STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

HOUSEBUILDERS FAREWELL MEGA PROFITS?

THERE ARE WORRYING SIGNS THAT EARNINGS COULD COME UNDER PRESSURE

8.4%

OUR ANNUAL STOCK PORTFOLIO IS SIGNIFICANTLY BEATING THE MARKET

HOW TO SPOT FUNDS THAT AREN'T HUGGING BENCHMARK INDICES

Have you checked if your fund investments contain the same holdings?

Many investors may not realise their portfolios are over-exposed to certain stocks

Have you ever looked at a fund or investment trust's top 10 holdings and thought the list sounded familiar? There is a growing fear that too many funds are undifferentiated and investors may not realise they are exposed to the same underlying holdings if they hold multiple funds in the same space.

This week's *Funds* section in *Shares* looks at the concept of active share which shows how you can spot funds whose portfolios differ from the benchmark index.

Active share data won't help to spot funds which have similar holdings to another product, if all the holdings are different to the benchmark. Instead you'll have to do some homework yourself, both when making the original investment in a fund and on an ongoing basis.

CURRENT POPULAR HOLDINGS

Investment bank UBS issues a weekly publication which highlights the stocks that are most overweight and underweight by global active fund managers across different regions and countries.

It adds up the holdings in dollar value across all the active managers and calculates the weights of stocks in this active trading portfolio. It then compares this weight with the relevant equity index benchmark to form the active weight.

In the MSCI AC World index, the top five overweight stocks are currently Alibaba, Alphabet (Google's parent company), UnitedHealth, Microsoft and Visa. The top five underweights are Apple, Exxon Mobil, AT&T, Berkshire Hathaway and Johnson & Johnson.

A good example to explore is technology-dominant investment trust **Scottish Mortgage (SMT)** whose portfolio includes Amazon, Alibaba, Netflix and Tencent. Two of these stocks also appear in **Allianz Technology Trust's (ATT)** top holdings; and two appear in **Polar Capital Technology Trust's (PCT)** top holdings.

You may initially think all three portfolios have a lot of similarities because they contain well-known tech names, yet they also have a lot of differences including different names and also different weightings for the aforementioned shared interest stocks.

COMMON ISSUE WITH INCOME FUNDS

Many UK equity income funds have similar holdings such as **HSBC (HBSA)**, **Royal Dutch Shell (RDSB)** and **British American Tobacco (BATS)** as these are the obvious stocks with generous dividends in the FTSE 100.

If you hold numerous income funds in your portfolio, there could be a high chance you have significant exposure to these stocks.

That reduces diversification and means you double up, or even triple up, on certain names. If something goes wrong with one or two of these names, it could result in a knock for your overall portfolio.

One way to avoid this situation is to use Morningstar's X-Ray tool which lets you evaluate your overall asset allocation and sector weightings as well as uncover concentrated positions. Morningstar charges for this service but you can get it for free with some investment platform providers including AJ Bell Youinvest. (DC)

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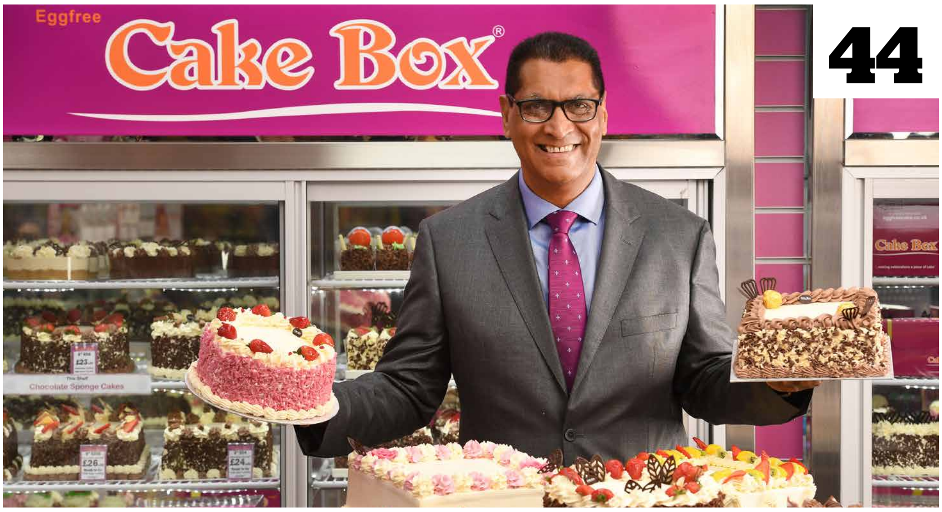

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BROKER RATINGS EXPLAINED:

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.

Should investors be concerned about China once again?

Debt, trade and growth concerns in the world's second largest economy were a catalyst for market sell-offs in 2015 and 2016

The tension on trade provoked by a more belligerent and protectionist administration in the White House is proving to be a dominant theme for investors in early 2018.

While this has led to some volatility in Western markets the impact has been more pronounced in Asia.

The Hang Seng index in Hong Kong is at a 10-month low, the Shanghai Composite Index is bumping around close to its lowest levels in more than two years and the Chinese yuan has been on a downward spiral since mid-June.

The markets are getting particularly jittery ahead of a 6 July deadline when the US is set to impose tariffs on $34bn worth of Chinese goods, with Beijing poised to respond in kind.

Concurrently fears are being raised about rising debt levels in China and the economy's transition from export-driven growth to being more centred on domestic demand.

WHY YOU SHOULD CARE

This matters to investors around the world. Two of the biggest global stock market sell-offs in the last decade have resulted from creeping concern about China. It happened first in August 2015 and then in early 2016 as the value of shares and other riskier assets like commodities crashed.

The chart showing the FTSE 100 against the exchange rate between the yuan and US dollar shows how the tumbling Chinese currency was a warning sign for market volatility in late summer 2015 and again less than six months later.

Economic research consultancy Capital Economics does not think there is cause for genuine alarm at the moment. 'The current weakness in China's financial markets has more to do with worries about China's economy than the trade spat with the US.

'Barring significant negative surprises, however, we do not think there will be the same ramifications for the rest of the world as there were a few years ago.'

However, given past experience it would be sensible for investors to keep a close eye on this issue.

In particular, it is worth monitoring the mining sector for early signs of problems given how this industry is highly dependent on commodities demand from China.

'We continue to expect a slowdown in demand in the coming months in response to more than 12 months of negative broad credit growth, but at this stage the evidence looks fairly thin on the ground,' says Liberum mining analyst Richard Knights.

'Consumer demand indicators such as appliances and vehicles are weak but housing construction, the most significant driver of Chinese commodity demand, has accelerated since the beginning of the year. At the same time, credit growth has missed market expectations significantly in three of the past six months as the shadow banking crack down constrains lending.' (TS)

Amigo's IPO success implies investors haven't lost interest in sub-prime lending

Loan company with a difference takes the market by storm with London share flotation

Lending to sub-prime candidates is big business but comes with equally big risks. High-profile problems with doorstep lender **Provident Financial (PFG)** may have reduced investors' appetite for the sector, yet the stock market flotation of another loans business, **Amigo (AMGO)**, is good reason to reappraise this space.

Amigo has pioneered a new business model which keeps the interest charged within reason but also still lends to the sub-prime market. It is now the market leader in this area.

The loan agreement is signed by a borrowers' guarantor in addition to the primary borrower. The guarantor will have a good credit rating, will possibly be a homeowner and will make a pledge to make the payments on the loans if the borrower fails to keep up.

Amigo will typically charge an interest rate of 49.9% APR with a maximum loan payout of around £10,000. The rate is considerably lower than many of its rivals which works in Amigo's favour as it is seen as a more responsible lender and also more consumer-friendly compared to some high-cost short-term credit providers. Half of its new loans in the year to 31 March 2018 were made to repeat customers.

Shares in the £1.5bn company have so far risen by 14% to 314.75p since floating on 29 June 2018.

Demand for unsecured lending in general has risen due to population growth, economic growth, low interest rates, falling levels of unemployment and a recovery in consumer confidence, says Amigo.

The non-standard finance market accounts for 20% of the UK adult population. This is broken down into adults that are credit-impaired, have low credit status or no credit history, or are higher indebted.

These individuals are defined as near-prime, non-prime or sub-prime depending on their credit worthiness. Sub-prime is mainly someone with a poor credit history or who is judged to be a potentially high risk for default probably due to having a low income.

It shouldn't come as a surprise that many sub-prime lenders run with comparatively high impairment rates. For instance **Non-Standard Finance's (NSF)** rate of impairments for 2017 was 24% of revenue. Provident's impairment charges came in at 40% of revenue.

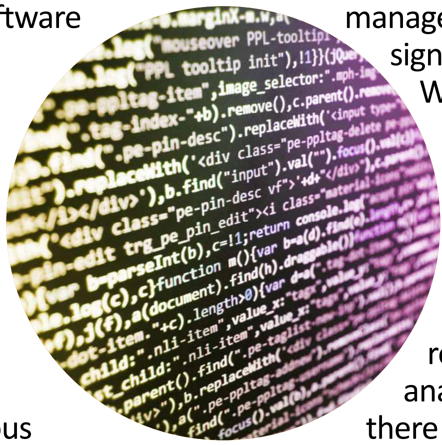
In contrast, Amigo's impairment in the year to March 2018 was 21.3% of revenue – a considerable jump from 9.5% in 2016 and 6.8% in 2017. It attributes this jump to the introduction of pilot lending in June 2016 which is loans that don't pass the scorecards it uses for core loans.

In order to reduce its arrears, Amigo has recalibrated some scorecards, limited eligibility for repeat loans for higher risk customers and reduced the maximum loan size in certain circumstances.

Non-Standard Finance last year acquired a similar business to Amigo called George Banco, complementing its existing TrustTwo business which uses the guarantor system. George Banco was ranked the number two player in this market. (DS)

SUSE sale sparks hopes of hefty value return for Micro Focus shareholders

A possible 295p per share payout could help rebuild investor faith



Shareholders in infrastructure software company **Micro Focus (MCRO)** could be in line for a return of value worth up to 295p per share, worth almost a quarter of the value of the current £12.77 share price.

This is the amount being modelled by analysts at broker Numis following the FTSE 100 software company's $2.5bn sale of its SUSE business to private equity firm EQT.

The SUSE operation provides various open source tools for the enterprise market. It was acquired in 2014 by Micro Focus as part of its $2.35bn deal to buy Attachmate.

At the time SUSE contributed around 20% of Attachmate revenues. Subject to shareholder approval, the sale of SUSE is expected to complete in early 2019. If it does it would 'demonstrate management's ability to generate significant value,' says Numis analyst Will Wallis.

He is not alone in highlighting an impressive return on capital for shareholders of this deal.

'The valuation is ahead of our sum of the parts estimate and represents a good deal all round,' says George O'Connor, analyst at broker Stifel. 'We think there will be a return of value to compensate investors for the dismal share price performance this year,' adds O'Connor. We don't yet know if any return would be in the form of a special dividend or share buyback or both.

Micro Focus's shares had previously slumped from levels near £19.00 in March after reporting integration issues with its HPES acquisition. (SF)

FTSE on course for record dividend payments

But the number of times dividends are covered by earnings is still less than optimal

THE LATEST AJ Bell Dividend Dashboard report shows FTSE 100 constituents are on course to pay out a record £88.8bn in dividends this year.

This total is dominated by three big companies. Between them, **BP (BP.)**, **Royal Dutch Shell (RDSB)** and **HSBC (HSBA)** are expected to account for 29% of the total dividend payment.

All these dividends are denominated in dollars and the 8% year-on-year growth is largely driven by the weakness of the pound aganst the US currency.

The average dividend cover for the FTSE 100, showing how many times dividend per share is covered by earnings per share, is improving at 1.75 times, up from 1.71 times at the end of the first quarter.

It has not hit two times, which as a rule of thumb is considered an optimal level, since 2014.

The 10 highest yielding stocks have average cover of just over 1.29 times. (TS)

Ariana unveils punchy exploration target for Turkish project

Ariana Resources (AAU:AIM) reckons it could have up to 2.7m ounces of gold and 16.1m ounces of silver in its Salinbas project in Turkey, which would represent one of the largest precious metal exploration assets of any miner on AIM.

This is only a target at present and is dependent on lots of exploration drilling proving that the company's forecast is correct.

The project is next to the high grade Hot Maden asset previously part-owned by Mariana Resources and the reason why Sandstorm Gold bought that company in 2017.

Ariana must clear some hurdles such as permitting to undertake drilling in forestry grounds, plus potentially find a partner who could help fund exploration.

By way of comparison, **Arc Minerals (ARCM:AIM)** last week declared a 3m ounce resource on its Akyanga gold project. **Chaarat Gold (CGH:AIM)** has a 6.4m ounce gold project in the Kyrgyz Republic.

What could falling population growth mean for the UK economy?

IN THE 12 months to June 2018 the UK population hit 66m, up 0.6% year-on-year according to new figures from the Office for National Statistics (ONS).

However, this rate of increase was the slowest since 2004 and in London growth almost halved due to a significant decline in the net inward flow of overseas citizens.

The ONS cited the Brexit vote and its fallout as one of the drivers of this trend. Population growth can influence economic growth but the two are not always closely correlated.

HORNS OUT ON THIS NEAR-RECORD BREAKING BULL RUN

THE CURRENT BULL run in UK equities is closing in on its 10 year anniversary, chalking up just over 3,400 days and a 133% return since kicking off in March 2009.

That makes it the second longest since the FTSE All-Share index was established in the 1960s, behind only the 3,863 day ride higher between November 1987 and June 1998.

A bull run is a financial market in which 'prices are rising, especially over a long period of time', according to *Financial Times*.

'The nine previous bull runs lasted for an average of 1,200 days and offered an average capital gain of 143%,' according to numbers crunched by Russ Mould, investment director at AJ Bell.

Snap up digital economy winner IMImobile for potential big gains

Online and mobile marketing solutions player has consistently outperformed

Global commerce is increasingly shifting to online and smartphone applications and we anticipate **IMImobile (IMO:AIM)** will be a long-run digital economy winner.

The multi-channel customer engagement, marketing and commerce specialist is separated from its rivals thanks to a superior track record of consistency.

It has racked up growth in revenues, earnings before interest, tax, depreciation and amortisation (EBITDA) and pre-tax profit, all while throwing off impressive amounts of cash.

'IMImobile is one of the most consistent performers in its peer group, mainly reflecting its geographic and sector spread, strong software products, and business-to-business focus,' is how one analyst describes the company.

Full year results to 31 March 2018 were in line with already upgraded forecasts, showing revenue up 46% to £111.4m.

The fact it only managed 7% organic growth was largely down to challenging markets in the Middle East and Africa offsetting much better performances across the US, Europe and the Far East. Adjusted EBITDA of £13.4m was up 17% year-on-year and also beat consensus estimates.

IMIMOBILE ↗ BUY
(IMO:AIM) 275p
Stop loss: 220p

Market value: £171m

IMImobile has been consolidating its position in the UK cloud communications space and growing its international operations through acquisitions.

Infracast, Sumotext and Healthcare Communications have been bought during the past year or so, adding considerable scale, bolstering financial services and healthcare expertise and allowing greater cross-selling across its client estate. Customers include **Vodafone (VOD)**, **BT's (BT.A)** EE business, British Gas-owner **Centrica (CNA)** and IBM.

Buying businesses does come with associated costs and IMImobile must constantly invest in its technology platform to keep it top notch.

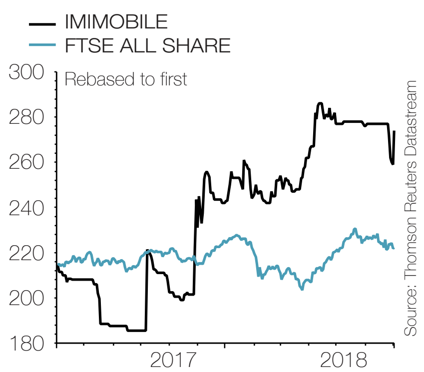
It's also worth noting the company's habit of making hefty payments in stock, and while that has no effect on cash flow, it does help to explain the gap between adjusted and reported profit, which was £10.1m versus £2.7m last year respectively.

On 3 July it bought Canadian mobile engagement solutions provider Impact Mobile for £15.8m, a significant deal in terms of strengthening its footprint with North American mobile operators, retailers, government agencies and major household brands. That should equal more cross selling opportunities down the line.

The acquisition adds an extra £1.2m to forecast pre-tax profit both this year and next, according to Investec's estimates, to £13.1m and £14m respectively. That implies a price-to-earnings multiple of nearly 19 falling to 17.6, hardly demanding by digital economy growth stock standards.

Investec calculates the stock will hit 400p over the next 12 months, implying 45% potential upside. (SF)

BROKER SAYS: 2 0 0



Team17 could be a superb way to play soaring demand for video games

There is scope for significant upside at the newly-listed video games developer

With the initial hype surrounding **Team17's (TM17:AIM)** stock market flotation dying down, now is a good time to take a position in the video games outfit.

The stock rocketed on the 165p issue price in May to hit a high of 270p but has now settled at the 250p mark. In *Shares'* experience of previous successful IPOs (initial public offerings), the share price tends to fall back after an initial surge and then moves higher again as short term traders are replaced by longer term investors.

The launch of Team17's next title *Overcooked 2* will happen in August, and with significant potential upside to forecasts from new releases and penetration of the Chinese market, we think this looks an exciting story.

WHY IS IT ATTRACTIVE?

Independent developers like Team17 are enjoying a purple patch, with many more titles coming to market thanks to greater availability of game engine software and the digital distribution of games.

According to house broker Berenberg, the company has delivered growth four-and-a-half times faster than the global video games market and more than three times that of large publishers between 2015 and 2017.

TEAM17 BUY
(TM17:AIM) 250p
Stop loss: 150p

Market value: £328m

It also enjoys better earnings before interest and tax (EBIT) margins than much of its peer group at around 37%.

These qualities come at a cost, with the shares trading at 28.7 times Berenberg's forecast 2019 earnings per share. We're happy to pay this premium rating given the growth on offer and the scope for positive surprises with forecasts pitched at a conservative level.

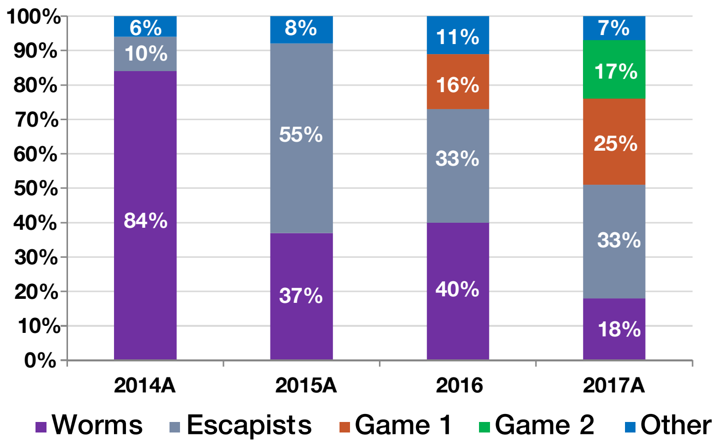
WHAT DOES IT DO?

Long-time gamers may be familiar with Team17 thanks to its successful *Worms* franchise in the 1990s which remains popular today. The company is also one of the most well-established industry names.

In 2011 it reached an important point in its development as chief executive Debbie Bestwick and finance chief Paul Bray completed a management buyout around the launch of its Team17 Games Label.

This is essentially a platform which allows independent developers to bring their games to market under a revenue sharing model. The company is selective about the games which it promotes with only 1.5% of prospective games reviewed

INCREASING DIVERSIFICATION



Source: Berenberg estimates

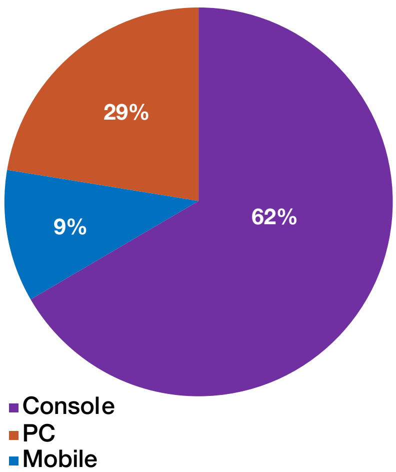
making it on to the Games Label.

This incubator model has helped diversify the portfolio of games such that the *Worms* franchise has gone from accounting for 80% of group revenue in 2014 to just 18% by 2017.

Around half of its revenue comes from its back catalogue of purchase-to-play games and its titles typically require limited development and marketing spend. Games are released online and are often marketed through social media rather than more expensive routes like TV.

In addition there are opportunities to launch sequels as well as to release them on new platforms like smartphones or different games consoles, for example.

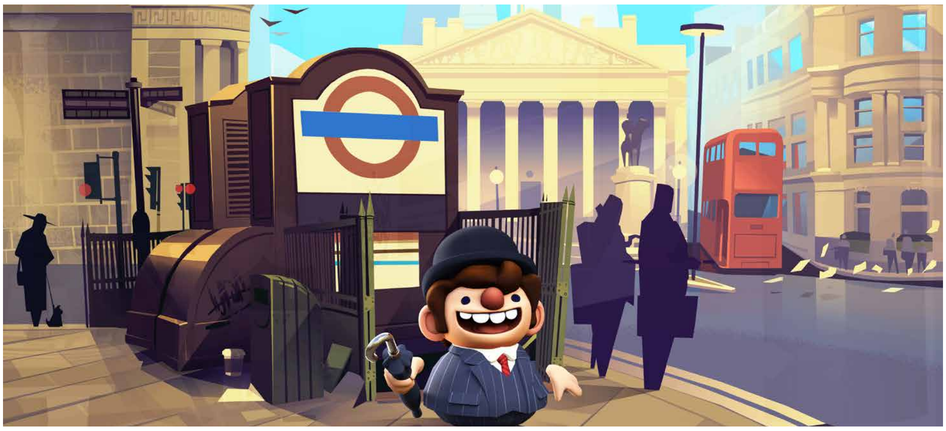
REVENUE BY PLATFORM



Source: Berenberg, Team 17

INFLECTION POINT IN ITS GROWTH

Berenberg comments: 'With a back catalogue of successful titles to provide a supportive platform, new titles from previous franchises and newly signed Games Label titles coming to market in 2018 and 2019,



Team17 has entered an inflection point in growth, profitability and market presence.'

The company has a strong balance sheet and is forecast to end 2018 with net cash of £15m. The IPO saw it raise £45m in new money via a heavily oversubscribed placing. Existing shareholders also sold circa £62m of stock as part of the listing.

The directors believe the listing will help Team17 to invest in future expansion, retain its independence, enhance its profile and provide the ability to incentivise existing and future staff.

Among the risks associated with investing in the business is the reliance on CEO Bestwick who is closely involved in the decision to green-light games. She may not have as much time to devote to this process as she has historically enjoyed and there is always a chance that she might leave the business.

Mitigating this, the company has a lot of experienced people involved in this selection process.

Demand for games could also be affected by any weakening in the economy, however many of Team17's games are available at relatively low price points compared with blockbuster titles and often benefit from a cult or niche audience.

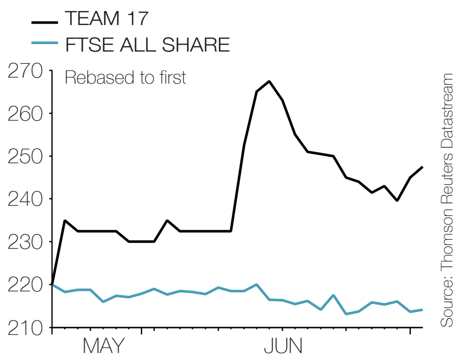
EARNINGS PROFILE

Fundamentally this looks like a great business which should appeal to investors who like fast growing small caps. Adjusted pre-tax profit is forecast to triple between 2016 and 2018, from £4.1m to an estimated £12.5m. This figure is then expected to hit £13.8m in 2019.

Berenberg believes there is scope for Team17 to materially beat current earnings estimates if it achieves success in Asia and gets a higher return on its new label titles.

'By partnering with the highest-quality developers and titles on a revenue share arrangement, its model can scale more quickly than traditional game publishers,' says the investment bank. (TS)

BROKER SAYS: 1 0 0



DIVERSIFIED GAS & OIL
(DGOC:AIM) 130p

Gain to date: 44%

Original entry point:
Buy at 90p, 22 February 2018

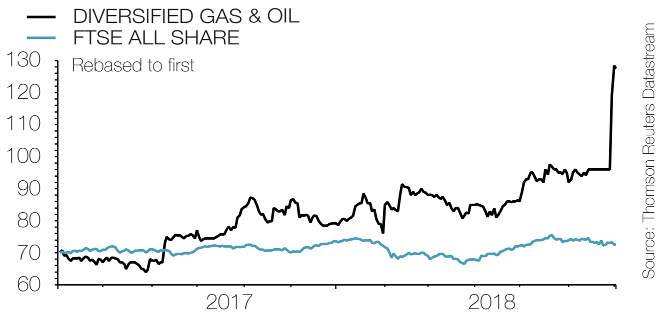
OUR POSITIVE call on AIM oil producer **Diversified Gas & Oil (DGOC:AIM)** continues to be rewarded with the company completing its largest acquisition to date (29 Jun).

The $575m acquisition of assets from shale producer EQT is located in the company's traditional base in the Appalachia basin and is expected to double output to 60,000 barrels of oil equivalent per day.

Sums by analysts at banking group Mirabaud suggest the deal will more than treble annual earnings and more than double the dividend payout with the market value of the group hitting $823m at the current share price.

The deal is being funded by placing $250m worth of new shares at 97p but shareholders are at least being heavily compensated for the resulting dilution. Back of an envelope calculations suggest the company could offer a dividend yield of nearly 7%.

This transaction is consistent with the company's strategy of acquiring conventional (mainly) natural gas assets from big operators who are more interested in chasing the higher volumes associated with shale deposits.



SHARES SAYS:

Diversified is building a large production business underpinning a very generous dividend policy. The only question is whether there are further deals available to drive growth but we remain fans for now.(TS)

BROKER SAYS: 1 0 0

ERGOMED
(ERGO:AIM) 177.3p

STOPPED OUT

Original entry point:
Buy at 227p, 24 May 2018

PHARMACEUTICAL SERVICES specialist **Ergomed (ERGO:AIM)** has crashed out of our *Great Ideas* portfolio after various delays hit sales.

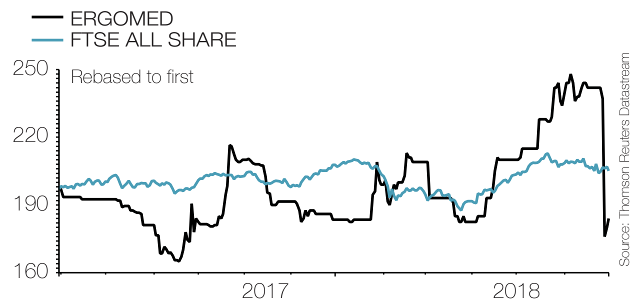
In a trading update on 28 June, Ergomed revealed delays and reduced scope for the size of certain contracts, meaning 2018 revenue would be approximately 5% lower than market expectations.

The company said adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) are forecast to be 'only modestly ahead' of £2.8m delivered in 2017.

The market didn't like the news, resulting in a 30%+ decline in the share price. In turn, our stop loss was triggered so our trade on Ergomed is automatically closed out.

Numis analyst Stefan Hamill says contract delays are a frequent occurrence in the contract research organisation business.

Hamill has downgraded net service revenues by 5% to £46.5m and says the sum of the parts valuation moves to 250p.



SHARES SAYS:

We are clearly disappointed by the setback, particularly as we've only recently added to the stock to our *Great Ideas* portfolio. Longer term we still believe the company will be a big success but appreciate short-term that sentiment may continue to be negative until Ergomed can prove that contract delays aren't a recurring problem. (LMJ)

BROKER SAYS: 1 1 0

PPHE HOTEL
(PPH) £14.58

Gain to date: 3.4%

Original entry point:
Buy at £14.10, 28 June 2018

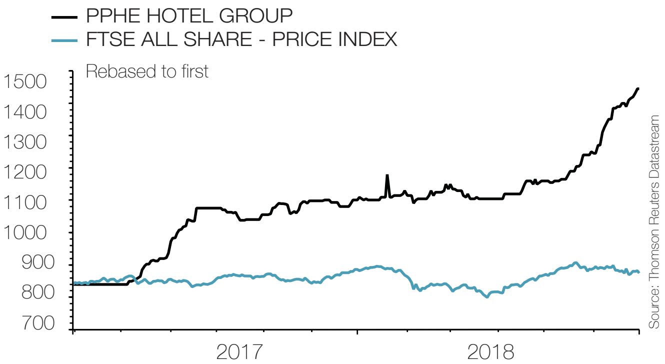
INVESTORS MAY STILL be undervaluing hotel developer **PPHE Hotel (PPH)** after Savills reported a £639m increase in the group's property value compared to book value.

PPHE operates the Park Plaza hotel chain in Europe via an exclusive licence from hotel group Radisson. It also owns the art'otel brand and has a 52% stake in Croatia-based Arena Hospitality.

The company has set its sights on a premium listing on the London Stock Exchange which should see it qualify for the FTSE 250 index in the near future, thus forcing tracker funds to buy the stock. The listing transfer should happen on 30 July.

FinnCap analyst Guy Hewett has lifted his target price by 6.5% to £20.63, arguing the biggest hikes in the latest valuation appraisal emerged from PPHE's Hoxton development, which was previously included at cost, and properties in Amsterdam. Currently its most valuable European hotel is the Park Plaza Victoria Amsterdam at €167m.

The analyst is confident about PPHE's future as it has £240m in unrestricted cash, offering significant firepower to finance growth.



SHARES SAYS:
We remain upbeat thanks to the company's exciting pipeline opportunities and strategy to refurbish existing accommodation. The transfer to a premium listing should also benefit the share price. (LMJ)

BROKER SAYS: 2 0 0

XPS PENSIONS
(XPS) 181p

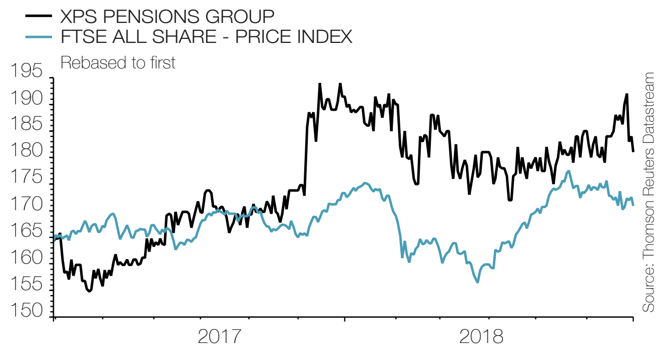
Gain to date: 11%

Original entry point:
Buy at 163p, 31 August 2017

THE PENSIONS ACTUARIAL, consulting and administration business previously known as Xafinity has published a decent set of full year results with £64m revenue and £17.9m adjusted pre-tax profit, the latter beating stockbroker Zeus's £17.3m forecast.

Its results were helped by the acquisition of Punter Southall in January. 'We hoped the addition of one plus one would equal a bit more than two and that's been the case with putting together Xafinity and Punter Southall,' says co-chief executive Paul Cuff.

He says there are certain areas where both businesses are stronger than the other, thus creating opportunities for cross-selling work. For example, the old Xafinity business has historically excelled with mass communications for pension schemes and the recently enlarged group has already won new work in this area from 'a very large' Punter Southall client.



SHARES SAYS:
The stock now trades on 17.7 times forecast earnings for the current financial year. While that may look rich, we think it is justified given the defensive nature of XPS's earnings.

All of its activities have to be done on a regular basis regardless of whether the UK economy is doing well or badly. Investors should enjoy capital gains plus a rising income stream with the shares currently yielding a prospective 3.8%. (DC)

BROKER SAYS: 1 0 0

8.4%

AVERAGE GAIN VS 0.6% FROM THE MARKET

Second quarter update on our

2018 SHARE PORTFOLIO

Our top picks for 2018 have on the whole enjoyed a superb second quarter, reversing the first quarter's losses to now stand significantly ahead of the market.

The average gain from the portfolio is now 8.4% versus a mere 0.6% from the FTSE All-Share over the same period. This is a dramatic turn of events considering we were down by 8.4% on average at the end of Q1.

As a reminder, towards the end of December each year we pick various stocks in the belief they perform well over the following 12 months.

STOCKS IN FOCUS

The best performer in our 2018 portfolio is currently **Alliance Pharma (APH:AIM)**, up by 58% to 97p. Its latest trading update revealed good growth from international brands Kelo-cote and MacuShield with overall trading in line with expectations.

Last month, morning sickness drug Diclectin was given the green light by regulatory authorities. Alliance Pharma expects approval to sell the product in the UK shortly. Numis analyst Sally Taylor believes the drug – which has been licensed by Alliance Pharma from Canadian group Duchesnay – has sales potential of over £20m over five years, potentially hitting £40m in peak sales in the longer term.

And on 19 June Alliance Pharma announced plans to acquire exclusive marketing rights to anti-dandruff shampoo brand Nizoral for £60m. It says the deal will materially enhance earnings in its first full year of ownership.

AB DYNAMICS LOOKING GOOD

Shares in **AB Dynamics (ABDP:AIM)** have burst back to life and are now 37.9% ahead of our entry point. The company recently won its first order for an advanced vehicle driving simulator, validating more than two years of development work with Williams Advanced Engineering.

Half year results published in April included 39% increase in revenue to £15.3m with chairman Tony Best saying the business had seen 'an excellent start' to the financial year.

Our performance is now significantly better than the broader UK stock market

CHARTER COURT IS ON A ROLL

Challenger bank **Charter Court Financial Services (CCFS)** is enjoying strong upwards share price momentum and our trade has now increased by 33.9% in value since we said to buy last December.

A first quarter trading update in May showed 28.2% year-on-year increase in its loan book to £5.5bn, plus customer deposits increasing by

***SHARES*' 2018 PORTFOLIO**

Company	Entry price (p)	Price now (p)	% gain / loss
Alliance Pharma	61.38	97	58.0
AB Dynamics	942.5	1300	37.9
Charter Court Financial Services	251.88	337.15	33.9
Future	394.88	522	32.2
Johnson Matthey	3066	3564	16.2
Biffa	253.38	252	-0.5
Dixons Carphone	190.35	187.8	-1.3
Sage	785.5	619.4	-21.1
DotDigital	97	75	-22.7
Dignity	1691.5	863.5*	-49.0
AVERAGE			**8.4**
FTSE All-Share	**4146.97**	**4171.2**	**0.6**

Entry prices taken 19 Dec 2017. Latest prices taken 2 July 2018
*Exited trade 29 March 2018

16.2% to £4.3bn. Total Bank of England Term Funding Scheme drawings at the end of the quarter stood at £1.1bn.

'Despite competitive pressure in the group's core specialist mortgage market, we believe that the group's highly efficient operating model, backed by its quick decision-making engine and well capitalised balance sheet, means that it is well placed to continue growing profitably and taking share,' said Shore Capital analyst Gary Greenwood in May.

FUTURE HAS LEGS

Just as we hoped it would, publisher **Future (FUTR)** is keeping up the momentum it showed in 2017.

Results for the six months to 31 March revealed revenue up 25% to £51.1m. This was supported by M&A as the company feeds newly acquired titles into its transferable platform.

The publisher of *Total Film* and *Tech Radar* confirmed alongside the first half numbers that it was considering resuming dividends at its full year results in November.

SOME OF THE REST

Johnson Matthey (JMAT) continues to defy predictions of going ex-growth with its clean air business. Tighter emissions regulation should allow the business to grow at low double digits for at least the next four years, say analysts.

It is also making progress with its enhanced lithium nickel oxide material which could potentially disrupt the electric vehicle battery market. It's been a good portfolio performer for us with 16.2% gain to date.

Dixons Carphone (DC.) is also holding up relatively well despite several bits of negative news in recent months. A profit warning in May was followed by news of a cyber attack which saw a data breach involving payment card and personal data records.

THE LAGGARDS

Sage (SGE) started 2018 full of promise that it was finally about to accelerate growth yet the confidence shareholders invested in the accounting and enterprise software tools provider has so far proved mis-placed.

Organic growth remains stubbornly hitched to the 6% or so levels it has been doing for years and several analysts see little hope of that changing in the near future.

Sales execution and intense competition seems to be behind this sluggishness. The former is within management's control, the latter may prove to be a more belligerent challenge.

Multi-channel digital marketing business **DotDigital (DOTD:AIM)** has been bogged down by short-term growth concerns, largely relating to new data regulations called GDPR which came into force in May.

Interestingly, new features released this year include things like the right to be forgotten, which should make its platform more, not less, relevant to modern marketeers.

The share price has remained out of favour since February's half year results, but a trading update due in the next few weeks may well be the catalyst to put investor concerns to bed.

BIFFA BOUNCES BACK

Our patience with **Biffa (BIFF)** is starting to be rewarded with the waste expert recovering nearly all of its lost ground. Our trade was down 20.7% at the end of March as a result of a Chinese clampdown on importing certain recyclable materials which hurt Biffa's earnings. Now it is only down by 0.5%.

Fortunately the business quickly found a way to adapt its business and reported decent full year results in June. Stockbroker Numis last month noted some improvement in the recyclate pricing market and implied a continuation of this trend over the coming months may trigger some earnings upgrades.

AB Dynamics' testing systems in practice

HOUSEBUILDERS FAREWELL MEGA PROFITS?

THERE ARE WORRYING SIGNS THAT EARNINGS COULD COME UNDER PRESSURE

All economies experience recurring and fluctuating levels of economic activity over time, with the five main stages of the business cycle running as follows: growth, peak, recession, trough and recovery.

The business cycle is usually replicated in the stock market with the market going up when the economy is growing and going down when it is contracting.

Different types of stocks tend to perform well at different points in this cycle so having an awareness of where we are in the cycle could give you a material advantage as an investor.

We can see a number of signs that housebuilders are at the top of their cycle and earnings growth will be much harder to achieve from now on.

There is also an argument to suggest that engineers and electronic companies are trading on too rich an equity rating against their near-term outlook, earnings strength and position in their business cycle.

We will now explore the broader topic of cycles and look at various industries in more detail including a large section on housebuilders at the end of this article.

UNDERSTANDING CYCLES

Not all stocks are highly correlated to a cycle; defensive or non-cyclical stocks should experience steady demand regardless, while some firms benefit from a structural change unrelated to fluctuations in the economy.

Online retailer **ASOS (ASC:AIM)**, for example, continued rising through the last major recession 10 years ago as it benefited from an increasing shift for people to buy clothes over the internet.

Nonetheless, a lot of businesses have at least some exposure to what is happening in the wider economy. And investors should take particular note to where a particular company may be in the cycle as that can have an influence on the direction of a share price.

For example, a company experiencing earnings pressure could see its shares trade on a lower rating if analysts expect lower profits in the near future – something that is very relevant to the housebuilding sector at present.

LEADING INDICATORS

Calling where we are in the cycle is no easy task. Most measures of economic growth, including GDP, are lagging indicators so we can only identify the point at which the economy peaked in hindsight.

However, there are leading indicators which can at least help us make an educated guess. The stock market itself is a leading indicator as it reflects the expectations of lots of individual investors. Other closely followed yardsticks include purchasing managers' index data and surveys on consumer sentiment.

Most observers put us somewhere between the growth and peak phase. The current stock market cycle started at the beginning of 2009 as the global economy began to emerge from the most significant financial crisis since the 1930s.

Since the beginning of March 2009, the FTSE 100 has nearly doubled in market value and in the US the S&P 500 is up by nearly 300%.

There have been periods of volatility along the way, notably around the sovereign debt crisis in Europe in 2011 and 2012 and fears of a hard landing for the Chinese economy in 2015 and early 2016, but for the most part equities have enjoyed an upwards trajectory.

By some people's estimation, the bull market in the US is approaching a new record in terms of duration and seemingly stretched valuations are understandably making investors nervous, but some experts think it is premature to call an end to the growth phase.

THERE ARE STILL BELIEVERS IN GROWTH

Investment bank Jefferies produces a monthly 'Short Cycle Monitor' report focused on US industrial companies.

In the May edition it commented: 'Our analysts believe concerns around reaching cycle peaks are overblown and they believe there's further runway for growth and highlighted continued strength in underlying fundamentals, tight supply/demand dynamics, and management teams' confidence in recovering cost inflation with price.'

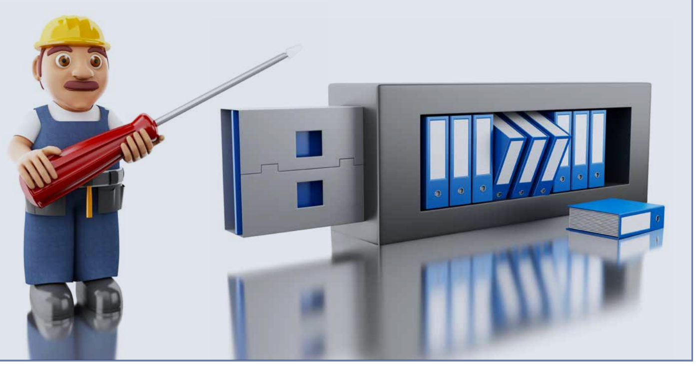
The follow-up report in June reiterated this belief and noted several of the leading indicators it followed had improved.

A key risk which could accelerate us towards a peak and ultimately recession is an escalating trade war provoked by more protectionist policies in the US. Understandably this issue is dominating the short-term direction of markets at present.

Investors should keep in mind that downturns can often be a lot briefer than rallies and it is important not to over-react when the cycle turns, or you could crystallise substantial losses before stocks have had an opportunity to bounce back.

And don't forget that different industries can perform in different ways at various points in the cycle so they all won't move in tandem.

ENGINEERS, ELECTRONIC HARDWARE SPECIALISTS AND PACKAGING COMPANIES – CLOSE TO TOP OF THE CYCLE?



BRITISH ENGINEERING APPEARS to be in rude health. Spin through the latest updates on trading prospects for most companies and you'll read upbeat, if not positively glowing, assessments.

Before you get carried away, take some time to look at the sector's position in the cycle. We think shares have got ahead of themselves and many engineers' valuations are too rich.

'We have seen robust growth in the first four months of the year in spite of the foreign currency headwind... the board now expects full year revenue to be higher than previously expected,' said **Bodycote (BOY)** at the end of May.

'Trading performance has exceeded expectations in the first quarter,' confirmed **Vesuvius (VSVS)** just a few weeks earlier, also taking the opportunity to upgrade full year 2018 guidance.

Forecasts for Bodycote, the heating and thermal systems engineer, have been upgraded at least twice this calendar year thanks to robust end market demand.

STRONG EARNINGS MOMENTUM

Analysts have been getting increasingly confident of earnings outperformance potential across the engineering sector since late last year.

In November investment bank UBS picked up on the trend, pointing out that eight out of 13 UK engineers had beat expectations on organic top line growth in the third quarter of 2017 (July to September). At the time they calculated average organic growth was running at 7%.

Unsurprisingly, this optimism has percolated from equity researchers to investors who have chased sector share prices higher. Both Bodycote and Vesuvius are currently trading at, or very close to, five year share price highs.

They are joined in hitting multi-year highs of late by actuators and flow controls manufacturer **Rotork (ROR)**, and values and pumps business **Spirax-Sarco (SPX)**; both of whom are enjoying renewed interest from the oil industry.

This is having the effect of stretching sector price-to-earnings multiples beyond the low to mid-teens averages you might expect for these typically cyclical businesses. Shares in Spirax-Sarco and Rotork are currently changing hands at 25 times forecasts earnings, according to Reuters data.

ENTERING LATE CYCLE TERRITORY

There is presently little hint that demand is drying up for most UK engineers, while analysts at JP Morgan, Jefferies and others believe there could be another year or two of economic expansion growth to come.

Joachim Fels, global economic advisor at Pacific Investment Management (commonly called PIMCO) feels similarly. But he does believe we are entering into late-cycle territory, a period when industrial companies often start to struggle.

'Industrials have historically been weakest very late-cycle when the ISM Manufacturing Index was under 55 and falling,' says asset manager Invesco.

The ISM is the US version of the UK's manufacturing PMI, or Purchasing Managers' Index. June's PMI came in below May at 54.0, versus 54.4, and the trend has been down since peaking in November last year at 58.3.

In May's update Bodycote management made the point that the business 'has limited forward visibility'.

Against investor expectations that are already high, there may be little scope for engineers' earnings outperformance to drive further share price gains, while a fall in demand could sharply slam the brakes on new contracts and hit market sentiment towards the sector.

VALUATIONS ARE LOOKING TOO HIGH

Share price re-ratings running ahead of earnings upgrades is becoming an issue for electronics hardware manufacturers too.

This was the bedrock of Goldman Sach's thesis in cutting its recommendation from 'buy' to 'neutral' on precision engineer **Renishaw (RSW)**.

Its products are used widely in aerospace, automotive, healthcare and other industrial markets.

'While the longevity of growth is still an open debate, we see limited scope for further outperformance,' said Goldman Sachs. Its analysts also turned neutral on industrial controls group **Spectris (SXS)** for the same reasons.

'Since adding them [Renishaw and Spectris] to the buy list on 12 December 2017, and 3 April 2018, respectively, the shares are up 14% and 25%,' the Goldman analyst explained. That compares with a -2% and 4% performance respectively for the FTSE World Europe index.

FEROCIOUS APPETITE FOR TAKEOVERS… TOP OF THE CYCLE BEHAVIOUR?

A final point to consider is a relative boom in mergers and acquisitions, and what that might tell us about a sector and valuations. The UK packaging sector's biggest player **Smurfit Kappa (SKG)** shot into the headlines recently after twice rebuffing takeover approaches from International Paper of the US, the world's largest paper and packaging supplier.

Packaging group **DS Smith (SMDS)** has also been getting increasingly active lately, including a recent €1.9bn deal to buy Europac and several other smaller deals over the last year or so.

'Record merger and acquisition activity is all well and good but they tend to occur near the top of stock market cycles, when animal spirits are running,' says AJ Bell's investment director Russ Mould.

ARE THE GOOD TIMES OVER FOR HOUSEBUILDERS?

THE HOUSEBUILDERS HAVE so far this year endured mixed fortunes in terms of share price performance and things got worse on 21 June when **Berkeley's (BKG)** influential chairman Tony Pidgley repeated a warning first given in December 2017 that profits at his company had peaked.

This was a significant moment for the housebuilding sector. 'History shows that when Pidgley acts, markets should listen,' says Mould at AJ Bell.

'Berkeley sold land and houses in the late 1980s in the view that the housing market had overheated and it was vindicated by the vicious downturn of 1990-92. The company began to build up its land bank once more, to the benefit of its balance sheet and shareholders alike. Berkeley isn't selling now but it is not seen to be a huge net buyer either.'

As companies rebuilt following the 2007 to 2009 crash, the performance of the housebuilding sector began to take off in the latter half of 2012. This chimed with their traditionally strong performance at the start of a cycle.

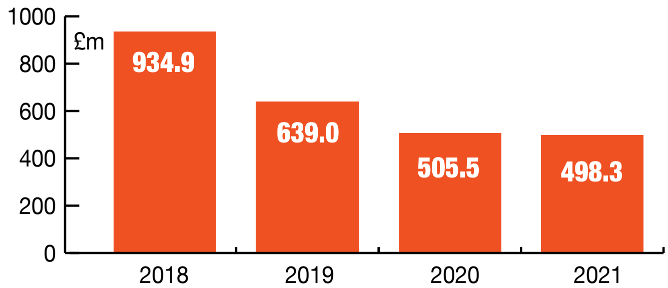
Arguably this outperformance has been extended through the cycle by low interest rates driving mortgage availability, a robust housing market, and Government support in the form of the Help to Buy scheme.

There are also undoubtedly strong dynamics behind the UK housing sector with the supply of new homes still failing to keep up with demand.

For this reason, the volume of houses built is unlikely to fall off a cliff. What is in question is how profitably these houses can be built.

Berkeley's pre-tax profit is forecast to fall by 32% in the year to April 2019 to £639m, before declining further to £505.5m in 2020 and £498.3m in 2021. That's quite a depressing earnings outlook.

BERKELEY: SHRINKING PROFIT OUTLOOK



Source: Shore Capital forecasts (2018 actual)

HOUSEBUILDERS PE AND YIELD		
COMPANY	Forecast PE	Forecast dividend yield (%)
Barratt Developments	7.9	8.5
Bellway	7.1	4.7
Berkeley	9.9	5.4
Bovis Homes	11.8	9.1
Crest Nicholson	6.1	8.4
Persimmon	9.4	9.1
Redrow	6.6	4.6
Taylor Wimpey	8.3	8.8
Source: SharePad, 28 June 2018		

HAS PROFIT NOW PEAKED?

The bar chart below shows the average margin performance for the sector's heavyweights between 2007 and 2017.

Margins are now substantially higher than they were in 2007 at the peak of the previous cycle.

The negative operating margin for the years immediately after this point reflects the fact many housebuilders racked up losses in the wake of the financial crisis.

But having bought land cheaply in the recession and then found support from aforementioned factors, profit, cash flow and dividends have all soared.

There have recently been signs that this positive picture is clouding over as house price growth stalls and costs begin to creep up.

Crest Nicholson (CRST), which operates at the high end of the market, warned on margins on 12 June and the same day **Bellway (BWY)** said it was offering incentives to help shift premium-priced properties.

The housing market is interconnected and margin issues at the top end could start to filter down the property chain.

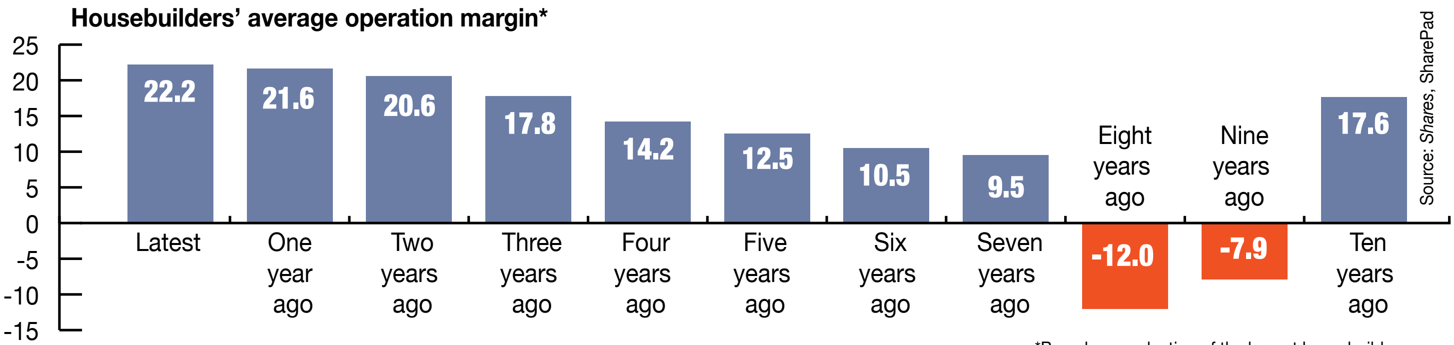
IS A MORE NEGATIVE OUTLOOK ALREADY BEING FACTORED IN?

Investors will want to know if this negative situation is already being priced in by the market. Looking simply at price-to-earnings (PE) ratios and dividend yields, you could be forgiven for thinking this to be the case.

The accompanying table shows the PE and dividend yield for the sector's main constituents. An average yield of 6.8% compares with around 4% for the FTSE 100.

However, on a price-to-net asset value (NAV) basis, typically a more reliable measure of value for housebuilders, sector constituents are trading roughly where they were in 2006 according to data from SharePad.

At that point **Redrow (RDW)**, for example, traded on a trailing price to NAV of 1.5-times compared with 1.6-times today.



*Based on a selection of the largest housebuilders

Berkeley's 2006 price-to-NAV was 2.27 times and is now 1.9 times; and **Barratt Development's (BDEV)** was 1.25 times against 1.2 times now.

However, even if housebuilders are cheap on certain metrics, weak sentiment could prevent this value being unlocked in the short-term. You have to remember that decent companies will struggle if their sector is out of favour. Likewise, bad companies can do well on the stock market if their sector is in favour.

Most housebuilders have struggled on the stock market this year with only two companies producing a positive share price return, being **Abbey (ABBY:AIM)**, up 4.7%; and **Springfield Properties (SPR:AIM)**, up 19.8%.

The rest have seen share price declines upwards of 38% in the case of **McCarthy & Stone (MCS)** due to a profit warning, or roughly 10% to 20% decline for most of the big names on the market.

The sector is struggling which suggests investors are starting to get nervous about housebuilders' prospects. We're very cautious about the sector and believe you should think seriously about taking profit.

Yes, these companies could still generate decent dividends in the near term and still make a profit – but the potential for a significant drop in profit makes us feel this is not a sector to own at present. Negative sentiment could be the overriding force and drag everyone down.

Get out, wait until the market has had time to price in lower earnings and there has been a natural rotation for investors out of the sector; and only then potentially consider buying back if valuations have dropped to really attractive levels. (TS/SF)

> **The sector is struggling which suggests investors are starting to get nervous about housebuilders' prospects. We're very cautious about the sector and believe you should think seriously about taking profit**

UK-QUOTED HOUSEBUILDERS: SHARE PRICE PERFORMANCE YEAR TO DATE

COMPANY	SHARE PRICE GAIN/LOSS
Springfield Properties	19.8%
Abbey	4.6%
Glenveagh Properties	-1.3%
Bovis Homes	-1.8%
Countryside Properties	-2.6%
Telford Homes	-6.2%
Watkin Jones	-7.0%
Persimmon	-7.1%
Cairn Homes	-9.3%
Berkeley	-9.7%
Taylor Wimpey	-13.0%
Bellway	-15.5%
Redrow	-17.9%
Barratt Developments	-19.9%
Crest Nicholson	-28.0%
McCarthy & Stone	-37.9%

Source: SharePad. Data 1 Jan to 29 June 2018

COULD INVESTORS START TO SHUN FOOD AND DRINK COMPANIES FOR HIGH SUGAR USE?

Some experts believe sugar could join the ranks of tobacco, arms and alcohol as no-go areas for ethical investors

The definition of ethical investing is changing. New investors are coming through the ranks with a different set of priorities from previous generations.

Historically, ethical funds have used a relatively simple screening process to determine which companies were eligible for investment, simply ruling out businesses involved in tobacco, arms and alcohol, for example.

But today's investors are increasingly interested in other issues such as climate change, corporate governance and health and well-being.

Experts say among the industries which could soon find themselves categorised among the so-called sin stocks are sugar-related companies.

Camilla Ritchie, investment manager at 7IM, says: 'I think sugar will be one of the next sin stocks, even if we are not focused on it yet.

'It could easily be picked up by ethical funds as the S or G part of ESG investing (which is considering environmental, social and governance factors when investing). Just as plastic has become something for ethical investors to think about, I believe sugar will too.'

REAPPRAISING SUGAR

Sugar businesses, it is thought, have an uncanny resemblance to tobacco companies in the past: they are selling highly addictive products which we are only now realising are bad for us.

Regulation in the sector is increasing as governments try to reduce the burden of healthcare costs for sugar-related diseases – it is already among the top causes of obesity and cancer.

Some 42 sugar taxes have already been brought in across the word while new guidelines mean nutritional labelling must be clearer than ever before. Some companies are already seeing sales slip as consumers opt for healthier alternatives.

Elly Irving, ESG analyst at Schroders, says litigation costs could also hit these companies in the future as they did with tobacco. According to the World LII legal database, nearly 350 lawsuits have been brought against the staples sector in the past three years.

Reputational damage is another risk for companies selling sugary goods – the Schroders Brand Index found fewer than 10% of consumers have a positive perception of product quality across five of the top eight fizzy drinks brands.

All of this creates significant headwinds to investing and the companies that don't adapt could struggle.

PRESSURE ON BUSINESSES

'There are a lot of parallels between the food staples and tobacco industries and there's a need for companies to adapt,' says Irving. 'The World Health Organisation has identified nine food categories that contribute the most sugar to kids' diets such as breakfast cereals and yoghurt and there could an issue for those companies.'

But many businesses are prioritising the situation, spending millions on research and development and reformulating products as well as acquiring smaller brands which have already developed healthier, low-sugar ranges.

Nestle has developed a new type of sugar granule which could reduce sugar in confectionery by up to 40%. **AG Barr (BAG)** has developed a version of its *Irn Bru* drink with half the sugar of the original.

Unilever (ULVR) – the firm behind *Magnum*, *Ben & Jerry's* and *Wall's ice* creams – launched seven low-calorie, high-protein ice creams after it was revealed to have lost market share to a new healthy ice-cream brand.

> **Sugar and tobacco aren't directly comparable. Arguably there isn't a healthy level of tobacco consumption but there might be for sugar**

WHAT DOES THIS MEAN FOR INVESTORS?

Investors are now looking more closely at food and drink companies. Fund manager Schroders, for example, is looking for companies who are transparent and explicit in their approach to sugar.

Irving says the change in consumer trends creates investment opportunities. For example, WhiteWave is the fastest growing US food and beverage company, and it focuses on healthy plant-based foods such as *So Delicious* dairy-free ice-cream and *Alpro* soy and dairy-free yoghurts.

Meanwhile, sales at companies such as McDonalds are falling. Schroders says some of the brands at the highest risk of the consumer focus on health and wellness are Coca Cola, chocolate maker Hershey, and Campbells Soup.

Matt Crossman, engagement manager at Rathbone Greenbank Investments, comments: 'We definitely see companies with the poorest performance around the issue of sugar, health and obesity as targets for exclusion.'

But he adds: 'Sugar and tobacco aren't directly comparable. Arguably there isn't a healthy level of tobacco consumption but there might be for sugar.

'We couldn't see investing in a company promoting traditional tobacco products as ever being acceptable in our portfolios, but a company committed to the UN goal of good health and wellbeing, making innovative, nutritious, healthy and delicious products would always be of interest.'

A NEW APPROACH

It is early days for investors looking to put these theories into practice. Crossman says companies which aggressively market unhealthy products to children, particularly those which use stealthy advertising through online gaming for example, could be ripe for exclusion.

And as businesses become more open about how they are tackling this problem, it may be easier to pinpoint those which don't fit with the ethical fund model. Sales data may, in the future, help analysts identify the proportion of profits a company makes from foods in breach of nutritional guidelines, for example.

Irving says: 'The demand for processed food and fizzy drinks is not going to disappear overnight; however, we do believe that consumer behaviour is changing and tastes are evolving.

'Big Food has been slow to adapt, focusing more on cost than innovation. Pressure from consumers, public health bodies and governments are changing the way investors need to think about the sector.' (HB)

Janus Henderson INVESTORS

Why the Tiger economies are poised to pounce

Mike Kerley, Fund Manager of Henderson Far East Income Ltd and Director of Pan Asian Equities at Janus Henderson Investors discusses how local Asian companies are challenging multinational brands and driving growth across the region.

After seven years of flat earnings growth, the Asian market is showing signs of life again. The Tiger economies are waking up and are on the prowl, led by a resurgent China.

Asian stocks, excluding Japan, outperformed the world in 2017 (see Chart 1) and many analysts believe the region is likely to continue its growth story through 2018 and into 2019, but of course analyst forecasts are by no means a guarantee of performance.

Asia has historically been geared into whatever the rest of the world has been doing because it was making products and selling it to the rest of the world. The region has done very well out of this but we think this story is at an end.

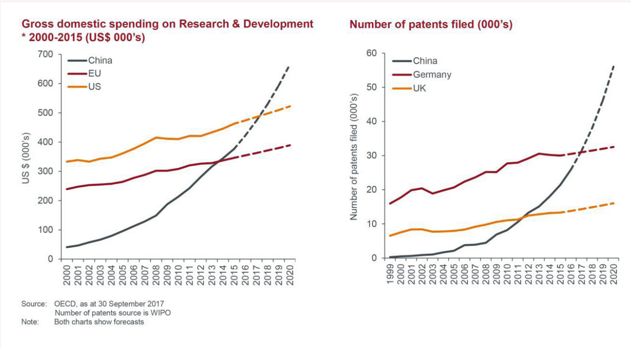
Firstly, low cost labour is not low-cost anymore – especially in China, where wage growth has been quite rapid. Secondly, Asia's market share of world-produced goods is so high they can't gain any more market share. As of May last year, Chinese companies accounted for more than 25% of the global manufacturing industry, while the country was the leading producer of 220 of the world's 500 major industrial products. (Source: Ministry of Commerce of the People's Republic of China, May 25, 2017).

In terms of growth, where does China go from here? Firstly, we think local brands will gradually eat into the market share of multinationals in local markets. The next growth leg of Asia will then come from increasing the value of the goods it sells to the rest of the world.

CHINA'S GROWTH STORY

Historically, Asia has generally been associated with low-cost manufacturing and consumer goods. That's changing. China is at the forefront of this change, and for the first time ever, we believe China will spend more on research and development (R&D) this year than the US and within five years we think it may spend more than the EU and US put together (see Chart 2). This is a huge shift and it's in new areas, like electric vehicles, renewable energy, healthcare, artificial intelligence and virtual reality – things we will embrace in years to come and have the potential to become part of our day-to-day lives.

Our belief that China will lead Asia's cutting-edge growth story stems from the increasing number of patents filed from the country, and across the Asian continent. Of course, filing patents does not necessarily equal growth or economic success. But as you can see in Chart 2, China is producing more robotics on an annual basis than South Korea and the US put together, and we believe the



Please note that this is a forecast. Actual future government spending on research and development and the number of patents filed from these countries may differ considerably.

efficiency of their manufacturing over time will continue to improve.

So, what does all this mean for investors? Historically, Asian growth has been accessible for investors via Western firms selling goods into the region – think HSBC, Louis Vuitton and BMW, for example. That's probably not the way we can look at it going forward. Local companies are targeting the market share of global brands as the quality of their goods and services improves.

The next step for local brands is to be competitive internationally. How many Chinese brands are we going to start seeing in our shops? Some brands already have a sizeable presence in Western markets. For example, Chinese video surveillance company Hikvision has grown to become the largest CCTV hardware provider in the world – although not many of us would recognise the name.

A more familiar brand, perhaps, is Alibaba: founded in 1999 as an e-commerce platform and has grown into a $480 billion organisation with a success story similar to US rival Amazon.

ECONOMIC AND POLITICAL HEADWINDS

Of course, the region's growth is still vulnerable to economic and political risks. The war of words between the leaders of North Korea and the US are a cause for concern. The relationship is blowing hot and cold but more recent developments have given us some encouragement that the situation is improving.

The US President's protectionist policies are a more immediate concern. His decision to impose a 25% tariff on steel imports and a 10% tariff on aluminium imports might cause some nervousness in the markets with talk of a 'trade war' doing the rounds. From China's perspective, however, exports have become less and less important to the national economy, dropping as a percentage of the country's GDP from 37% to 19.6% in the 10 years between 2006 and 2016.

In our view, we think this all points towards sustained growth in Asia, and that local companies will facilitate this growth, rather than Western brands selling goods into Asia. We believe there is significant earnings growth potential for local Asian brands and we hope this will be matched by dividends growth.

Second time lucky for music investor Hipgnosis Songs Fund?

The investment trust plans to pay its first dividend in November

It has been a year since **Hipgnosis Songs Fund** first announced its intention to float on London's Main Market. After a failed attempt to float last summer the trust is back again with a lower profile listing.

The investment trust, which wants to take advantage of a shift from CDs to music streaming, aims to raise £200m at 100p per share when it becomes a public company on 11 July under the ticker SONG.

Hipgnosis says it will make attractive returns through its catalogues of songs from award-winning songwriters.

It will be advised by Hipgnosis Songs, which was founded by Merck Mercuriadis, former manager of well-known artists such as Beyoncé, Guns N' Roses and Elton John.

Hipgnosis aims to acquire 100% of a songwriter's copyright, including the writer's share, the publisher's share and their performance rights.

Whenever a song from the catalogue is made in a physical or digital format, streamed online or performed live on TV or radio, the company receives royalties.

This also applies if a song is broadcast on TV or radio and when a song is used in a film, TV show, video game or advertisement, providing a wide range of potential revenue sources.

Investors could enjoy a potential 5% annual dividend yield once the portfolio is fully invested although notably this is lower than the original 6.5% target announced back in June 2017. The advisory fee has also been cut from 1.5% to 1%.

In sum, Hipgnosis is aiming for 10% or more in total net asset value (NAV) returns every year over the medium term and expects to pay its first dividend in November.

DOES ANYONE ELSE DO THE SAME THING?

The investment trust is the first on the Main Market to offer exposure to music intellectual property rights, although there is a small cap firm that operates in a broadly similar area, **One Media IP (OMIP:AIM)**.

With a market cap of approximately £10m, One Media IP acquires and repackages nostalgic music for the likes of Spotify.

Risks for Hipgnosis include its reliance on the provision of services by third party service providers, which could impact its performance if one of these providers fails to deliver.

Investors should take a close look at the prospectus before they consider investing. Given the unusual nature of this investment vehicle we will be waiting for it to establish a track record before considering an investment in the shares. (LMJ)

High active share: What is it and can it help you pick the best funds?

We talk to the experts about various funds with high and low percentages

Fund selectors have a number of tools at their disposal to help them pick the best funds from a vast universe, one of which is the concept of active share.

Active share is a measure of how different a fund's holdings are from its benchmark – being the index against which it measures its performance.

So if a fund had no holdings at all in common with its benchmark, it would have an active share of 100%, and if all its holdings were the same as the benchmark, its active share would be 0%. High active share is considered roughly 80% or more.

Investors can check fund factsheets to fund out active share, but bear in mind not all providers disclose it so you may need to ask.

CAN ACTIVE SHARE HELP YOU SPOT GOOD FUNDS?

A famous piece of academic research from 2009 by Martijn Cremers and Antti Petajisto found that high active share funds were more likely to 'significantly outperform' their benchmarks.

But investment management company Vanguard later conducted its own research into active share and found no relationship between high active share and strong performance.

The group's senior investment planner James Norton says there is a strong correlation between high active share and dispersion of fund returns, but returns could be positive or negative.

'If active share is how your holdings differ from the benchmark, it means either your performance will be better, worse, or the same. There are more potential different outcomes but not necessarily in one direction or another.'

CURRENT EXAMPLES OF ACTIVE SHARE

Shares analysed the Investment Association UK All Companies

Ramsdems is the top holding in MI Downing Monthly Income portfolio

FUNDS WITH THE HIGHEST ACTIVE SHARE: UK EQUITY INCOME SECTOR

FUND	ACTIVE SHARE (%)
MI Downing Monthly Income Acc	99.5
Unicorn UK Ethical Income B Inc	98.9
Unicorn UK Income B Inc	98.0
VT Odd Real Income GBP A Acc	97.5
LF Livingbridge UK Multi Cap Inc C £ Acc	97.0
MI Chelverton UK Equity Income B Acc	96.8
Courtiers UK Equity Income Retail R	90.2
Marlborough Multi Cap Income P Acc	87.0
TB Guinness UK Eq Inc Y Clean Income	84.2
GAM UK Equity Income Instl Acc	84.1

Data as of 31 March 2018. Versus FTSE All-Share and UK Equity Income sectors and ranked them by active share versus the FTSE All-Share.

Top of UK All Companies was **Montanaro UK Income (IE00B1FZRT49)** with 96.9% active share. The fund used to be in the UK Equity Income sector but was kicked out in 2016 for breaching the yield requirements.

It no longer has an official benchmark, but still compares itself to the UK Equity Income sector on its factsheet.

Head of business development Tom Norman-Butler says the fund has a high active share because of its focus on small and mid-caps. It is also a concentrated 50-stock portfolio with a 'one in, one out' rule so it always remains at 50, and this too adds to its high active share.

In the UK Equity Income sector, **Downing Monthly Income (GB00B61JRG28)** comes top for active share at 99.5%. Manager James Lynch says: 'The fund's high active share is a result of our ability to exploit overlooked pricing inefficiencies by taking high conviction positions in UK smaller companies.' He invests exclusively outside the FTSE 100 with a focus on businesses below £500m market cap.

In fact, the top three funds by active share in the Equity Income sector are focused on small caps. These funds have a high active share because they are not invested in the big, blue-chip, dividend-paying companies that are the bread and butter of more traditional income funds.

DON'T USE ACTIVE SHARE IN ISOLATION WHEN PICKING FUNDS

Simon Evan-Cook, senior investment manager on Premier's multi-asset range, says small cap funds will typically have a higher active share, but fund pickers still need to select the ones that will perform.

'Small cap funds will naturally have higher active share than you would get from large cap funds. The trick for us comes in finding the good ones. We would only invest in funds with high active share, but we wouldn't invest in funds just because they have high active share. It's just one factor to be used alongside other analysis.'

Daniel Pereira, investment research analyst at Square Mile Investment Consulting and Research, says he does not believe high active share is better for returns, despite what the studies say. He points to **Liontrust UK Smaller Companies Fund (GB00B57TMD12),** which has a high active share but has not necessarily outperformed for this reason.

'The Liontrust fund has outperformed because of the managers picking the right stocks over time, and their process of identifying intangible strengths in companies over the long term.

'You also have to look at the stock selection effect, the holding period and timing of purchases and sales. If active share is incredibly high, you have to assess why you should have that particular benchmark if you differ from the index so much.'

He also highlights **Old Mutual North American Equity (GB00B1XG9G04)** as a fund which has outperformed despite its low active share, because of its focus on momentum.

FUNDS WITH THE HIGHEST ACTIVE SHARE: UK ALL COMPANIES SECTOR

FUND	ACTIVE SHARE (%)
Montanaro UK Income STG Unhedged	96.9
CFP SDL Free Spirit General (Acc)	96.0
Old Mutual Equity 1 A GBP Acc	95.7
Barclays UK Lower Cap R Acc GBP	95.0
LF Woodford Equity Income C Sterling Acc	94.5
GVQ Opportunities A GBP Inc	94.3
Old Mutual Woodford Eq Inc U2 GBP Acc	94.2
GVQ UK Focus I GBP Inc	94.1
TB Saracen UK Alpha B Acc	93.4
SLI UK Equity Unconstrained Plat 1 Acc	92.6

Data as of 31 March 2018. Versus FTSE All-Share

LOW ACTIVE SHARE ISN'T ALWAYS BAD

AJ Bell's head of active portfolios Ryan Hughes singles out **Man GLG Undervalued Assets (GB00BFH3NC99)**, run by Henry Dixon, a highly active manager who invests across the market-cap spectrum but has a relatively low active share of about 71%. Despite this, his fund is top quartile over one and three years.

'If you look at Henry's portfolio, his biggest holding is in Royal Dutch Shell and he's also got BHP Billiton, HSBC, Lloyds, and British American Tobacco in his top 10, but he is definitely running a very active portfolio and is significantly underweight the FTSE 100 with only 36% exposure at the moment so, intuitively, you would expect him to have a higher active share. It just shows that interpreting one number doesn't tell you the full story.'

In contrast, the fifth highest active share in UK All Companies is **Woodford Equity Income (GB00BLRZQ737)** at 94.5%, because of its long tail of small cap off-benchmark and privately listed stocks. But the fund has been underperforming because of stock selection mistakes.

This demonstrates that active share is not a straightforward predictor of performance, says Hughes. 'It's not as simple as "I am invested in a high active share fund therefore I am likely to outperform". All you know if you invest in a fund with high active share is that you've got a greater chance of getting a return different to the benchmark.'

HELPS YOU AVOID CLOSET TRACKERS

Although high active share is no guarantee of better performance, it can help you get better value for money by weeding out 'closet trackers'. These are funds which stay close to the benchmark like a passive product would (such as a tracker fund or exchange-traded fund) and perform in a similar way, but still charge the higher fees of an actively-managed fund.

JPM UK Equity Core's biggest holding is Royal Dutch Shell

'For me, the main benefit of looking at a fund's active share is to identify if active share is too low. If it's too low, then you may be better off in a cheaper passive product that tracks the benchmark,' said Pereira at Square Mile.

Hughes expands on this point with an example from the UK All Companies sector. **JPM UK Equity Core (GB00B55QSH09)** is among the lowest for active share in the UK All Companies sector at 20.2%, but has an ongoing charges figure of 40 basis points. A FTSE All Share tracker can be bought for as little as 10 basis points.

'If we look at the discrete returns, it outperformed in 2016 but it underperformed in 2017 and is underperforming this year, so would you be better off in a tracker versus that fund? It's hard to say, but what you do know is you're getting a portfolio that looks very similar to the market and you know you are paying a higher price than you can get for a passive.'

> **For me, the main benefit of looking at a fund's active share is to identify if active share is too low. If it's too low, then you may be better off in a cheaper passive product that tracks the benchmark**

JPMorgan argues that its JPM UK Equity Core fund is designed to stick closely to the index but, unlike a tracker, it aims to deliver small incremental excess returns that add up over time.

'It does this by taking small overweight positions in attractively valued, high quality stocks with positive momentum, and small underweight positions in stocks that are expensive, low quality and have weak momentum,' says JPMorgan.

'As a result, at the sector level, weightings will be closely aligned to the index. The 40 basis points ongoing charges figure is less expensive than the average active equities OEIC. The fund's long-term investment performance is strong, including 75 consecutive months of outperforming on a rolling three-year basis net of fees.' (HS)

Summertime blues or sign of things to come?

Fear has crept steadily back into stock markets

A VIX index reading of 17.6 compared to a post-1990 average of 19.3, so the so-called 'fear index,' which measures expectations for future market volatility, is hardly blaring out a warning signal.

However, the indicator stood at just 9.2, almost a record low, on 3 January 2018, as optimism about the Trump tax cuts, accommodative central bank policy and hopes for a globally synchronised economic recovery took many stock markets to new peaks.

Since then, fear has crept steadily back into markets and the going has got tougher.

Analysis of total returns from key asset classes, continents and sectors, in sterling terms over the first six months of 2018, offers some potentially surprising trends.

By Russ Mould, investment director, AJ Bell

Three stand out:

1 Equities and commodities may still believe in the inflationary, globally synchronised recovery but bond markets appear less convinced, especially if price action in the very long end of the market is any guide. At least one of them has to be wrong, in the end.

2 Emerging markets are taking a pounding, in terms of their currencies, bonds and equities and high yield bonds are making heavier weather of it.

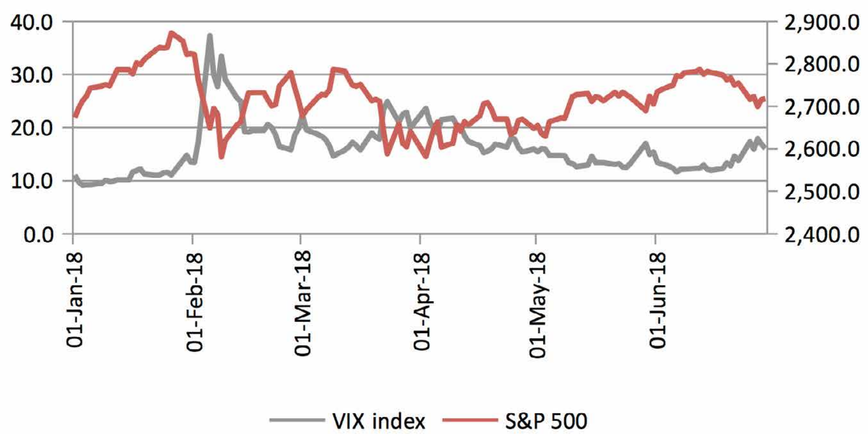
This could smell of gathering risk aversion, especially after the hammering given out to cryptocurrencies and low-volatility strategies earlier in the year, to suggest money may be slowly starting to retreat from riskier, 'peripheral' markets to 'core' ones that are seen as safer propositions.

3 This shift could help to explain the ongoing strong performance of technology stocks on a global basis, as these firms as seen as largely immune from many of the geopolitical and economic questions which dominate today, owing to their dominant market positions.

Investors must still consider the issue of valuation and the dangers of paying any price for safety. After all, the more expensive an asset class becomes, by dint of its popularity, the more dangerous it becomes; as the experiences of the tech collapse of 2000-2003 and the fall from grace of the Nifty Fifty in 1973-74 imply.

None of this is to say investors should begin to panic. These shifts in sentiment may be no more than a case of the summertime blues which will

THE VIX – OR 'FEAR' – INDEX HAS CREPT HIGHER DURING 2018



Source: Thomson Reuters Datastream

wash away as soon as we get to St. Leger Day in September. Central bank policy also remains a key variable.

But it can be argued that the mood music is changing and while the market cannot always be right – it would be pretty hard for anyone to make capital gains if it were – its views should always be respected.

PERFORMANCE BREAKDOWN

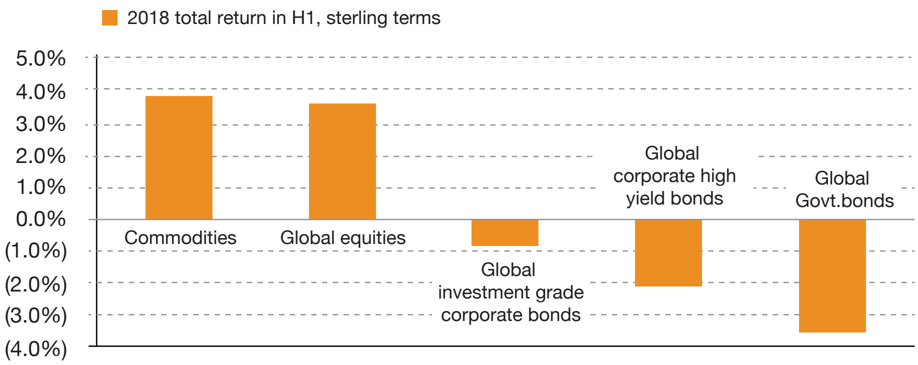
A swift analysis of four performance data tables helps to draw out the three themes above. In each case, the graphics show total returns in sterling terms and as such the pound's second-quarter swoon helps to boost the figures offered by overseas markets. This is in itself a further issue to ponder with the future in mind.

The first chart shows how inflation and recovery were the dominant themes of the first half, especially early on. Commodities and stocks beat bonds.

Yet the bond markets' returns had an unusual slant to them. Longer-term Government bonds did best (although yen strength against the pound could tilt the figures), high yield struggled, corporate bonds did poorly and emerging market fixed-income markets were flayed.

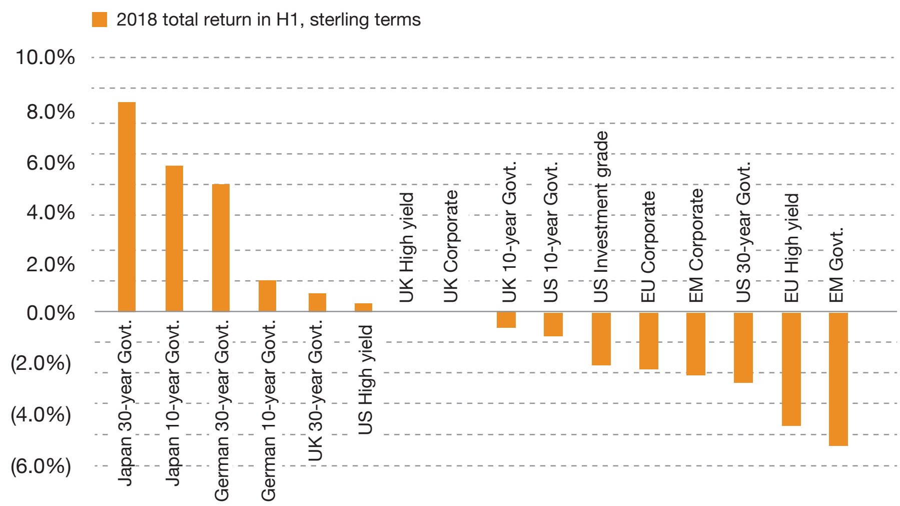
The strong showing by longer-term paper suggests

BONDS UNDERPERFORMED IN H1 TO SUGGEST FAITH IN A STRONG ECONOMIC UPTURN …



Source: Thomson Reuters Datastream

… BUT FIXED-INCOME MARKETS SEEM LESS CONVINCED



Source: Thomson Reuters Datastream

fixed-income markets feel central banks may not raise rates as much as some think – or even if they do, a swift capitulation and return to rate-cutting and quantitative easing will follow, meaning that headline borrowing costs do indeed prove to be 'lower for longer'.

If emerging market bonds hardly covered themselves in glory, their equity counterparts did even worse, moving swiftly from penthouse to outhouse, as they went from being 2017's star performers (and the consensus pick for 2018) to notable laggards.

Currencies will have had a role to play here, even relative to an enfeebled pound, as Brazil, Turkey, South Africa and China all saw the counters weaken – and that is before the rout in Argentina is taken into account. Weakness in the Russian rouble and the Czech koruna (despite a run of four rate rises from the central bank) also caught the eye.

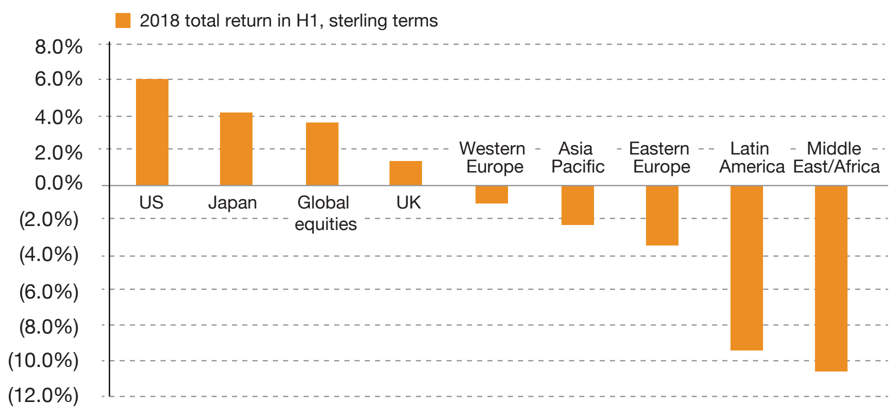
A booming US economy was not enough to lift all boats, particularly given fears over the rise of global protectionism, a particular concern for emerging markets.

America's economic and market-might can also be seen in the global equity sector data and technology's dominance of the sector listings.

Energy stocks fed off a firm oil price. But neither industrials nor miners (under 'materials' on the table) nor financials made any headway, which looked odd in the context of broader bullish sentiment.

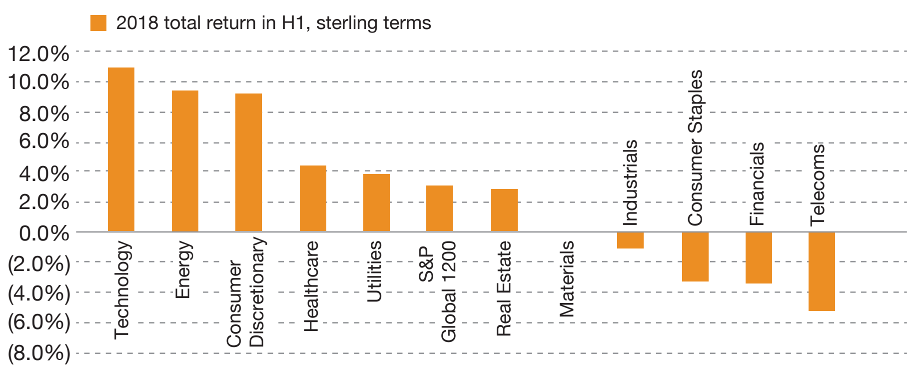
The failure of the financials in particular is a concern and their slump in the second quarter needs to be followed as it was their boom, bust and then recovery which have largely set the tone for global markets since 2003.

US STOCKS DID BEST IN H1 ....



Source: Thomson Reuters Datastream

... WITH TECHNOLOGY AS THE BEST SECTOR AND FINANCIALS AND TELECOMS THE WORST ONES



Source: Thomson Reuters Datastream

Weakness in the Russian rouble and the Czech koruna also caught the eye.

The 6 questions you should ask before selling a fund

We look at style creep, management movement, performance and more

1 IS THE MANAGER STILL INVESTING IN THE SAME WAY?

'Style creep' is a well-known term in the fund management industry, which is when a fund manager starts to deviate from their investment style.

There might be a number of reasons for this action, from the current investment market going against their style, a rise in fund assets, or pressure from their bosses to boost performance.

For example, a manager that invests to a 'value' style, which involves buying discounted companies on the basis they are unfairly cheap and will rise in value, may find that this strategy is out of favour in the market.

It may be tempting for them to start investing in different companies, outside of this core style.

Another example is where a fund manager who invests in smaller companies starts putting money in larger companies, or fails to sell the small companies once they have grown into large firms.

This style creep can be dangerous for a number of reasons. First, you picked that fund manager, and that fund, to sit in your portfolio and diversify your risk. You don't want them to start operating like another fund you hold, or investing in the same companies. Second, the fund manager will be moving away from their specialism, and so may not be as good as picking companies in this new sphere.

The main way to spot style creep is to fully understand the investment style of each fund manager you allocate money, and the type of companies they should invest in. You can then regularly check the fund factsheet to ensure they are sticking to their stated process. Any dramatic change in companies, the number of holdings or the style should be a warning flag.

2 HAS THE MANAGER MOVED?

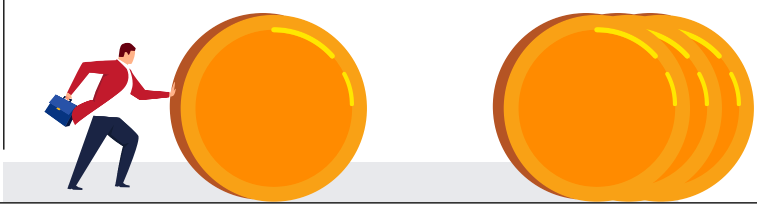
Like in any profession, fund managers can change jobs. A fund manager switching from one asset management company to another doesn't necessarily mean you should immediately sell – but you shouldn't automatically move with them either.

Research company Morningstar, which rates funds based on a five different factors, includes the parent company as one of these. In particular, it looks at the size of the company, its priorities, its ownership structure and the culture of the firm.

If a fund manager is moving to run a fund to a very similar style, with a similar level of support underneath them, and the parent company is similar, then it may make sense to move your money.

When deciding whether to sell a fund on a manager move, it also depends how crucial that fund manager is to the overall investment process.

> **If a fund manager is moving to run a fund to a very similar style, with a similar level of support underneath them, and the parent company is similar, then it may make sense to move your money**



Ryan Hughes, head of active portfolios at AJ Bell, says: 'When assessing a fund, it's important to understand who is making the decisions. Is it an individual or is it a team? Knowing this can help you determine how critical that individual is and then what course of action you should take if they leave.'

One example is Edinburgh-based asset manager Baillie Gifford, which runs a team-based approach and so is not as reliant on one individual. Conversely, a high-profile manager such as Nick Train from Lindsell Train or Richard Pease from Crux Asset Management departing could have a dramatic impact on the fund.

3 HAS THE FUND CONTINUALLY UNDERPERFORMED?

One of the perils investors make – both DIY and professional – is to buy a fund or share at the top, when it has been performing well, and sell it at the bottom, after a period of poor performance. This is among the most damaging things you can do to your portfolio.

Every fund manager will go through periods of underperformance. Sometimes these bad runs can extend, but how do you know when a short-term blip has become a long-term problem? When should you hold your nerve, and when should you get out?

Hughes says that determining this means you have to delve a little deeper into the source of the underperformance.

'It's very important to understand why a fund is underperforming rather than just sell it because it is underperforming,' he says. 'For example, if its investment approach is out of favour, then it should be expected to underperform.'

'The key to this is giving yourself the best chance of understanding how a fund manager invests before you part with any of your money.

'In this way, you give yourself a frame of reference that can help you judge when a fund should do well and when it is likely to struggle. You are then prepared for any periods of underperformance and can make rational decisions rather than reacting to performance numbers that may on the face of it look poor,' says Hughes.

4 HAS THE FUND BECOME TOO BIG IN YOUR PORTFOLIO?

When a fund performs well, particularly if other funds in your portfolio have floundered, it can end up representing a large proportion of your entire portfolio.

One of the hardest things as an investor is selling units in a fund that has outperformed, as your instinct is to keep backing the fund as it rises. However, by letting one fund become disproportionately large in your portfolio you increase your risk. If that fund underperforms, the manager departs or another event occurs, you could be putting a large sum of your money at risk.

Hughes says: 'Ideally, you want all holdings to have a meaningful impact on your overall performance but at the same time don't want to be too exposed to an individual fund that could be detrimental to your performance.'

He recommends having between 10 and 20 different holdings in your portfolio, spread across different asset classes, regions and styles. This is a small enough number to monitor, but large enough to be diversified.

If a fund is getting too large in your portfolio, and you are a regular investor you could just commit new money to your other holdings, and not the fund that you've built up a large position in. This saves you trading costs from selling and rebuying, and avoids the mental block of selling a winner.

"Have between 10 and 20 different holdings in your portfolio, spread across different asset classes, regions and styles. This is a small enough number to monitor, but large enough to be diversified"

5 HAS THE FUND GROWN TOO BIG?

After launch, once funds have a proven track record, they can become more popular (assuming the performance has been good). This means the fund would grow in size. Often this works in investors' favour, as it spreads some fixed costs across more people and charges may drop.

However, every fund has a limit, and if a fund gets too large the manager may find it hard to find enough suitable companies in which to invest.

There is no golden rule on size, as it depends what the fund invests in. A fund investing in large FTSE 100 companies, or across all US companies, for example, will have a large limit. Conversely, a fund that invests in small UK companies or in niche areas, such as pharmaceuticals, may have a lower limit.

Some fund managers publicly state what their limit is (some of these then revise the figure higher as they get close to the original limit), while others are more tight-lipped.

The best things to look out for are rapid growth in a fund, checking when funds running comparable strategies closed their doors to new investors, and any previous pronouncements from the fund manager on their optimum fund size.

> Every fund has a limit, and if a fund gets too large the manager may find it hard to find enough suitable companies in which to invest

6 HAVE YOU OUTGROWN THE FUND?

As you get older and your life circumstances change, you need to look again at whether the funds you own are still right for you.

Someone starting out saving and investing in a fund at the age of 40 may find the same fund is no longer right for them at the age of 60 or 70.

> As you get older you need to look again at whether the funds you own are still right for you. Likewise, if you have a life event, such as being made redundant or having a child

Likewise, if you have a life event, such as being made redundant or having a child, and realise you may need access to your money sooner than you thought, you may need to check your funds are still right for you. This is most obvious when someone nears retirement age and may want to de-risk their portfolio, or start drawing an income from it.

Hughes says: 'The overriding point is that you should ensure that each holding is right for you and that you know why you are investing in it.

'A sage piece of advice I was given early in my career is to be an investor not collector, meaning ensure you understand your overall portfolio rather than simply viewing your portfolio as a collection of individual investments.'

Laura Suter, personal finance analyst, AJ Bell

What does the FCA's pension freedoms intervention mean for retirement income investors?

We look at how the regulator plans to change some information you receive about retirement options

Former Chancellor George Osborne's pension freedoms announcement in March 2014 caught everyone on the hop – including the Financial Conduct Authority (FCA).

Just over three years after reforms which granted defined contribution (DC) savers total flexibility over how they spend and invest their hard-earned retirement pots from age 55 were introduced, the City regulator has announced its first major intervention into the market.

KEY FINDINGS AND AREAS OF CONCERN

The pension freedoms have fundamentally changed the decisions savers are making about their retirement funds.

While previously the vast majority of people bought an annuity – which provides a guaranteed income for life – since April 2015 the pendulum has shifted firmly towards staying invested in retirement through drawdown.

In fact, more than twice as many people now enter drawdown rather than buying an annuity.

Although the FCA acknowledges most people have welcomed this new found freedom, it is worried some are failing to engage with their pot and risk making poor decisions as a result.

For example, large numbers of savers are entering drawdown purely to access their 25% tax-free cash.

While for many people this will not necessitate a change in investment strategy or product provider, it's important you are aware of how your fund is invested and review your portfolio regularly (at least once a year).

LACK OF KNOWLEDGE

Worryingly, the regulator found one in three people who had entered drawdown recently had no idea where their money was invested.

In addition, the FCA is concerned savers might be missing out on valuable returns by failing to invest their pot. According to the regulator, a third of non-advised drawdown savers are holding solely cash.

For some this may reflect concerns about the state of global financial markets, while others may be planning to take some or all of their pot soon and sensibly protecting themselves from stock market volatility. However, as a long-term strategy, being heavily in cash is unlikely to be sensible for most investors as inflation will eat away at the value of your capital.

POSSIBLE REMEDIES

In response, the regulator is planning some changes to the information you receive about your retirement options.

The retirement 'wake-up' packs containing information about your policy and options will be given to you at age 50 rather than 55, and you'll keep receiving it every five years thereafter. In addition, the FCA will require providers to send savers a one-year charges figure prior to entering drawdown.

A one-page 'pensions passport' including all the information you need to shop around retirement income providers will also be added to wake-up packs.

Beyond this, the FCA is considering more radical interventions to protect savers who don't engage with their drawdown fund.

These could include requiring providers to offer 'default investment pathways' designed for those who do not engage with their pension pot, creating rules so savers need to make an active choice about investing in cash and forcing firms to disclose the charges customers actually pay on an annual basis.

Tom Selby, senior analyst, AJ Bell

Student stock picker reveals approach to playing the markets

We invite a 15 year-old to write about trading and investing

It is always pleasing to discover young people interested in the markets. Developing a savings and investment habit early in life can put you in a strong position to cope with life's big events as you get older such as buying a house or even being able to retire early.

Shares' managing director Mike Boydell recently helped with a student investment competition run by The London Institute of Banking & Finance. One presentation, in particular, caught his eye due to the knowledge of 15 year-old team leader Ryan Rahimikia from Springfield School in Portsmouth.

He was so impressed that we asked Ryan to write a short article for *Shares* about his interest in investing and trading and his involvement in the competition.

'Consistency Is Key'

by Ryan Rahimikia

From the day I began trading, four years ago, I can certainly say that I have learned many valuable lessons.

Many feel that our winning positions define the successes of our strategies – but it is actually a paradoxical reality, presented through our losing trades.

I personally feel that trading psychology is a topic of massive importance: the whole essence of resisting from having an emotional attachment with a position. And thus, I would discourage those who aren't prepared to be flexible with their investments from continuing trading.

I believe that trading is best suited to those who are fully committed and I have always made sure the markets have my full attention. Through this dedication, we are able to develop our own unique and personal strategies.

I choose to always factor in sentimental, fundamental and technical analysis, in order to create an informed judgement on a particular equity.

Some of my trades have included EVR, Premier Oil and Ferrexpo. Once my targets are met, I close my positions accordingly, as discipline is required at all times.

I recently participated in a student investing competition as a way of testing the reliability of my strategy. I organised a team and coached them using my experience on topics such as cash flow analysis and technical analysis, in terms of using simple moving average indicators.

(L to R) Lucy Austin (14), Isabelle West (14), Harvey Martin (15), Ryan Rahimikia (15)

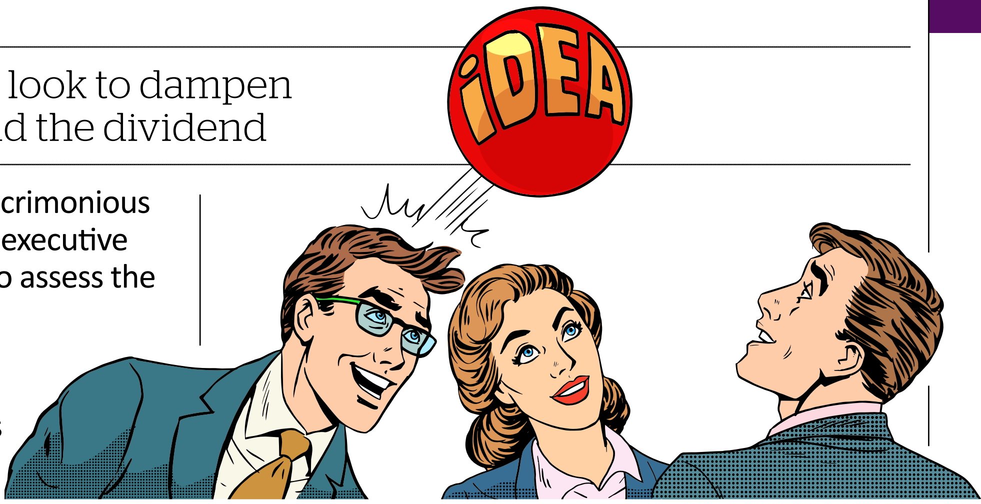
My team finished the practice portfolio round in first position (+12.7% in a month). We then went on to win the first round (+48.6% in three months), outperforming the FTSE (by 46.6%), against 33,000 students.

We then used technical analysis in the semi-final, qualifying for the final. The final consisted of a presentation round and a trading round. We closely missed out on first place, coming in second.

I aspire to one day become a hedge fund manager.

It's time to sell shares in WPP

A new chief executive could look to dampen expectations for earnings and the dividend



Now the dust has settled on the acrimonious exit of former **WPP (WPP)** chief executive Martin Sorrell it is a good time to assess the position the business finds itself in.

Despite recent weakness the shares are trading materially above the lows from earlier this year and we think it is time to sell. There looks to be a big risk of dividend disappointment, with an incoming CEO having every incentive to rebase expectations on earnings and the payout.

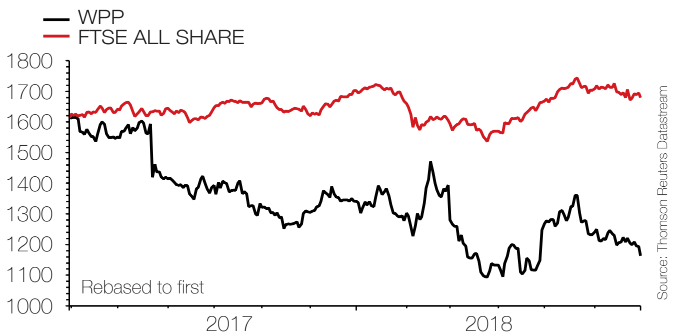
This undermines, in the short-term at least, our previously positive view on the stock, centred on its market leading position.

Whoever takes the top job on a permanent basis faces a big challenge. The consumer-focused firms for whom WPP works are scaling back expenditure and WPP has also recently lost several major clients.

Publicis has captured Proctor & Gamble's media buying business in Australia and New Zealand; **Vodafone (VOD)** is moving some of its digital advertising function in-house; and Revlon's media account has switched to IPG.

A trading update ahead of WPP's AGM on 13 June provided some reassurance with April showing some improvement after a first quarter decline in like-for-like revenue of 0.1%. The company made no change to its guidance for flat revenue for 2018 as a whole.

Less positively the North American business, where the company has historically been most profitable, remains the weakest performing geographic segment.



And on a group financial basis, its net debt-to-earnings ratio at around two times is at the upper end of the targeted level.

Several names have been suggested by commentators as possible CEO candidates. Liberum analyst Ian Whittaker noted the *Financial Times* has flagged up candidates including **Unilever's (ULVR)** marketing chief Keith Weed and ex-AOL chief executive Tim Armstrong.

'We also think Jerry Buhlmann at Dentsu Aegis should be added to the list,' Whittaker says. 'However, we think there may be an argument for saying that WPP should go down the internal route to minimise the risk of disruption. In that case, Mark Read would appear the favoured candidate.' Read is currently joint chief operating officer with Andrew Scott.

Meanwhile, recent reports suggest Sorrell has secured £100m in backing for new marketing venture S4 Capital. If correct, this is below the £150m the company stated it hoped to secure from institutional investors back in May.

S4 plans to reverse into **Derriston Capital (DERR)** in order to obtain a stock market listing.

SHARES SAYS: ↘
The risks now look weighted to the downside, so sell. (TS)

BROKER SAYS: 10 14 5

Wait for Cake Box shares to trade at a better price before gobbling them up

The franchise business looks very exciting but the shares have shot up too fast to warrant buying now

Shares in franchise group **Cake Box (CBOX:AIM)** have risen by an astonishing 43% to 154p since joining the stock market last week. Investors may well be hoping the cake seller will be as big a hit on the market as sector peer **Patisserie (CAKE:AIM)**.

Cake Box sells eggless and fresh cream personalised celebration cakes, which can be ordered and collected in an hour. A range of products such as cake boxes, bags and candles are also sold.

It currently has 91 franchised stores and hopes to hit 250 sites in the medium term, targeting high streets in small towns rather than city centres. As of 31 March, 99% of its stores were profitable.

Unlike most franchise businesses, Cake Box doesn't charge any franchisee ongoing fees such as management service fees or marketing levies. Instead it makes money by making and selling cake basics to franchisees, such as sponge and cake supplies.

It does, however, charge a 7.5% royalty fee on all online orders. Online orders accounted for 10.7% of franchise store revenue in the year to March 2018.

New franchisees initially pay £125,000 to open a store with this money helping to fund the design and fit-out, managed by Cake Box. The parent also helps franchisees secure bank funding and offers advice for negotiating leases. The franchisees are responsible for hiring staff but they are trained by Cake Box.

The average payback period for a franchisee's initial investment on a store is 18 months.

Sponges for all cakes and other ingredients are manufactured at Cake Box's production facility in Enfield, which is sent to franchisees for assembling, decorating and personalisation. Any cost increase is passed on to the franchisee.

Having a single manufacturing site is a clear business risk should there be operational problems. We are therefore encouraged by news that Cake Box is thinking about opening two satellite distribution centres in other UK regions.

Cake Box also bakes products such as muffins and loaf cakes which it supplies to the franchisee who sells the pre-packaged goods in store.

Over the past few years, Cake Box has delivered rising sales and profitability with £12.8m of revenue and £3.3m pre-tax profit in the year to 31 March 2018.

SHARES SAYS:

We are big fans of franchise companies and this business looks attractive, however we would hold off from buying until the share price has had time to settle down following the IPO (initial public offering).

Many stocks surge post-IPO and then temporarily ease back as initial investors bank early profits and longer-term investors take positions. We would expect Cake Box's shares to follow a similar pattern. (LMJ)

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KEY

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