUNDS POPULAR WITH INVESTORS AND EXPERTS

Ardevora UK Income (IE00B4MKXW82)

5 years annualised return:
Fund: 8.6% / Benchmark: 8.4%

ANOTHER FUND THAT invests in companies that pay big dividends, Ardevora UK Income is run by Jeremy Lang and William Pattisson who are experienced managers and founders of the asset management group. They both own hefty personal stakes.

The fund can invest in a mixture of small and large companies and it yields around 3.5%.

TB Evenlode Income

Top 10 holdings	
Unilever	8.02%
Diageo	7.70%
RELX	5.57%
Sage	4.60%
Compass	4.38%
Smiths Group	3.97%
Reckitt Benckiser	3.31%
Smith & Nephew	3.20%
GlaxoSmithKline	3.17%
AstraZeneca	3.16%

Source: Trustnet

3. UK EQUITY

OUR FUND PICK:

Liontrust Special Situations (GB00B57H4F11)

5 years annualised return:
Fund: 13.0% / Benchmark: 8.4%

THIS FUND INVESTS in British companies of all sizes and looks in particular for those unloved by the wider market. That might be because they are operating in a particularly tough industry at the moment or are perhaps dealing with short-term operating challenges.

The key point is that managers Anthony Cross and Julian Fosh are confident these blips can be put behind their investee companies in time and spark substantial share price returns.

Current political uncertainties and fairly gloomy economic forecasts for Britain mean the fund managers are not short of investment options at present.

The portfolio includes positions in oil giant **BP (BP.)**, pharma firm **GlaxoSmithKline (GSK)** and consumer products giant **Reckitt Benckiser (RB.)**.

Liontrust Special Situations

Top 10 holdings	
BP	4.05%
Royal Dutch Shell	4.03%
GlaxoSmithKline	3.95%
Compass	3.92%
Diageo	3.90%
Unilever	3.81%
RELX	3.70%
Rotork	3.37%
Fidessa	3.22%
Reckitt Benckiser	3.13%

Source: Trustnet

OTHER FUNDS POPULAR WITH INVESTORS AND EXPERTS

iShares UK Equity Index (GB00B7C44X99)

5 years annualised return:
Fund: 8.5% / Benchmark: 8.4%

THIS IS A LOW-COST tracker fund designed to largely match UK-wide stock market returns. It tracks the FTSE All-Share index of about 700 businesses, giving investors a no-fuss way to get a slice of a diverse selection of London-listed companies.

Morningstar says it is a worthwhile investment proposition for anyone seeking broad exposure to the UK equity market.

4. EMERGING MARKETS

OUR FUND PICK:

Fidelity Emerging Markets (GB00B9SMK778)

5 years annualised return:
Fund: 10.7% / Benchmark: 8.6%

INVESTING IN EMERGING MARKETS like China, India and others come in and out of investing fashion, and they're currently being shunned by many people.

Yet the long-term story is compelling, representing a large part of the world's 7bn-odd people and many of them with more disposable cash to spend on luxuries and other life improvements.

The Fidelity Emerging Markets fund, run by Nick Price, is a very good option to gain relevant exposure.

Fidelity Emerging Markets	
Top 10 holdings	
Naspers	5.66%
Sberbank of Russia	5.66%
AIA	5.64%
Taiwan Semiconductor	5.05%
HDFC Bank	4.78%
Samsung Electronics	3.17%
Housing Development Finance	3.13%
Alibaba	2.68%
Glencore	2.43%
SK Hynix	2.28%

Source: Trustnet

Around 20% of the fund is invested in Chinese companies; another 10% each in South Africa and Hong Kong; and 8% or 9% in India, Russia and South Korea.

Price's biggest sector bets are on financials, consumer products and technology, with internet firms Naspers and Alibaba big bets, as are insurers and banks.

That spread is encouraging because emerging markets can be fairly volatile places to invest because they are particularly sensitive to international capital investment flows.

OTHER FUNDS POPULAR WITH INVESTORS AND EXPERTS

JP Morgan Emerging Markets Investment Trust (JMG)

5 years annualised return:
Fund: 9.0%

INVESTMENT BANK STIFEL says JP Morgan fund manager Austin Forey is the 'last of the emerging markets trust pioneers' still at the helm and it has a 'Positive' rating on the trust.

'The manager has stayed true to his investment philosophy of creating a high conviction portfolio of companies with durable competitive advantages allowing them to compound capital over the long term,' comments Stifel.

The investment trust is particularly bullish on India and has notable exposure to banks and tech consultants in the country.

5. TECHNOLOGY

MAIN IDEA:

Polar Capital Global Technology (IE00B42W4J83)

5 years annualised return:
Fund: 25.9% / Benchmark: 23.6%

MANAGERS BEN ROGOFF and Nick Evans have experience and expertise in abundance, and it shows in the performance. The pair's real gift is an ability to spot long-run technology themes that are really changing the way the world works with astute company analysis.

This saw the fund buy Apple before the iPhone boom really took off. It was also early to spot the online advertising land grab of Facebook, and explains why Amazon has been among its largest holdings for years.

Rogoff and Evans also took early positions in Chinese internet winners Alibaba and Tencent, both of which remain high up in the fund's top 10 stakes.

Cloud computing, automation/robotics and artificial intelligence are just some of the big emerging disruptor technologies that Polar Capital Global Technology is betting on big, and investors should rightly feel confident in the fund's direction.

Polar Capital Global Technology	
Top 10 holdings	
Microsoft	7.33%
Alphabet	7.06%
Facebook	4.37%
Apple	3.25%
Tencent	2.74%
Alibaba	2.59%
Amazon	2.52%
Zendesk	2.27%
Dolby Laboratories	2.10%
Reckitt Benckiser	3.13%

Source: Trustnet

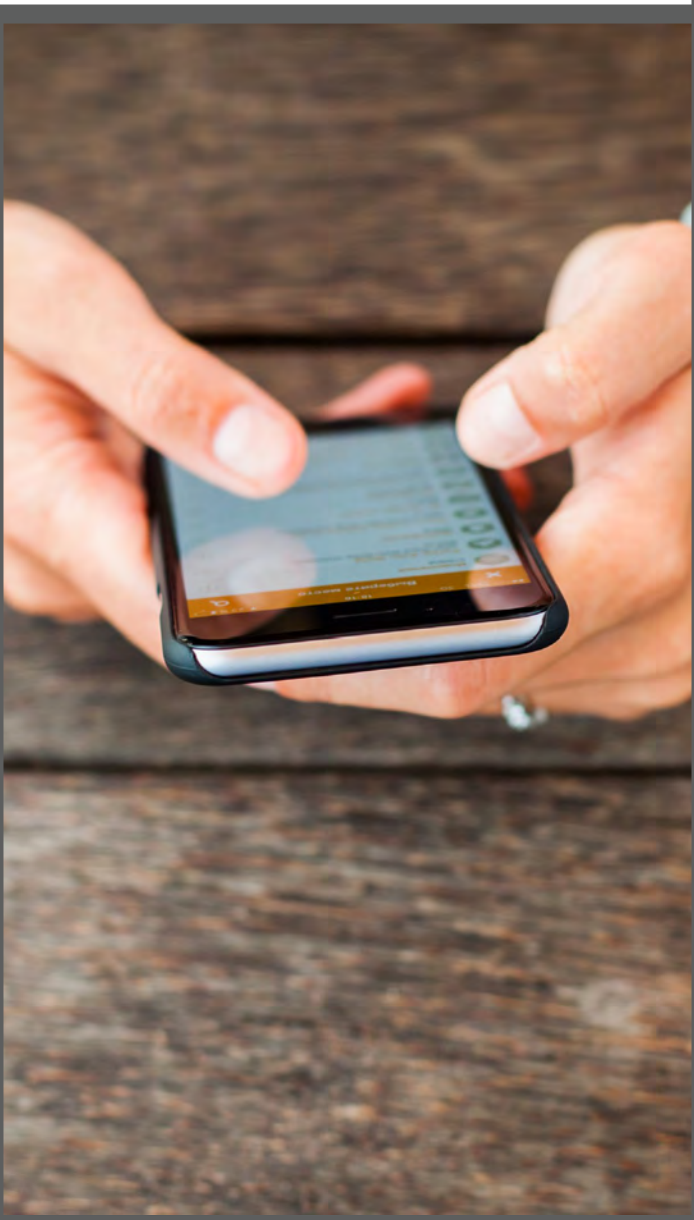
OTHER FUNDS POPULAR WITH INVESTORS AND EXPERTS

Neptune Global Technology (GB00BYXZ5N79)

5 years annualised return:
Fund: n/a

THIS FUND LAUNCHED in December 2015 with a simple premise to give retail investors access to a focused portfolio of technology stocks driving the digital future of global economics.

Led by manager Alastair Unwin, the fund invests in the biggest, best and most disruptive innovative companies. Returns have been impressive in its short run. (SF)



DISCLAIMER: Editor Daniel Coatsworth has a personal investment in Evenlode Income referenced in this article

Can Rightmove be unseated from a dominant market position?

Estate agent backed challenger OnTheMarket renews battle with leading player

In the last decade or so, the way we buy and sell houses has been transformed by the internet.

Property listings website **Rightmove (RMV)** has enjoyed spectacular returns thanks to its position as a first mover in this space. However, could the company be about to face a genuine competitive threat from estate agent-backed rival **OnTheMarket (OTMP:AIM)**?

Created in 2000 as a joint venture between property agents, Halifax, **Countrywide (CWD)**, Connells and insurer **RSA (RSA)**, Rightmove was first listed on the London Stock Exchange in March 2006.

In the interim the company has advanced from its issue price of 335p all the way beyond £50 and currently trades at £49.57. Its main rival to date, **ZPG (ZPG)** owned Zoopla could be set for a strategic refresh after its parent group recently agreed to be taken over by US private equity firm Silver Lake in a £2.2bn deal.

By establishing a market leading position early on Rightmove has created a virtuous circle. Its website has the most listings and is therefore the one which prospective property buyers will go to when looking for their next home.

This reinforces its position as a must-have product for estate agencies and generates significant pricing power when it comes to securing subscriptions from agencies. This has enabled the company to boost average revenue per advertiser (ARPA) from £684 per month in 2014 to £922 per month in 2017.

This underpins a margin upwards of 70% and has been rewarded by the market with a premium valuation. Based on forecasts from Liberum the stock trades on 27.6 times forecast earnings and on an EV/EBITDA (enterprise value to earnings before interest, tax, depreciation and amortisation) ratio of 21.9.

REACHING ITS LIMITS

However, high margins will typically attract either competition or regulation and there are signs Rightmove may be hitting the limits of its profitability.

Liberum analyst Ian Whittaker, a long-running fan of the stock, recently moved from 'buy' to 'hold', citing limited scope for further upside. 'We think Rightmove will not want

to aggressively push ARPA increases for fear of attracting regulatory attention.'

He also doesn't think M&A interest will emerge. 'We see a bid for Rightmove – as happened with ZPG – as unlikely.'

Rightmove's dominance has inevitably created some resentment among the estate agent community and OnTheMarket was an agent-led attempt to shake up this market, offering member agents access to potential house buyers at a significantly lower cost than both Rightmove and Zoopla.

Industry group Agents' Mutual launched OnTheMarket in January 2015 with a rule which initially allowed agents to list on only one other site, essentially Rightmove or Zoopla – but not both.

Dropping the 'one other property portal' rule, OnTheMarket joined the stock market in February 2018, raising just £30m against the targeted £50m for a marketing push. After a shaky start the company is now trading roughly in line with its AIM IPO price of 165p.

FOCUS ON BOOSTING PROPERTY INVENTORY

Under chief executive Ian Spriggett, who founded PrimeLocation.com in 2000 and led its growth until it was sold in 2006, the company recently revealed a shift in its approach.

While Rightmove has nearly total coverage of the market, OnTheMarket has around a third, so the priority for the remainder of the year is therefore to build up the stock on its site before it launches another marketing push.

The company has made some recent progress, adding agency branches at a good pace; more than 8,500 are now participating, a rise of 3,000 since the company joined AIM.

Traffic to its portal in the current financial year starting at the beginning of February to end May came to 42.2m visits, compared to 21.9m in the same period in 2017.

Spriggett says the company is looking to get agreements with estate agents to release properties to OnTheMarket for an initial exclusive period.

He notes agents are incentivised to do so both due to their interest in having greater competition in this area and because many of them are offered shares as part of their partnership agreement so have 'skin in the game'.

A FAIR PRICE

He suggests some estate agents may be approaching a point at which they can no longer afford Rightmove's charges.

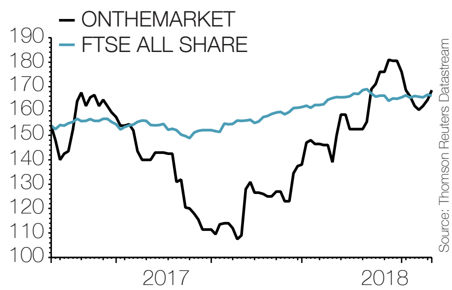
OnTheMarket is offering discounted fees to get agencies on board. Research house Edison recently reduced its forecast ARPA for the financial year to January 2019 from £176 to £163.

Spriggett tells *Shares* the company can develop an 'attractive revenue and profit model' by offering core listing services at a 'sensible, fair price'.

He says: 'There are two scenarios. If we're not able to break into Rightmove's dominance, then that's bad news for every portal including Zoopla as Rightmove will suck in every spare pound the agents have but we could develop a credible alternative.

'We need to put estate agents in a position to contemplate less reliance on Rightmove and to do so we need match as far as possible their market coverage and that's what we're driving ourselves towards,' he adds.

Investors can therefore judge OnTheMarket's progress by its coverage of the market, while Rightmove's ability to drive further growth will be reflected in the ARPA figure. Rightmove is next set to update the market with its first half results on 27 July. (TS)



Understanding the different types of stock market announcements

Do you know the different types of RNS news and how each one is relevant?

Among the benefits of investing in a stock market-listed company is transparency. All London-listed firms are required to report important bits of information which could have an impact on their share price in a timely fashion.

If you've ever wondered what the different types of announcements mean, read on as we'll explain the importance of the main ones.

Most companies communicate with the market through the Regulatory News Service (better known as RNS) – a service owned by the **London Stock Exchange (LSE)**.

Close to 300,000 announcements are processed by RNS each year and more than 70% of all regulatory and potentially price-sensitive UK company announcements originate from RNS. Alternative distributors of regulatory news include PRNewswire, GlobeNewswire and BusinessWire.

Rather than go to each distributor's own website to find the announcements, the easiest way is to use a specialist financial data website such as Sharesmagazine.co.uk (click the 'Market News' tab). Here you find all the main announcements in a single place.

The bulk of the announcements will be made at 7am which gives investors one hour to digest the news before the UK stock market opens. However, further announcements do trickle out throughout the day, albeit you'll find that very few of these will relate to financial results or trading updates.

WHAT HAS TO BE DISCLOSED AND WHEN?

When, why and how companies update the market is governed by a series of rules from the Financial Conduct Authority, the London Stock Exchange and European Union.

The central point is a company must notify through an approved regulatory information service like RNS any inside information relating to the company.

For an item of news to be classed as 'inside information' it must meet the following criteria:

- Be of a precise nature and specific to the company
- Not be generally available
- Be likely to have a significant effect on the price of the shares (be price sensitive) if it were generally available

These are not always hard and fast rules – a 10% movement either way has been used as a rule of thumb for a 'significant' effect on a share price but the FCA has historically been very clear there is no '10% rule'. A company will usually consult with its stockbroker to determine whether information is price sensitive.

A company needs to ask: would a hypothetical 'reasonable investor', out to maximise their economic self-interest, be likely to use the information in making their investment decision?

Relevant information could include:

- Changes to a company's financial position
- A significant improvement or deterioration in trading
- A major new development such as a big contract win
- A change in the value of a big asset

Information must be released as soon as possible. When news is unexpected, say for example a contract has been lost overnight or a company has been affected by a natural disaster, they can delay for a short time to establish all the facts.

However, if there is a risk that information leaks to the market then a holding statement will need to be made with as much information as possible.

A company can also hold off if putting news out would prejudice its 'legitimate interests'. However, it needs to ensure it has taken steps to keep the details confidential.

If a company is in financial difficulties, for example, and is negotiating with lenders then it could delay announcing it is having these discussions. Yet it would still need to announce that it was having financial problems.

In theory the rules help ensure a level playing field for investors and prevent unscrupulous individuals from taking advantage of insider knowledge to trade the shares before information becomes more widely known.

WHAT IS NOT INCLUDED IN RNS ANNOUNCEMENTS?

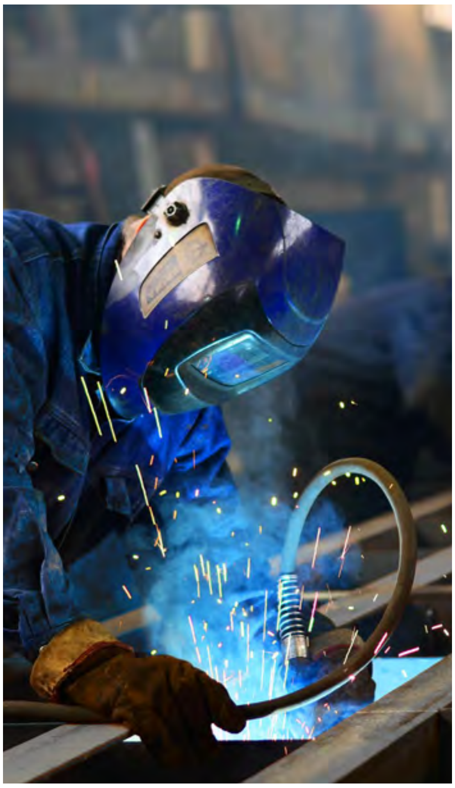
Companies do not have to make an announcement in response to unsubstantiated rumours but if speculation hits the mark, then they need to rapidly consider if inside information should be released.

Outside of explicit guidance given on trading in updates and half year/full year results, some companies will give analysts some guidance in private to help them come up with earnings forecasts.

The rules say that just because information is unpublished it doesn't make it inside information. Companies can offer a steer to analysts so long as what they're telling them wouldn't be price sensitive because, for example, it revealed a big decline in sales.

THE MAIN TYPES OF RNS ANNOUNCEMENTS

TRADING UPDATE



Trading updates are your chance to discover the latest health of a business. They are often short in length but can have a major influence over the direction of a share price.

Investors want to know if trading is above or below or in line with market expectations. These events can often be triggers for analysts to downgrade or upgrade earnings forecasts which in turn help to influence current market sentiment.

For example, many investors like to buy into stocks which have had their earnings forecasts upgraded, even if the share price has already moved upwards off the back of the trading update. In this situation, investors hope that positive trading momentum will continue.

You can find earnings forecasts on various media or financial data websites such as Reuters, Stockopedia and SharePad, although some will require a subscription for access.

Some companies don't like issuing announcements every time they win a new contract, so trading updates can often be the perfect time in which to bundle up this information.

COMPANIES CAN BE FINED A LARGE AMOUNT OF MONEY FOR INFERIOR DISCLOSURE

There are consequences for failing to meet the required reporting standards. Last year, FTSE 100 mining firm **Rio Tinto (RIO)** was fined £27m for breaching its disclosure and transparency rules by failing to write down the value of its Mozambique mines in its half year results in 2012.

WATCH THE WORDING CLOSELY

Trading updates can also be important lead indicators for potential future problems. Watch out if a company says that trading is 'broadly' in line, as this implies it isn't quite as good as expected and needs an improvement to hit forecasts for the full year.

The same applies to companies which say trading is 'second-half weighted'. That means they expect to make more money in the second half of their financial year than the first. Ultimately it raises the risk of a profit warning if the second half doesn't play out as expected.

Finally, it is worth noting that 'interim management statement' is simply another term for trading update. Companies also use terms such as 'operational update'; or in the case of mining companies, 'production results'. The latter will give you an insight into how much material has been produced but you have to wait until full or half year results to get financial information.

FINAL / INTERIM RESULTS

Financial results are very important as they give you a full breakdown of how a company has earned its money, plus most stocks will give you insightful commentary on how they are coping with challenges and embracing opportunities.

Yet it is vital that you understand the stock market is forward looking and full year results are the presentation of historical information. The market is MORE interested in the outlook statement in a set of results than the numbers themselves.

That's not to say the historical numbers are irrelevant; far from it. The financial review section should give you a breakdown of costs and the key drivers of profit (or loss) plus commentary on dividends and debt.

The consolidated income statement will show you the breakdown of revenue, expenses, profit, finance costs and tax. The consolidated balance sheet shows a breakdown of assets into intangibles (like brands), property, plant and equipment, deferred taxation assets, trade and other receivables and cash. You will also see a breakdown of equity and liabilities.

Other important bits of information include the cash flow statement and footnotes which will explain any exceptional items and information on borrowings.

Just in case you didn't know, final refers to the full year and interim means half year.

ANNUAL REPORT

Annual reports tend to be published a few weeks after full year results come out. The stock market announcement is usually just a link to read the report.

The report itself should provide insight into a company's strategy plus provide additional information not in the full year results such as how much money the directors are paid.

DIRECTOR/PDMR SHAREHOLDING

These announcements can be a bit complicated to read as they are usually in table format and contain loads of technical information.

In a nutshell they are telling you if a director of a company has bought or sold shares. They reveal the price and the number of shares in the transaction.

It is rare to see a reason behind the transaction. Typically the only explanations given are that the director is selling shares to pay a tax bill or to buy a house. In our experience, it's also often down to someone getting divorced or they've simply been given shares as part of their bonus payment and want to cash out and spend the proceeds on themselves.

Director dealing announcements are worth tracking as a large purchase or sale can send a strong signal to the market. After all, these directors are the ones who should know a business the best and they have the inside track on whether things are going well or not.

The PDMR bit in the announcement refers to 'person discharging managerial responsibilities'. It is either a director or a senior executive who has regular access to inside information about the business.

Trading by connected persons such as a director's husband or wife will also be subject to these types of announcements to the stock market.

HOLDING(S) IN COMPANY

This tends to appear in a table format and shows the name of a company or person buying or selling shares in a stock where they have a holding of 3% or more.

These announcements provide insight into whether someone is building a stake in a business, such as an activist investor who could help to realise hidden value in a stock, or someone who could potentially make a takeover bid down the line.

AGMs / EGMs

Annual general meeting (AGM) announcements often include a trading update so are well worth monitoring. The results of AGMs are also important to follow as you will see if shareholders have voted for or against remuneration deals and the current structure of the board.

Emergency general meeting (EGM) announcements are very important as they often involve a major shareholder calling for changes to the board or to vote against the company's strategy. It tends to be a matter that is too serious or urgent to wait until the next AGM.

INTENTION TO FLOAT / AIM SCHEDULE 1

These announcements tell you which companies are set to join the UK stock market, either on AIM or London's Main Market.

Most companies going to the Main Market will issue an intention to float announcement. They normally issue a subsequent announcement confirming the float price – or you'll perhaps get the indicated float price range prior to final pricing for the largest companies.

AIM companies have a mixed reputation with issuing intention to float announcements. A lot of them will only issue the obligatory Schedule 1 announcement which is a standard form giving scant details on a company intending to carry out an initial public offering (IPO). (DC/TS)

The popular ways for grandparents to invest for their grandchildren

Should you go for a Junior ISA, a child's pension, a bare trust or buy Premium Bonds?

Grandparents looking to set money aside for their grandchildren have a wealth of options available to them. From Junior ISAs to children's pensions and even Premium Bonds, there are a number of ways to help young relatives to start saving.

Among the most popular are Junior ISAs, which were introduced in 2011 to replace Child Trust Funds and provide a tax-free place to save for young people.

Parents and grandparents can save up to £4,260 a year into these wrappers, choosing either to invest the money or keep it in cash. The benefit of the latter is that young people often have access to better interest rates – the current best rate is 3.5% – but investing the money can reap greater rewards over the long-term based on historical performance trends.

HOW DOES A JUNIOR ISA WORK?

Only a parent or legal guardian can open a Junior ISA for a child but, once the account is open, anyone can make contributions.

If you invested £4,260 each year from when your grandchild was born and the money grew at 6% a year, they would have nearly £140,000 by their eighteenth birthday.

INVEST THE MAXIMUM EACH YEAR WITH A JUNIOR ISA:

£4,260
per year from a child's birth at
6% annual return

=

£135,898
by the time they turn 18

Brian Dennehy, managing director at Fund Expert, says: 'It's great to get children into the savings habit early and it can be good fun for grandparents and children to choose funds and watch their money grow together.'

For grandparents who want to save more, a bare trust has no maximum investment limit. These are typically set up through a financial adviser and grandparents and parents are named as trustees of the account and run its investments, with the child getting access to the funds when they reach 18.

This is the downside of both the bare trust and Junior Isa, however: at age 18 the child will take over the account and be able to access the money to do with it what they want.

Tom Stephenson, adviser at Courtiers Wealth Management, says at this point a financial adviser would normally discuss with the child their options and what their needs and objectives are. 'We usually find they want to keep it invested for the long term,' he reveals.

But this is not always the case and many grandparents may worry their grandchild may be tempted to use the money for something frivolous rather than keep it invested or use it as they had originally intended.

Investing into a pension to ensure a better retirement is a comforting prospect but the downside is that it is likely grandparents won't get to see their grandchildren enjoy the investment

TAKING THE PENSIONS ROUTE

While most people won't start to think about pensions until they are in full-time work, setting one up for your grandchild can be a good option for grandparents who would prefer that the money isn't accessed until much later.

You can save up to £2,880 a year into a children's pension, which will receive a 20% top up to £3,600 from the Government.

Stephenson adds: 'Investing into a pension to ensure a better retirement is a comforting prospect but the downside is that it is likely grandparents won't get to see their grandchildren enjoy the investment.'

INVESTMENT IDEAS

Regardless of the investment vehicle, grandparents choosing funds with which to grow young people's money can afford to take on more risk than they might for themselves.

Young savers have a long time horizon in which to ride out any ups and downs in the stock market so can choose racier funds where the potential gains could be greater.

Dennehy likes **Liontrust UK Smaller Companies (GB00B57TMD12)**, a fund which focuses on smaller British businesses such as recruitment firm **Robert Walters (RWA)** and engineering company **Renishaw (RSW)**.

The fund has returned an impressive 141.1% over the past five years and, if you had invested £4,260 in it for the past 18 years, it would have grown to an incredible £409,979.

Dennehy also likes **Schroder Recovery (GB00B3VVG600)**, a fund which looks for out-of-favour companies that the managers believe are on the brink of a turnaround. Current investments include banks **Barclays (BARC)**, **Royal Bank of Scotland (RBS)** and **HSBC (HSBA)** as well as mining firm **South32 (S32)**. The fund has returned 60.3% over the past five years.

Mike Deverell, partner at adviser firm Equilibrium, says grandparents who would prefer not to actively manage an investment portfolio should simply choose a low-cost global tracker fund such as **DB-X Trackers MSCI World Index ETF (XWLD)**.

He says: 'If you are investing for the long-term then a diversified global equity fund is a good choice, especially if you are investing regularly. The time horizon of a Junior ISA means you can ride out the ups and downs.'

For those who don't want to invest, Premium Bonds are an alternative option. Grandparents can buy Premiums Bonds for a grandchild and will look after them until their 16th birthday, receiving notifications for any prizes won. You can invest between £100 and £50,000 and prizes in the monthly draw range from £25 to £1m.

Savers have a 24,500 to 1 chance of winning for each £1 they have invested. The chance of scooping the £1m prize jackpot is almost 1 in 36bn – significantly worse than the odds of winning the National Lottery, which are 1 in 14m – but NS&I estimates the annual interest achieved on Premium Bonds is 1.4%.

Failure to win a large prize and only collect a return equal to 1.4% would ultimately mean you are getting less than the rate of inflation with Premium Bonds. (HB)

High-earners face last chance to net £40,000 annual allowance

And discover why the average proportion of income to be paid in tax is falling

It might not feel like it, but the average rate of tax paid in the UK is actually falling.

According to the latest Government data, the Treasury is set to inhale a mind-boggling £185bn from income tax receipts in 2018/19, up marginally from the £178bn it collected in 2015/16.

But the average proportion of income each of us hands over to the taxman is expected to hit 16.7% in the current tax year – lower than the figure recorded three years ago (2015/16: 17.2%).

This trend has been driven by a couple of policy initiatives.

Firstly, rapid rises in the personal tax-free allowance since 2010 mean in 2018/19 no tax will be due on the first £11,850 you earn this tax year – although this tapers away for those with taxable incomes above £100,000.

Secondly, the basic rate 20% band has widened in recent years, lowering the amount of income taxed at the higher 40% rate.

Even the country's highest earners – those with gross incomes of £150,000 or more – have only seen moderate rises in their tax rates in recent times.

However, the imposition of the annual allowance 'taper' in 2016/17 will likely see the tax burden on those in the 45% additional-rate tax bracket increase – particularly as the ability to 'carry forward' the pre-taper £40,000 allowance shortly disappears.

UK TAX BANDS SINCE 2010

	Personal allowance	Basic-rate tax band	Higher-rate tax band	Additional-rate tax band
2010/11	£6,475	£6,475 - £43,875	£43,875 - £150,000	£150,000+
2011/12	£7,475	£7,475 - £42,475	£42,475 - £150,000	£150,000+
2012/13	£8,015	£8,015 - £42,385	£42,385 - £150,000	£150,000+
2013/14	£9,440	£9,440 - £41,450	£41,450 - £150,000	£150,000+
2014/15	£10,000	£10,000 - £41,865	£41,865 - £150,000	£150,000+
2015/16	£10,600	£10,600 - £42,385	£42,385 - £150,000	£150,000+
2016/17	£11,000	£11,000 - £43,000	£43,000 - £150,000	£150,000+
2017/18	£11,500	£11,500 - £45,000	£45,000 - £150,000	£150,000+
2018/19	£11,850	£11,850 - £46,350	£46,350 - £150,000	£150,000+

CARRY FORWARD – THE LAST CHANCE SALOON FOR HIGH EARNERS

Under carry forward, pension savers can utilise unused annual allowance from up to three previous tax years in the current tax year. This means someone entitled to a £40,000 annual allowance who hasn't paid into a pension in the last three years could pay £160,000 into a pension this year without paying any tax.

However, those hit by the taper will only be able to carry forward with reference to their tapered annual allowance. This could be as low as £10,000 for those with total income of £210,000 or more.

The current tax year (2018/19) therefore represents the last opportunity for those affected by the taper to carry forward up to £40,000 of annual allowance from 2015/16 (the year before the taper kicked in).

For more on how the annual allowance taper could affect you, read here: **www.sharesmagazine.co.uk/article/beware-the-pension-tax-taper-trap**

The story behind this small cap investment trust's consistent outperformance

Neil Hermon's growth at a reasonable price approach is paying dividends for long term shareholders of Henderson Smaller Companies

Henderson Smaller Companies Investment Trust (HSL) is managed with aplomb by Janus Henderson's Neil Hermon. He has outperformed the Numis Smaller Companies benchmark in thirteen of the last fourteen financial years.

Boasting £845m of assets under management, the trust aims to maximise shareholders' total returns by investing in a portfolio of UK-quoted smaller companies. Hermon defines UK smaller companies as those found in the Numis Smaller Companies Index, a cohort of companies below £1.3bn in market value.

The trust's latest results, covering the half year to November, revealed a 5.8% net asset value (NAV) total return compared to the 2.2% return from the benchmark, with Henderson Smaller Companies also raising the interim dividend by 20% to 6p. This built on the 20% increase in the dividend to 18p for the financial year ended 31 May 2017, which marked the company's 14th consecutive year of dividend growth.

GROWTH, BUT GARP

'Investing in equities is about growth,' says Hermon, turning to the fund's investment philosophy. 'It is about the future, but we are growth with value. I remember the tech bubble – you have to have the bedrock of value.'

Hermon stresses the trust's investment managers are very long-term in their approach, avoiding unnecessary portfolio turnover and with an average holding period of five years. 'And we're very much driven by meeting management teams,' he continues, estimating that his team sits down one-to-one with around 400 companies per year.

Hermon will add stocks to the portfolio that have good growth prospects, sound financial characteristics and strong management, but at a valuation level that does not reflect these strengths. Likewise, he employs strong sell disciplines to dispose of stocks that fail to meet these criteria.

THE QUEST FOR QUALITY

Hermon is on a quest to buy quality companies with above-average growth potential. 'We define the quality criteria by what we call the "4Ms",' says Hermon.

He looks at a company's business model; its economic franchise, competitive advantage and pricing power. Secondly, he assesses the management team. Next is money, by which he means the strength of the balance sheet and cash flow. Last is earnings momentum – the ability to beat market expectations and maintain earnings growth into the future.

Henderson Smaller Companies Trust recently invested in video games group Team17

A prime example of a classic '4Ms' stock is **Victrex (VCT)**, the high-flying polymer specialist which Hermon notes 'I've owned since day dot, since I rocked up here at Henderson in 2002'. A world leader in high performance polymer solutions focused on the automotive, aerospace, energy, electronics and medical markets, Victrex has 'pricing power with high returns, is very well invested, has good cash flow characteristics and it also has momentum' according to Hermon.

Scouring the market for quality stocks that are reasonably valued on a variety of metrics Hermon believes he will always be able to unearth value and add value among a small and mid-cap universe of 1,000 stocks.

'Turnover is relatively low in our portfolio,' he stresses. 'We have about 100 stocks and we only add about 20 new stocks a year. We've got time to weed out these opportunities in the market.'

PORTFOLIO REPLENISHMENT

Initial public offerings (IPOs) are a good source of opportunities for Henderson Smaller Companies Trust, which has bought into seven new issues over the past 12 months and two so far in 2018.

These include **IntegraFin (IHP)**, the company behind the Transact investment platform which 'has a very good market position and is very profitable and cash generative' and **Team17 (TM17: AIM)**, the video games label behind the iconic *Worms* franchise. 'The business generates a good amount of cash and we think it will exceed market expectations,' Hermon says.

One of 2017's IPO picks was **TI Fluid Systems (TIFS)**. Despite being a global leader in the manufacture of highly engineered automotive fluid storage, carrying and delivery systems for light vehicles, TI Fluid Systems is according to Hermon 'under-covered and under-owned, trades on sub-7 times earnings with a 10% free cash flow yield and a 4% dividend yield.'

DON'T CATCH FALLING KNIVES

Fervently-focused on quality, Hermon is at pains to point out 'we don't tend to catch falling knives – you get your fingers sliced off'. When the investment thesis for a stock does change materially, he'll ruthlessly eject it from the portfolio.

Conviviality, the drinks distributor which collapsed earlier this year, was sold on the first out-of-the-blue earnings alert. 'We felt that the profit warning was so fundamental to our investment case that we sold the shares immediately,' recalls Hermon.

Despite a strong track record, the trust trades at a discount to net asset value. Hermon notes this discount is narrowing and says: 'Maybe it is the perspective of illiquidity on the investments or the higher risk of smaller companies.'

Also weighing on sentiment towards smaller company trusts are the uncertainties arising from Brexit and the fragile UK consumer environment, but Hermon counters 'we've got a pretty broad diversification of investments in the portfolio and around half of the portfolio company's sales go into international markets.'

When Hermon inherited the trust, the dividend amounted to a mere 0.5p a share. 'Now, fifteen years on, it is 19p per share. There's been a 38-fold increase in the dividend over that time. It reflects the underlying growth at the companies I invest in. This is not a yield stock, but what you do get is very fast dividend growth,' he explains. (JC)

TOP TEN HOLDINGS
AS AT 30 APRIL

3.2%	Bellway
2.5%	Intermediate Capital Group
2.3%	Renishaw
2.3%	Melrose Industries
2.3%	Paragon Banking
2.2%	Cineworld
2.1%	Victrex
2.1%	Clinigen
1.7%	John Laing
1.7%	Dechra Pharmaceuticals

Source: Janus Henderson Investors

Why the G7 and global trade talks really do matter

Will Trump drain the world of dollar liquidity upon which it is reliant?

By Russ Mould, investment director, AJ Bell

Whatever investors think of US president Donald Trump, his theatrical exit from the G7 meeting in Quebec and subsequent barrage of tweets on trade policy, no-one can ignore him. And this is because the issue of trade and tariffs could have profound consequences, which in turn will have implications for asset allocation and how investors need to construct portfolios.

In this column's view, this is the case for three reasons:

- First, history suggests that no-one really wins a trade war. The introduction of the Smooth-Hawley Act in the US in 1930 is a good example. America's move toward protectionism prompted retaliatory measures from Europe and elsewhere. Global trade suffered as a result and a difficult economic (and financial market) environment was made substantially worse than it may have been otherwise.
- Second, tariffs and protectionism are inherently inflationary as the result is higher prices for consumers. Looking at this through the narrow prism of portfolios, this must be considered at a time when many investors still fear a downturn, even deflation, or at least seeking dependable income, and have sizeable allocations to bond funds and equity income funds that are packed with so-called 'bond proxies' as a result. If inflation really does take hold, they are the sort of asset classes that could do relatively badly, if history proves to be anything like a reliable guide.
- Finally – and this is where the economy theory comes in – president Trump's attempts to put 'America first,' run a trade surplus and reverse 47 years of economic history could have some very serious side effects, at least if the so-called 'Triffin Dilemma' has any say in it.

This is because the Trump plan would drain the world of the very dollar liquidity upon which it is reliant. It is already possible to see the effects of even a minor decrease in dollar liquidity (due to rising interest rates and a gentle withdrawal of quantitative easing in the US), given the carnage in emerging market currencies and financial markets. And that is happening after only a mild increase in the dollar's value and slowdown in supply growth.

MILD INCREASE IN THE DOLLAR HAS ALREADY HIT EMERGING MARKETS HARD

Source: Thomson Reuters Datastream, Bank of England

BIG DILEMMA

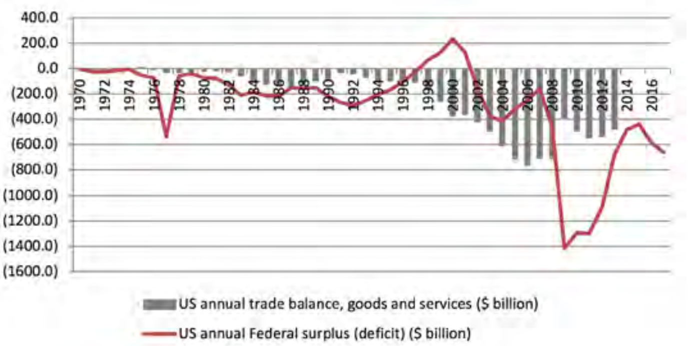
The current world monetary system was set up in 1971, when then-US president Richard Nixon and Treasury secretary John Connally took America off the gold standard, effectively killing the Bretton Woods system set up toward the end of the WW2.

That replaced the pound with the dollar as the globe's reserve currency, pegging other currencies to the dollar and in turn to gold, for which they could exchange greenbacks.

The idea was that America, the world's economic superpower, could not easily run a cheap dollar policy and export its way to total dominance or be fiscally imprudent at home. A soaring gold price (or tumbling dollar) would be the sign than the US was printing – and devaluing – dollars.

Just look at how the US trade and government deficits have mushroomed since Nixon took the hatchet to Bretton Woods.

TWIN US DEFICITS HAVE BALLOONED SINCE THE DEATH OF BRETTON WOODS



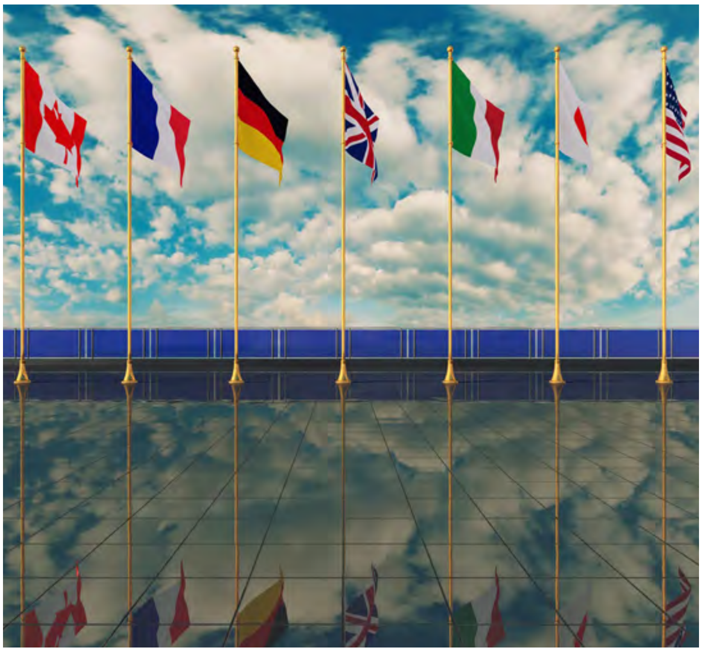
Source: FRED – St. Louis Federal Reserve database

Amazingly, Professor Robert Triffin foresaw all of this, arguing in a book he wrote in 1960 that the dollar's global reserve currency status would come at a cost – either to America or the world.

He argued that to provide the world with enough dollars, America would always have to run a trade deficit and import more than it exported, paying out more in dollars than it received, and run an ever-growing budget deficit for good measure.

America must therefore be – and remain – a debtor nation. This is all well and good while confidence in the dollar remains, lenders are happy to lend or hold US Treasuries and the US is happy to run a trade deficit.

But it becomes a problem if lenders lose faith (as they did briefly in 2008) or America's trade policy is changed.



ENTER POTUS

This is where President Trump comes in. If he is serious about turning America's trade deficit into a surplus then we will find out if Professor Triffin was on the money or not as global dollar supply returns to America, boosting the value of the buck and draining liquidity from the world economy and (probably more immediately) its financial markets.

If he backs off, America will continue to run huge deficits which will need to be funded – probably with more (and not less) QE, the direct opposite of the current market consensus, with all of its potential implications for the potential value of 'real' assets (precious metals, commodities, property and shares in cash-generative companies) rather than 'paper' ones (cash, paper promises to pay coupons on bonds).

DEMISE OF BRETTON WOODS HAS ALSO ALREADY HAD HUGE IMPLICATIONS FOR US INFLATION (AND THUS FINANCIAL ASSETS)

Source: FRED – St. Louis Federal Reserve database

SimplyBiz looks fascinating on paper... but is it a good investment at the current price?

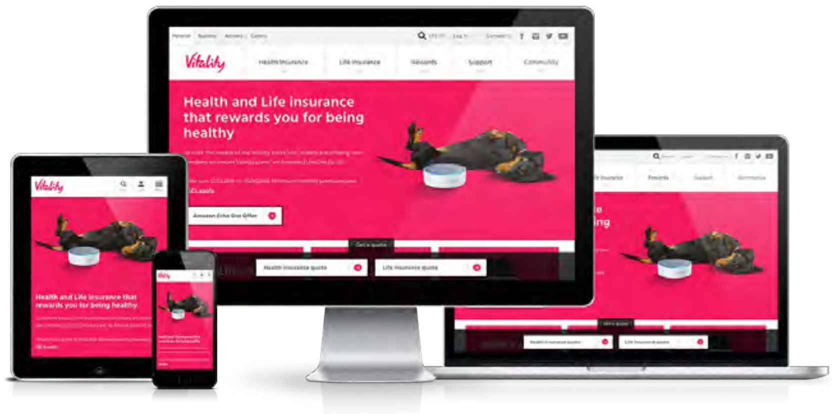
Linking up financial advisers with product suppliers can be a lucrative business

Fresh from joining the stock market in April 2018, shares in **SimplyBiz (SBIZ:AIM)** are starting to gain traction as more people become aware of its story.

The £137m business provides compliance and business support services to over 3,400 UK directly authorised independent financial advisers (IFAs). It is a beneficiary of changing regulation and has a high quality earnings stream with 92% recurring revenue – i.e. sales from the same underlying customers each year for the same services.

There are around 12,000 licensed IFAs practicing at the moment, sitting between product manufacturers (such as asset managers) and the end customers. The market of IFAs is split between those who are members of networks and those who are directly authorised.

SimplyBiz offers help to advisers looking to become directly authorised as it's a complex process involving the Financial Conduct Authority, a regulator. Those seeking accreditation need to provide a five year business plan, cash flow forecasts as well as a compliance monitoring plan. SimplyBiz has helped over 3,000 clients to become directly authorised to date.



Vitality is an example of a company using SimplyBiz's services

REGULATORY DRIVERS

One of the main challenges in the industry is ever increasing regulation such as the updated Markets in Financial Instruments Directive (MiFID II). This European Commission rule has brought new responsibilities to both the manufacturers and the distributers of financial products.

Matt Timmins, co-chief executive officer of SimplyBiz, says 'regulation is a real friend to our business'. Part of his company's offering is advising its clients on regulation.

SimplyBiz offers a manned helpdesk that its clients can call if they have any queries over the rules of doing business.

While regulation is a key driver of SimplyBiz, it sits inside the intermediary services division of the business. The company is split into two divisions; the other being its distribution channels business.

While the two segments bring in roughly the same amount in revenue, it is the distribution channels business which generates the most earnings before interest, tax, depreciation and amortisation (EBITDA). For its full year 2017, the division accounted for 64% of group EBITDA.

SimplyBiz's distribution channels division provides marketing and promotion services to its clients. Timmins gives an example of insurer Vitality which uses sensors that monitor and will adjust insurance policies accordingly to its users' health.

Rather than have Vitality drive around explaining to thousands of IFAs individually the benefits of its system, SimplyBiz organises events where companies such as Vitality can present their complex products to thousands of advisers in one place.

Timmins sums up the business model saying the number of member firms drives the business. The more firms, the more support services they can buy and this enhances the value of its distribution channels arm.

WHO ARE ITS RIVALS?

The company's rivals include businesses owned by large players such as **Standard Life Aberdeen's (SLA)** Threesixty and **Aviva's (AV.)** Bankhall subsidiaries.

The presence of these FTSE 100 giants in the market doesn't seem to worry Timmins. He makes the point that IFAs don't just want one big provider to offer them all their products; his company has the flexibility to offer services from a variety of providers.

There are four companies on the UK stock market which have similar sources of revenue and operate on similar EBITDA margins to SimplyBiz and could therefore be seen as useful benchmarks. The relevant stocks are **Tatton Asset Management (TAM:AIM)** which owns Paradigm, a direct competitor to SimplyBiz; **Curtis Banks (CBP:AIM)**, **Mattioli Woods (MTW:AIM)** and **Mortgage Advice Bureau (MAB1:AIM)**.

SimpyBiz has its own asset management business with a range of investment funds marketed under the Verbatim brand. Money from IFAs using SimplyBiz's support services only accounts for 2% of Verbatim's total invested money. Fund managers which manage assets in Verbatim's funds include Liontrust, Architas and Sarasin.

SIMPLYBIZ: THE ACQUISITION MODEL?

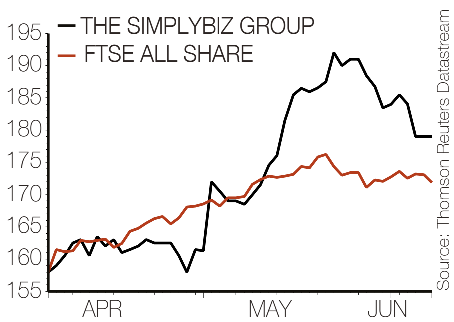
Zeus expects future acquisitions to match this criteria:

- **70%+ recurring revenue**
- **c15% EBITDA margin**
- **EBITDA £0.5m to £2.5m**
- **sub-15% cost synergies on full integration**
- **paying up to 8x EBITDA (implies £2.5m-£12.5m deal size)**

HOW MUCH MONEY COULD IT MAKE?

According to data from broker Zeus Capital, SimplyBiz had the largest market share of support services to directly authorised IFA firms by revenue in 2016, around 31%. Zeus also views that economic risk is low with the company, as its revenues are largely uncorrelated to broader themes such as interest rates, inflation rates and investment returns.

The broker adds: 'Arguably an economic slowdown may result in increased need for SimplyBiz's services by both intermediaries and financial institutions, as they focus on being more efficient.'



Zeus sees three main drivers of revenue growth: increased number of members; increased average subscriptions and fees paid by members; and increased use of distribution channels by members.

Other drivers include pushing up average revenue per members and money paid by financial services firms in support of accessing SimplyBiz members.

Adjusted pre-tax profit (i.e. excluding one-off items like IPO costs) is forecast to jump from £6m in 2017 to £10m in 2018 and £12.3m in 2019.

At 178.99p, the shares currently trade on 17 times current year's forecast earnings. The company floated on 16.3 times earnings and Zeus last month said you could make more than 20% total return each year if the stock continued to trade on that valuation multiple.

SHARES SAYS:

We think the valuation looks too rich at present given it has so much competition. However, there are interesting elements to the business and so we will watch for a better entry point and reconsider our stance should the valuation look more attractive in the future. (DS)

BROKER SAYS 1 0 0

Experts believe you could make 25% in a year with Quiz shares

Brand momentum is building at the occasion and dressy casual wear specialist

Growth-focused investors should keep the faith with fast-fashion brand **Quiz (QUIZ:AIM)** and buy at 173.5p. Broker Panmure Gordon reckons you could make just over 25% profit in the next 12 months with a 219p price target.

In a generally gloomy retail sector, we see scope for upgrades at the rapidly expanding occasion-to-dressy casual wear purveyor, whose brand benefits from celebrity collaborations and a marketing boost from social media influencers.

Full year results (5 Jun) from Glasgow-based Quiz revealed 30% group revenue growth to £116.4m, driven by strong growth across all channels. Gross margin was north of 60%, underlying pre-tax profit rose 20% to £9.8m and Quiz declared a 0.8p dividend payment.

Operational highlights included rapid growth in the active online customer base, up 87% to 370,000. Online revenue grew by 158% to £30.6m, driven by own site sales and 'exceptional demand' for the brand across third party sites including **Next (NXT)** and first international online partner Zalando.

Quiz is extending the product range online, with recent successful examples including the Curve, Bridal and Quizman ranges.

The results reveal that Quiz currently operates 71 standalone stores and 147 concessions in the UK, including concessions in ailing department stores **Debenhams (DEB)** and House of Fraser.

Yet encouragingly, at a time when many retailers are closing stores, Quiz sees scope for more stores and is even looking to open slightly bigger outlets to accommodate a broader product range.

The business has been investing heavily in marketing which partially explains why profit growth hasn't matched the pace of revenue growth. Another reason is higher commission costs as a result of a greater proportion of sales being made through third parties. These have a higher cost

to serve than sales generated through its own websites.

April proved a tough month as UK retail sector footfall softened, hurting Quiz's UK stores and concessions. However the company experienced a strong recovery in May, attesting to the growing appeal of the Quiz brand.

Management are also excited about the opportunity in the US, where the brand sells in a number of stores including New York department store Lord and Taylor and a US website has also been launched.

For the year to March 2019, Panmure Gordon forecasts a surge in adjusted pre-tax profit to £12m for earnings of 7.4p, ahead of £15.1m and 9.4p for financial year 2020.

SHARES SAYS: ↗

Quiz looks attractive versus many quoted retail companies and we continue to have a 'buy' rating on the stock at 170.25p. (JC)

BROKER SAYS: 3 0 0

Wealth manager Frenkel Topping is investing for growth

Operating in a market with recurring revenues, this company grows predominately organically

Wealth manager **Frenkel Topping (FEN:AIM)** can genuinely be described as niche. Its clientele includes those who have life changing injuries as well as elderly patients who are under the supervision of the court.

The £34m company provides financial advice and asset management services to personal injury and clinical negligence victims.

Its results for 2017 released in April showed adjusted pre-tax profit growing by 73% to £2.6m, with c80% of its £7.3m revenue in the year classified as recurring.

Going forward, executive chairman Paul Richardson says he expects the size of the vulnerable client market to increase this year and for his company to at least grow in line with this increase.

The company is close to the decision makers who can impact the fortunes of Frenkel. For instance, in February last year, the Lord Chancellor got the insurance sector fired up with proposed changes to the Ogden Discount Rate, the rate at which compensation is calculated.

Richardson says Frenkel Topping is part of the Association of Personal Injury Lawyers Association working party committee on Ogden.

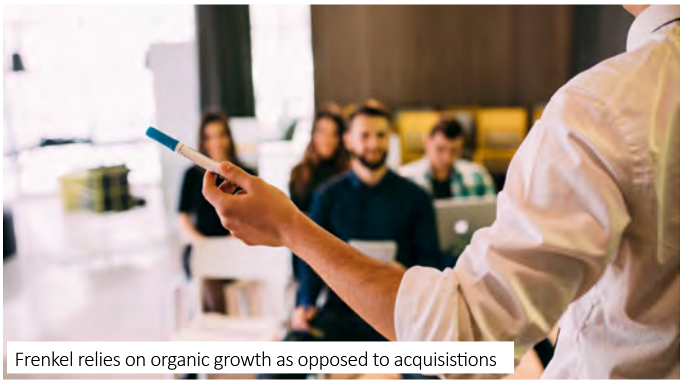
Frenkel Topping is highly cash generative; for 2017 it generated £2.1m of cash from its operations. It also reported a 32% operating margin, superior to its peers **AFH Financial (AFHP:AIM)** and **Harwood Wealth (HW.:AIM)**.

Although the company is investing in its business it is also a dab hand at spotting savings. When the company's chief investment officer Jason Granite left at the end of 2017, it formed its own investment committee within its renamed Ascencia Investment Management business to 'cost effectively fill the gap'.

Frenkel is also in a deal with Harwood Wealth which will provide portfolio research to the company through Harwood's subsidiary Wellian Investment Solutions. Again Frenkel believes this is more cost effective than appointing a new chief investment officer.

According to the company's house broker FinnCap, Frenkel trades on a lower rating to its two closest peers, which it has worked out to trade on an average 19.9 times forward earnings. Using FinnCap's forecasts, Frenkel trades on 13.6 times 2019's earnings.

Unlike some of its rivals, notably Harwood Wealth, Frenkel does not rely on acquisitions for growth, preferring instead to go down the organic route. In October 2017 it established the Frenkel Topping Training Academy which offers a two-year programme of training to support advisers on future growth.



Frenkel relies on organic growth as opposed to acquisitions

Jeremy Grimes, research director at FinnCap, says 'this is a highly valuable business and we set a 57p price target reflecting a high quality business in an attractive market'.

While there is minimal pre-tax profit growth expected in 2018, as a result of investment plans, the figure is forecast to go from £2.7m in 2018 to £3.1 in 2019 and £3.7m in 2020, according to FinnCap. (DS)

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KEY

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- **Fund**
- **Investment Trust**
- **Exchange-Traded Fund**