STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

BREXIT CRISIS? WHAT IT MEANS FOR INVESTORS

The guru playbook

How to apply the same strategies as Warren Buffett and other famous investors

ASSET MANAGER **+60%** SINCE WE SAID TO BUY 3 MONTHS AGO

Why keeping an open mind can make you a better investor

Make sure that investing in what you know doesn't close your mind to other opportunities

Recent analysis by investment bank Liberum on **ITV's (ITV)** boost from England's better-than-expected World Cup performance included some interesting words of wisdom.

Analyst Ian Whittaker observes the huge audiences for the Three Lions' exploits are a reminder of the resilience of live TV as a medium and therefore its attraction to advertisers.

'ITV's (share price) rating has been dented by what we would call the "London bubble effect"; i.e. opinion formers extrapolating their own media habits onto the rest of the population when, in fact, they are wildly different. For example *Coronation Street* and *Emmerdale* generate total audiences of 7m to 8m, five or six nights a week,' Whittaker says.

In the same way someone who buys everything online may question budget shop brand **B&M European Value Retail's (BME)** decision to materially boost its high street footprint at a time when lots of bricks and mortar retailers are struggling.

However, in the words of chief executive Simon Arora, in the value and convenience areas of retailing 'physical stores are winning'.

We are often told, and with good reason, to only invest in things we understand. However, it is important to not take a blinkered approach to investment and to look beyond your own experience when examining the prospects for a business.

KEEPING YOUR EYES OPEN

The late John Cotter, who provided invaluable support to investors as vice president of Barclays Stockbrokers, recounted a tale from April 2005 which illustrates this point in his 2011 title *Cotter on Investing*.

'I came in from work and found my three young teenage daughters gathered around a laptop. I asked what was so interesting and they replied "ASOS". I asked them a few questions about the company more out of politeness than real interest.

'I thought no more about this until the next morning when I was waiting to do a training presentation in Glasgow to a largely young female audience of new recruits. While waiting for a few latecomers, and more to break the awkward silence than for any other reason, I asked if anyone had heard of ASOS.

'The majority of girls put their hands up and spoke in positive terms, as my daughters had before, about the company's website, the style of clothes and the prices.'

Cotter subsequently bought the shares at 51p after looking at the financial metrics. He noted that without taking on board what he heard from his daughters and learned in Glasgow, the company would not have been on his radar until the shares were at least eight times higher than the level he bought at.

ALL IN THE GAME

In a similar way you might be tempted, based on your own experience, to dismiss computer games as a niche interest and therefore a space which could never deliver serious returns for shareholders.

However, this would ignore the increasing centrality of gaming to the modern world, something which informed the decision to add games developer **Team17 (TM17:AIM)** to our *Great Ideas* portfolio on 5 July. (TS)

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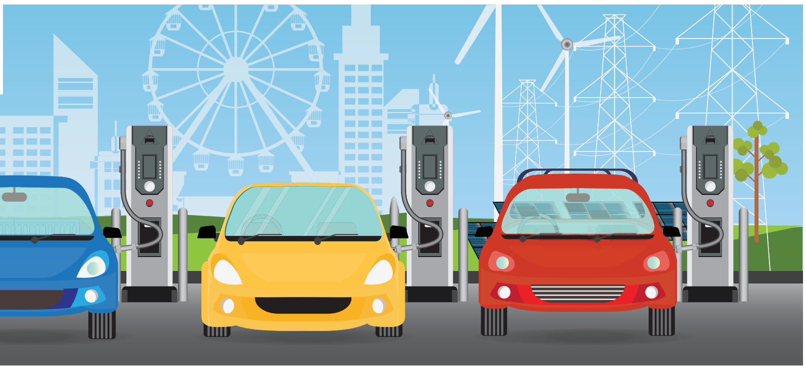

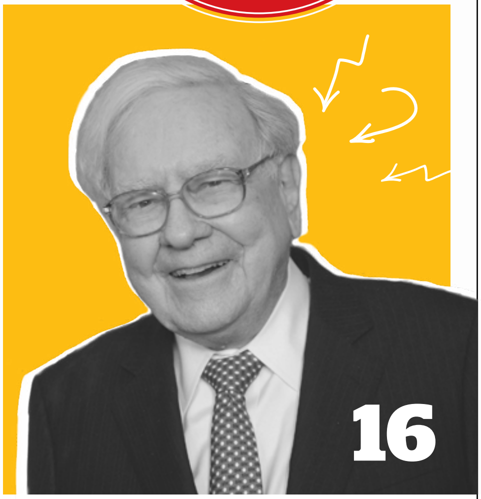

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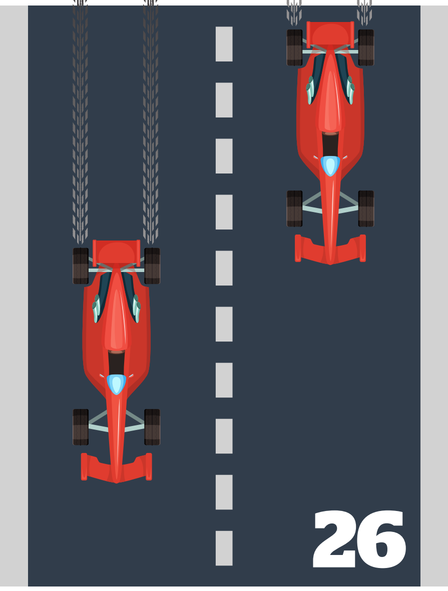

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BROKER RATINGS EXPLAINED:

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.

What the latest Brexit news means for markets and investors

High profile departures from the cabinet follow Chequers agreement

Having seemingly out-manoeuvred her Brexiteer colleagues with agreement on a 'soft Brexit' approach at Chequers last Friday (6 Jul), prime minister Theresa May is now reeling from the resignation of her Brexit secretary David Davis and foreign secretary Boris Johnson in the space of 24 hours.

The latter news is having the greater market impact which is unsurprising. It was arguably the decision of Boris Johnson to back Brexit which first led the markets to take seriously the prospect of the UK exiting Europe back in February 2016.

Johnson's latest move, which some expect to presage a leadership challenge, led to a big fall in the value of the pound. There now seem to be three likely scenarios as Brexit negotiations with the EU reach their crunch point ahead of the UK's scheduled departure in March 2019.

Theresa May hangs on and gets a version of her Chequers agreement through the UK parliament

This scenario would almost certainly be positive for sterling and the more domestic-focused mid cap FTSE 250 index. It might also increase the chances of an interest rate hike soon. Currency movements could act as a drag on the FTSE 100.

Investment bank UBS rates this as the most likely outcome. 'The prime minister seems to have broken the deadlock at home with the cabinet agreement on the direction of Brexit. It hasn't been cost free as two cabinet ministers have resigned from government.

'Speculation around further resignations and the potential for a leadership challenge will no doubt ensue. Our expectation is that the prime minister will survive this and push ahead with her vision for Brexit.'

May is unseated by Boris Johnson or another candidate who pursues a hard Brexit approach

This should see the pound fall, at least in the short-term, as it would increase the chances of a 'no-deal' Brexit. This might ultimately be positive for the FTSE 100 given its inverse correlation to sterling and the international nature of its constituents.

The challenge for Johnson or A.N. Other is there does not appear to be sufficient support in Parliament for a 'hard Brexit'.

The political turmoil leads to a general election even a second referendum on EU membership

Theresa May has warned that divided cabinets lose elections, raising the prospect of Jeremy Corbyn's Labour Party taking office. The left-wing agenda of such a government would be expected to create fear in the markets.

A second referendum which saw voters agree to reverse Brexit might be positive for the economy in the short-term but would likely raise as many questions as it would answers. (TS)

TalkTalk buyout rumours emerge as chairman ups stake close to 30%

Telecoms firm's share price has collapsed from 400p levels in three years

A series of share purchases in telecommunications services supplier **TalkTalk (TALK)** have led to intriguing buyout speculation.

Hedge fund Toscafund Asset Management upped its stake in TalkTalk from 15.1% to 16.2% in response to the company's share price plunging to 105p, close to a five-year low. The shares have since risen to 119.2p.

Toscafund was already TalkTalk's second largest shareholder and this latest deal takes its stake to just shy of 185.5m shares, worth approximately £222m.

Interestingly, on the same day that trade was struck (29 June) executive chairman and founder Sir Charles Dunstone, TalkTalk's biggest single shareholder, also increased his personal stake in the business, adding a little more than half a million shares to take his holding to 28.5% of the company.

That's just shy of the 30% cap at which point he would be forced to launch a bid for the whole company.

Toscafund has a history of backing management-led buyouts in the telecoms space. In 2014 the hedge fund supported the £500m take-private deal for enterprise telco business Daisy. TalkTalk and Daisy recently pulled out of a deal that would have seen the TalkTalk sell its enterprise operation to Daisy.

With fellow TalkTalk founder David Ross still retaining an 11.6% stake in the business, it means that more than half of the company is in the hands of three investors who are very familiar with each other. (SF)

Sunny weather and England's top World Cup performance hits holiday bookings

During the England vs. Panama showdown direct bookings fell 9%

ENGLAND'S STRONG performance in the World Cup so far and the UK heatwave could be troublesome for listed travel agents, including **Thomas Cook (TCG)**, **TUI (TUI)** and **On The Beach (OTB)**.

According to the latest research from GfK, both in shop and direct booking trends have been declining since the hot weather started at the end of June.

England's second match in the World Cup on 24 June, where it beat Panama, had the biggest impact with direct bookings down 9% and shop bookings plummeting 31%.

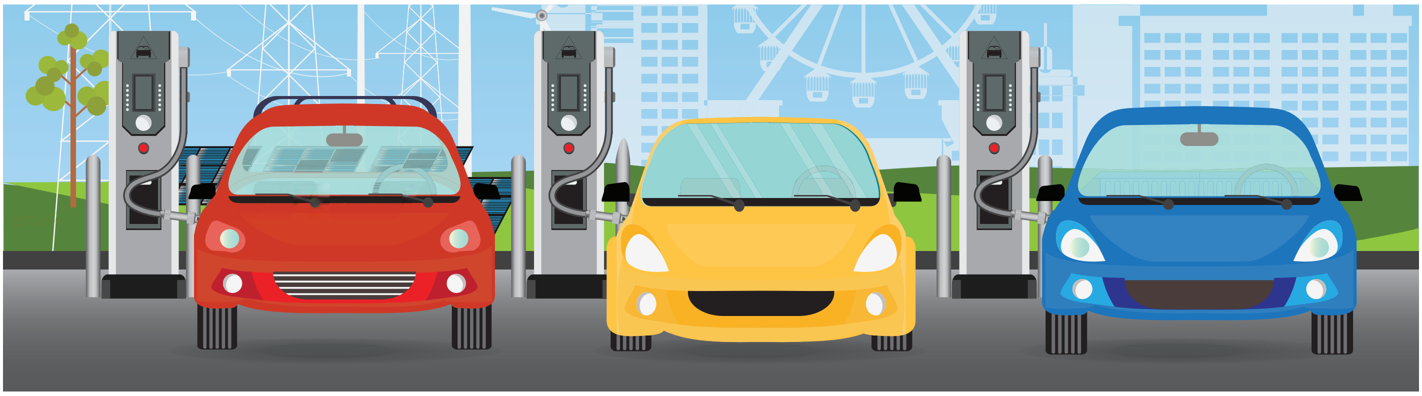
GfK Travel & Tourism group director David Hope says bookings typically pick up after England gets knocked out, meaning holidays are delayed rather than lost altogether.

Budget airline **EasyJet (EZJ)** could also impact travel agents as it sets its sights on expanding into package holidays.

Berenberg says EasyJet is 'significantly stepping up its efforts' with a good customer base that could hit 2m, marking a fourfold increase of its current customer base. (LMJ)

Stocks super charged by electric vehicle plans

Government is ramping up its efforts in an attempt to drive down emissions



Government support for an electric vehicle (EV) revolution has taken a step forward with proposals for new homes and street lights in areas with on-street parking to be fitted with charging points.

The plans are part of an effort to curb CO2 emissions which are also likely to include a ban on the sale of new conventional petrol and diesel cars in the next 20 years or so. Extra government money is also likely to be made available for fund charging infrastructure.

Potential beneficiaries on the stock market include **Fulcrum Utility Services (FCRM:AIM)** and **Nexus Infrastructure (NEXS:AIM)**.

Both companies already have relationships with housebuilders thanks to connecting properties to the gas and electricity grid, and both have interests in the EV charging market.

Fulcrum has a partnership with ChargePoint including the supply and installation of EV charging stations. Nexus has set up eSmart Networks to design, install and connect EV charging points for the likes of local authorities and car manufacturers. (TS)

Echostar walks away but Inmarsat still in play, say analysts

US firm Dish not barred by 'put up or shut up' takeover panel rules

HAS THE TAKEOVER battle for UK satellites operator **Inmarsat (ISAT)** ended almost before it begun?

US peer Echostar had proposed a 532p per share deal that was dismissed as undervaluing Inmarsat. On 6 July the US firm, run by entrepreneur Charles Ergen, walked away.

European peer Eutelsat pulled out of making an offer in June.

Under takeover panel 'put up or shut up' rules Echostar is now barred from making a further approach to Inmarsat for six months.

However, in a unique twist, analysts believe offers to still come in for Inmarsat from another US firm called Dish, interestingly the sister company of Echostar.

'The put up or shut up rules do not apply to Dish,' say analysts at broker Exane.

Inmarsat shares have slipped to 517.5p having reached 632p on 25 June. (SF)

GREENE KING SELLS EXTRA 500,000 PINTS AS WORLD CUP FEVER TAKES HOLD

FOOTBALL FANS WERE in a merry mood as England beat Panama 6-1 during the World Cup, **Greene King (GNK)** revealing it sold an extra 500,000 pints of beer on the day of the game.

Pub operators usually benefit from a glut of fans visiting their local to watch the latest World Cup matches.

Other UK-listed companies that could benefit from the football tournament include **JD Wetherspoon (JDW)** and **Mitchell & Butlers (MAB)**.

INVESTORS HEAD FOR THE EXITS

With the clock ticking towards Britain's exit from the EU, outflows from UK equity funds reached £1.2bn in May.

This is according to the Investment Association's (IA) monthly statistics of UK investor behaviour, with UK All Companies proving the worst-selling IA sector with a £996m outflow.

Alastair Wainwright, the IA's Fund Market Specialist, does however caveat that 'UK equities are not necessarily reflective of the UK economy, given the high number of firms with international revenue bases listed in London.'

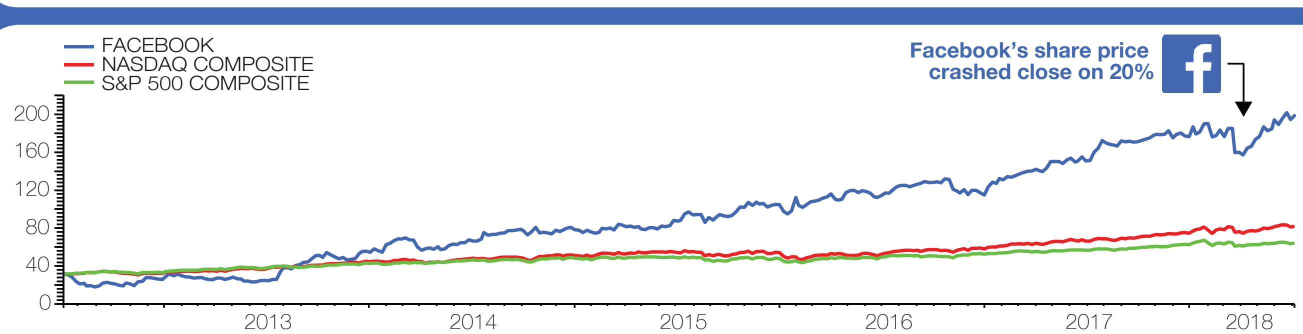
Nevertheless, Global funds were the best-selling in May in terms of regions with net retail sales of £460m, followed by North America (£211m) and Japan (£141m) funds.

Investors dismiss Cambridge Analytica scandal to drive Facebook shares to new record

DO INVESTORS HAVE super short memories, or is the Facebook/Cambridge Analytica data harvesting scandal now seen as a storm in a teacup?

Since the story broke in March - initially wiping billions of dollars off the social media giant's market value as its share price crashed close on 20% - the stock has rallied hard, up 33%.

Facebook's share price broke through the $200 ceiling for the first time on 20 June, closing at a record $202. Facebook floated in 2012 at $38.



World Cup boost for retail winner JD Sports

There are several reasons to re-visit the sportswear star turn

Sunny weather and World Cup fever is putting a spring in consumer step making now a canny time to invest in key beneficiary **JD Sports Fashion (JD.)**.

The internationally expanding multi-channel structural growth winner is riding the athleisure boom among youthful gym-goers and fashion-conscious consumers and will have seen strong sales of England and other replica shirts.

Expansion of the *JD* brand across Europe and Asia Pacific continues apace, while the £396m acquisition of US footwear seller Finish Line can transform the trainers-to-gym kit seller from a regional star turn into a global force.

Remaining at the top of its buy list, broker Peel Hunt upgraded its price target from 525p to 550p following JD Sports' Capital Markets Day at Old Trafford football ground, where the FTSE 250-listed retailer reportedly 'successfully showcased its management bench strength', allaying 'key man risk' concerns relating to any overreliance on executive chairman Peter Cowgill, as well as its 'intensity of processes and the closeness of its relationships with Nike and adidas.'

Symbiotic relationships with the latter represent a key competitive advantage, particularly following the Finish Line takeover, which boosts JD's growth prospects in the world's biggest athleisure market.

JD SPORTS FASHION
BUY
(JD.) 451.3p
Stop loss: 361p

Market value: £4.38bn

UPSIDE STATESIDE

Historically, the US has proved a graveyard for UK-based retailers, but Finish Line deal excites nonetheless given the global scale it brings to JD Sports.

Indeed, the market may be underestimating JD Sports' increased importance to Nike and adidas and the upside potential from the deal, so long as management is able to reinvigorate Finish Line's recent under-performance.

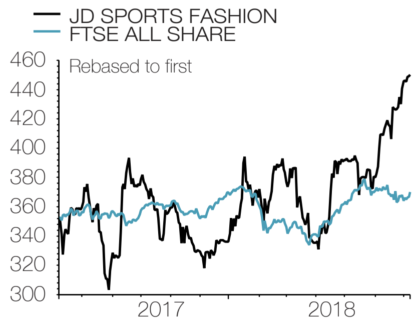
While Nike and adidas are increasing direct-to-consumer sales and culling all but the best retailers, Peel Hunt points out they realise 'it's a multi-brand offer that really gets the customer warmed up and there will always be a role for retailers like JD (but not for undifferentiated, single-channel fascia).

The increased scale that the US deal brings will doubtless embed these global links further and could, long term, bring gross margin benefits.' Crucially, Nike regularly mentions JD as a key retail partner on its results calls, adidas has suggested JD is the 'best format in Europe' and both brands are supportive of the Finish Line deal.

Given the global scale Finish Line brings to JD Sports, also making positive progress with its Outdoor division, market estimates may yet prove conservative.

Based on Peel Hunt's January 2020 estimate, a prospective price to earnings ratio of 15.1 times looks undemanding given the global growth potential and progressive dividend on offer. (JC)

BROKER SAYS: 6 1 0



Buy Anglo American for cheap shares, good dividend and break-up potential

The FTSE 100 miner has hidden value which could soon be realised

A cheap valuation, a decent dividend yield, a strong balance sheet and a potential corporate break-up are all reasons to snap up FTSE 100 diversified miner **Anglo American (AAL)**.

The business has exposure to platinum group metals, iron ore, metallurgical and thermal coal, copper, nickel, and diamonds – the latter via its ownership of De Beers. It has significant operating exposure to South Africa, South America and Australia.

There is speculation that Indian group and 21% shareholder Volcan Investments wants to merge **Vedanta (VED)** – which it is trying to buy – with Anglo American's South African assets and create a new mining powerhouse.

This chatter could be the catalyst for others to look at breaking up Anglo. This is the stock to own if you're convinced we're about to see another wave of mergers and acquisitions activity in the mining sector.

'Anglo has world class assets in copper, coking coal, iron ore, diamonds and platinum,' says investment bank Jefferies.

ANGLO AMERICAN
(AAL) £16.52 **BUY**
Stop loss: £12.00

Market value: £21.36bn

'Other mining majors would not want Amplats (its South African platinum business) due to safety issues, and some would have antitrust issues in iron ore, but **Rio Tinto (RIO)**, **BHP Billiton (BLT)**, Vale and **Glencore (GLEN)** would surely have interest in parts of Anglo and could get involved if Anglo is in play.'

Despite nearly halving the number of assets in its portfolio over the past five years, Anglo American is still seen as a conglomerate and suffers from a discounted rating.

Jefferies' sum-of-the-parts valuation is £23.97 which is 45% higher than the current share price.

Anglo American currently trades on an EV/EBITDA (enterprise value to earnings before interest, tax, depreciation and amortisation) metric of 4.8-times and a price-to-earnings ratio of 8.8-times based on 2018 forecasts. In comparison, BHP trades on a 6.3-times EV/EBITDA multiple and 13.6 times forecast earnings for the year to June 2019.

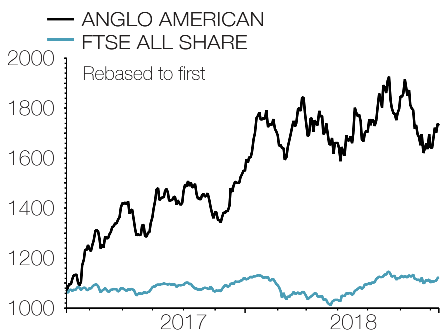
The trade war between the US and China is unhelpful and is a risk to consider with all mining stocks as it can negatively affect sentiment towards the sector. Nonetheless we still believe the sector is attractive longer term.

We rate Anglo American's shares as attractive even without any takeover interest to drive up the ratings. A 4.2% prospective dividend is a sweetener to the investment case.

Productivity improvement and operational efficiencies have helped the miner reduce its costs by 26% and grow EBITDA margins by 33% since 2013. That has helped to improve cash flow, thus debt is coming down and dividends are going up.

Importantly, it also pledges to maintain capital discipline, undertaking only one major development project at a time. That suggests there won't be a repeat of the previous commodities cycle where majors threw money left, right and centre at multiple growth projects. (DC)

BROKER SAYS: 12 9 3



MITON
(MGR:AIM) 66p

Gain to date: 58%

Original entry point:
Buy at 41.75p, 5 April 2018

OUR CONFIDENCE in asset management minnow **Miton (MGR:AIM)** continues to pay off as the company pleases with its latest update on assets under management (AUM).

On 9 July the company revealed that its AUM had increased by 35% in a year to £4.5bn.

Investors are pouring money into Miton's products, £616m in the first half to 30 June. This represents seven consecutive quarters of positive net flows, a great result given the market ructions in February.

Broker N+1 Singer is also impressed with Miton's performance, upgrading its 2018 earnings per share figure by 11% to 3.9p and its net cash forecast by 3% to £24.4m.

It has hiked its estimate for dividend per share by between 11% to 17% for the coming years. This adds up to a prospective dividend yield for 2018 of 2.4%.

While Miton is primarily an equities manager, it does have some multi-asset products as well but no pure bond funds. However, the positive flows were mostly across the board, with just a small outflow for its investment trusts to the tune of £27m.

One risk particular to Miton is its focus on small caps. As this company continues to grow it may find that strategies that work on small caps are harder to replicate in different areas of the market.

SHARES SAYS: ↗
We remain positive. (DS)

BROKER SAYS: 2 0 0

ROLLS-ROYCE
(RR.) 994p

Gain to date: 18.8%

Original entry point:
Buy at 836.6p, 10 May 2018

ROLLS-ROYCE (RR.) has sealed the deal on the anticipated sale of its commercial marine business.

The operation, which includes deck machinery, automation, controls alongside propulsion on more than 1,000 vessels to date, has been sold to Kongsberg, a Norwegian technology engineering business, at a £500m enterprise value.

That will equate to approximately £350m to £400m of proceeds to Rolls after various pension costs and fees have been accounted for. This looks decent business considering the underlying £25m operating loss chalked-up by the unit in 2017 despite sales worth more than £1bn.

This is further evidence of chief executive Warren East putting his restructuring plans into action. More importantly for investors, that action is increasingly being supported by the market's reaction and the direction of the share price.

The stock is around 8% higher than when *Shares* last updated on 21 June, and has climbed close on 20% since our original article.

SHARES SAYS: ↗
The stock has essentially hit our £10.00 suggested target yet we still see longer-run benefits from the Rolls-Royce turnaround. Still a buy. (SF)

BROKER SAYS: 4 11 4

ALPHA FINANCIAL MARKETS CONSULTING

(AFM:AIM) 253.1p

Gain to date: 52%

Original entry point:

Buy at 166.5p, 23 November 2017

OUR ADVICE TO buy **Alpha Financial Markets Consulting (AFM:AIM)** looks to have paid off and with the majority of the world's biggest asset managers as clients it shouldn't be a surprise.

The support services group's results on 6 June really super charged the share price and with a 65% increase in operating profit to £13.6m, a 51.5% increase in revenue to £66m and generating high levels of cash generation from ongoing activities of £11.3m its had a great maiden year on the markets.

Speaking to the company's CEO Euan Fraser recently, the level and amount of deals his firm has been involved is truly impressive. Standard Life's merger with Aberdeen to become **Standard Life Aberdeen (SLA)** is one of the deals Alpha was involved in post-merger.

In fact, most of the major consolidation in the asset management space has been aided by Alpha. Now the company is expanding its global footprint this is likely to be a growth area.

The company opened its first Asia office during the year in the ASEAN business hub that is Singapore. This means the company now has a presence in the UK, US, Europe and Asia.

Broker Panmure Gordon dubs the company 'the diamond that can double in size'.

SHARES SAYS: ↗

We see no reason to change our bullish view. (DS)

BROKER SAYS: 1 0 0

VOLUTION

(FAN) 201p

Gain to date: 0.5%

Original entry point:

Buy at 200p, 22 March 2018

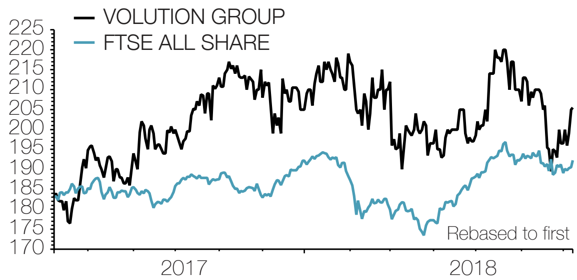
OUR POSITIVE CALL on ventilation products supplier **Volution (FAN)** is yet to be rewarded but the company continues to make solid progress and a recent acquisition looks a good fit with the company's strategy of pursuing bolt-on acquisitions to supplement solid organic growth.

A full year trading update on 10 August could be the catalyst to get the share price moving assuming it shows an improvement from the negative takeaways seen in the first half trading period.

These encompassed margin pressure caused by the loss of some high return work in the UK and a profitability drag as it gets newly acquired businesses up to speed. There was also softer cash flow thanks to a short-term increase in spend on customer service during a transitional period for the business in the UK.

On 6 July the company announced the £10.2m purchase of Finnish operator Oy Pamon Ab, with a further £1.8m contingent on earnings performance. The deal is expected to be earnings enhancing in the year to 31 July 2019.

Chief executive Ronnie George says: 'The business will be highly complementary to our position in the Nordics providing us with an enlarged presence in the new build sector in Finland and the Nordics, in the growing and regulatory driven market for mechanical ventilation with heat recovery units.'



SHARES SAYS: ↗

Keep buying. (TS)

BROKER SAYS: 3 2 0

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1 GROUP

+ 2000 EMPLOYEES

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KEY DATA		REVENUE	GROSS PROFIT	OPERATING PROFIT
	FY 2017	€656m	€94m	€42m
	FY 2016	€438m	€45m	€19m

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The guru playbook

How to apply the same strategies as Warren Buffett and other famous investors

Many investors are fascinated by how certain investors got to be so famous, searching for the special formula that made the likes of Warren Buffett and Philip Fisher so rich. Well now's your chance to mimic their approach and apply their proven methodology to today's market.

We show you two ways to deploy their process. The first uses stock screeners built using Stockopedia's interpretation of how four famous investors like to pick stocks.

The second features investment funds that either use the same process as one of the aforementioned famous investors or their approach has many similarities with how one of the famous four would scour the markets for ideas.

It is important to consider these approaches aren't guaranteed to result in portfolio success. Indeed, even famous investors have made mistakes in their career. Yet these defined strategies do provide a good starting point for you to do further research and should certainly be better than a random approach that many people follow when playing the markets.

FOLLOWING THE GURUS – A SUCCESSFUL STRATEGY IN ACTION

Four years ago, we applied various strategies of famous investors to the UK market and picked a variety of stocks, funds and investment trusts. The subsequent performance has been very good, as illustrated in the accompanying table.

We also note that several of the companies on the list were taken over since we chose them on the basis of matching certain famous investors' strategy.

After all, a good investor likes to buy a stock that they believe is undervalued at the time and a subsequent takeover is good vindication of this selection.

SHARES' 2014 PICKS BASED ON DAVID DREMAN'S STRATEGY			
	ENTRY PRICE	PRICE NOW	GAIN/LOSS
Phoenix IT	89p	160p*	**80%**
Finsbury Growth & Income Trust	519p	808p	**56%**
BHP Billiton	£18.41	£16.51	**-10%**

SHARES' 2014 PICKS BASED ON PHILIP FISHER'S STRATEGY			
	ENTRY PRICE	PRICE NOW	GAIN/LOSS
RCM Technology Trust (now known as Allianz Technology Trust)	507p	£14.22	**180%**
ARM	898p	£17**	**89%**
Iomart	211.5p	375p	**76%**

*Taken over in 2015
**Taken over in 2016

WARREN BUFFETT

Warren Buffett, also referred to as the 'Sage of Omaha,' is one of the most successful investors of his time.

Born in 1930, Buffett impressed with his entrepreneurial flair from an early age and was inspired by *The Intelligent Investor* author Benjamin Graham, who he studied under at Columbia Business School.

After working as a stockbroker and securities analyst, Buffett bought textiles business Berkshire Hathaway in 1970. Since floating on the New York Stock Exchange in 1996, shares in the conglomerate have catapulted 675%.

THE APPROACH

Buffett's investment tactic is a mix of strategies adopted by Graham and Phillip Fisher. One of the key nuggets of wisdom from Buffett is that investors should look for easy to understand businesses that can be run by an idiot (which he argues could happen.)

Keeping a simple investment strategy and identifying a small number of companies you are happy to hold for life out of a large number of mediocre businesses is important, as well as not chasing quick profits.

The legendary investor generally looks to buy companies with attractive prospects at a fair price with a strong management team to propel the company forward.

Buffett recommends investors focus on a few stocks with strong franchises and pricing power, evident through his interest in Coca Cola and Heinz. He also seeks businesses with predictable earnings and strong cash generation that have high quality prospects at a discount.

Over the last two years, there has been a drought of big acquisitions by Berkshire Hathaway in favour of bolt-on deals.

One of Buffett's more interesting recent transactions was a significant stake in Houston pipeline firm Kinder Morgan alongside George Soros and hedge fund manager David Tepper, following a huge drop in the share price.

KEY RULES

Warren Buffett: Hagstrom screen

- This screen is inspired by modelling of Buffett's approach by investment strategist Robert Hagstrom
- It combines Buffett's focus on value and business quality
- It uses price to free cash flow as a valuation measure and assess quality using operating profit and return on equity

WARREN BUFFETT STOCK SCREEN Examples of UK-listed stocks that meet Buffett's investment criteria*
Berkeley
Card Factory
Esure
Jupiter Fund Management
Persimmon
Rank
Taylor Wimpey
Wizz Air

*As interpreted by Stockopedia and based on its Buffett Hagstrom screen

TWO STOCKS

Wizz Air (WIZZ) £35.75

Buffett traditionally shunned airline stocks until 2016 when he invested heavily in United, Delta Southwest and American Airlines. This bet turned sour when he lost $700m following an aggressive expansion plan by United, although he still has faith in the sector.

We think Hungarian airline **Wizz Air (WIZZ)** fits with his strategy, with business currently thriving despite higher oil prices and an ongoing price war.

The airline is currently investing in aircraft and cutting costs to attract more customers. Encouragingly, Wizz Air expects net profit to hit a range of between €310m and €340m in the year to 31 March 2019, at the top end of analysts' expectations.

Esure (ESUR) 204.6p

Among Buffett's favourite sectors are insurers as they rake in lots of cash and only pay out in the event of a successful claim. These companies are therefore typically highly cash generative.

We believe insurer **Esure (ESUR)** is an appealing prospect as it is a simple business that is expected to generate higher profitability over the next few years.

Esure is targeting growth in the motor and home insurance markets and has strong capital coverage of 155% of its solvency requirements, above the normal range of 130% and 150%. This allows the insurer to pursue profitable growth opportunities as well as considering returning capital to shareholders. (LMJ)

FUND IDEA

CFP SDL UK Buffettology (GB00B3QQFJ66)

Those seeking to mirror the approach of arguably the world's greatest investor, Warren Buffett, can put money to work with the **CFP SDL UK Buffettology Fund (GB00B3QQFJ66)** managed by Keith Ashworth-Lord.

The highly selective fund manager applies the methodology of 'Business Perspective Investing' championed by Buffett and his teacher Benjamin Graham. Buffett himself is famous for discipline, patience and value – a style that has outperformed the market on many occasions down the years.

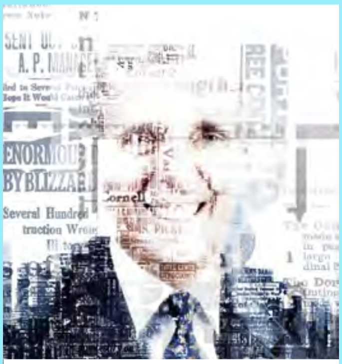
The Buffettology fund contains UK equities with strong operating franchises and free cash flow, high returns on capital employed and experienced management teams.

'Only an excellent business bought at an excellent price makes an excellent investment. One without the other just won't do,' is Ashworth-Lord's mantra.

His most successful investment to date is fantasy miniatures maker **Game Workshop (GAW)**, first bought at 373p in April 2011, never sold since and now priced at a princely £29.95.

Other winners in the 30-odd stock portfolio include automotive testing specialist **AB Dynamics (ABDP:AIM)**, antibodies developer **Bioventix (BVXP:AIM)** and **Dechra Pharmaceuticals (DPH)**, names that may well have passed muster with the masterful Buffett.

Launched in March 2011, CFP SDL UK Buffettology has delivered stellar annualised three and five year returns of 19.13% and 18.03% respectively according to Morningstar, while Trustnet data reveals a five-year cumulative return of 126.3% versus 53% from the IA UK All Companies sector. (JC)



DAVID DREMAN

David Dreman started his career a director of research for Rausscher Pierce, senior investment officer with Seligman and editor of Value Line Investment Service. It was in this early stage of his career that he developed his contrarian style which was to make him a famed investor.

He founded Dreman Value Management where he has served as its president and chairman before it was eventually bought by Deutsche Bank. It was his willingness to hold onto banking stocks during the 2009 which really showed his contrarian style. Unfortunately, this view was not shared by Deutsche Bank which removed his firm from managing his flagship DWS Dreman High Return Equity Fund, citing weak performance.

THE APPROACH

Dreman's approach was formed by his experience of investors piling into popular companies whose strong performance often belied their modest earnings. He grew to resent over valued stocks, instead turning his attention to those stocks which despite strong fundamentals were largely ignored by the wider market.

The fundamentals which are hallmarks of Dreman's style include companies with low price to earnings ratios, low price to book values that can achieve high yields at a reasonable price.

His signature 'low price to cashflow' uses a basic value filter selecting the cheapest 40% of the market by price to cashflow and adding additional filters. These include company size, financial strength and growth.

His focus on a strong balance sheet tells him that the company has the potential to generate future growth in the profit column of its future annual reports. Dreman very much relied on his own analysis of a company rather than rely on reports by brokerage firms.

His approach can be summed up by his comment 'if we take two companies with similar outlooks, markets, products, and management talent, the one with the higher cashflow will usually be the more rewarding stock. In investing, as in your personal finances, cash is king'.

KEY RULES

David Dreman: Low price to cash flow screen

- Select the cheapest 40% of the market by price to cash flow ratio
- Filter further for quality according to company size, financial strength and growth
- His studies show the cheapest 20% of the market by price to cash flow outperformed the most expensive 20% by 6.8% annually

DAVID DREMAN STOCK SCREEN Examples of UK-listed stocks that meet Dreman's investment criteria*
CMC Markets
IG
Jupiter Fund Management
Numis
Persimmon
Plus500
XLMedia

*As interpreted by Stockopedia and based on its Dreman low price to cash flow screen

TWO STOCKS

Plus500 (PLUS) £17.77

Online trading platform **Plus500 (PLUS)** is a stock that would tick lot of Dreman boxes. It trades on a low multiple of 7.4-times 2019's earnings, while paying a generous prospective dividend yield of 8.1%.

Online trading companies have come in for criticism of late due to selling products that have been deemed too complex for retail punters. Dreman loves unpopular companies although given that analysts like this stock its arguable that this doesn't qualify.

The company's free cash flow would most definitely impress Dreman. Since 2013, the company has generated $578m of free cash flow.

Numis (NUM:AIM) 420.5p

Corporate broking and advisory firm **Numis (NUM:AIM)** was sitting on £82.5m in cash at 31 March this year, a factor Dreman would very much be in favour of.

Trading at 15.9-times 2019's earnings this might be a deemed a bit expensive for Dreman, though the company's return on equity figure of 24% helps justify the valuation.

One aspect that would might make Dreman slightly less positive on the stock is Numis's price to book value which stands at an expensive 3.5-times. This is the highest among its peers.

However, a prospective 2019 dividend yield of 2.8% is respectable, and given how central cash flow is to Dreman's philosophy he might have been persuaded to put any objections to one side. (DS)

FUND IDEAS

Liontrust Asset Management – Funds managed under the Cashflow Solution process by James Inglis-Jones and Samantha Gleave; manage **Liontrust European Growth (GB00B7T92B14)** and **Liontrust Global Income (GB00B815XD35)**.

Famed US investor David Dreman favours cashflow over earnings and the low price to cashflow contrarian value strategy he developed filters the cheapest 40% of the market by price to cashflow, then screens further for quality according to company size, financial strength and growth.

While not a precise match, there is some meaningful crossover here with Liontrust's Cashflow Solution process, described in detail below by Samantha Gleave and James Inglis-Jones, Liontrust's Cashflow Solution team who co-manage **Liontrust European Growth (GB00B7T92B14)** and **Liontrust Global Income (GB00B815XD35)** among other funds.

'A great US money manager once described choosing an individual stock without having much idea what you're looking for as akin to running through a dynamite factory with a burning match – you might live to tell the tale but you're still an idiot!

'Having a clear idea on what you're looking for is all about having a well-defined investment process,' say Gleave and Inglis-Jones.

'At the heart of our Cashflow Solution investment process is the idea that cash flow is the single most important determinant of shareholder return.

'The basic idea is that companies run by conservative managers who are focused on cash flow delivery should perform significantly better than companies run by aggressive company managers making large cash investments today to secure forecast growth in the future.' (JC)

PHILIP FISHER

A trained analyst in a San Francisco bank, **Philip Fisher** started his own investment advisory business in 1931 focusing on innovative technology companies driven by research and development. It is why many people refer to him as the stock market's first technology investor.

He later passed on his hard-earned experience and expertise in his now famous 1958 book *Common Stocks and Uncommon Profits*, which reinvented the rules for explaining how investors could judge fast growing, innovative companies.

THE APPROACH

Fisher's investment techniques evolved during his early years and were built on the merits of investing in innovative businesses that promised high growth. He especially liked relatively young companies with limited track records.

Fisher understood that trying to predict the near-term direction of a stock was a fool's errand that can eat into potential returns, especially after fees. To solve this problem, he developed a 15-point strategy for identifying potentially great long-term growth companies.

This 15-point approach attempts to determine whether a company is capable of sustaining above average growth for years to come. He would closely study profit margins, company sales processes, and businesses run by innovative, visionary and high-quality management.

This strategy puts less focus on financial data and company announcements shifting the onus to personal investigation. This would mean exhaustive company visits, questioning management, staff, customers and competitors.

It was this understanding that drew him towards both Texas Instruments and Motorola early on, the latter a stock he is understood to have owned from 1955 until his death in 2004, during which time the shares grew 20-fold.

KEY RULES

Philip Fisher: Growth screen

- This strategy is based on a 15 point checklist for finding growth stocks
- It looks for a track record of sales growth, above-average net margins and a low price-to-earnings growth rate over five years
- Criteria include PEG (five year growth) of less than 0.5

PHILIP FISHER STOCK SCREEN Examples of UK-listed stocks that meet Fisher's investment criteria*
1pm
Ashtead
Best of The Best
Burford Capital
Londonmetric Property
MJ Gleeson
Primary Health Properties
Redrow
Somero Enterprises
Stobart
Workspace
Wynnstay Properties

*As interpreted by Stockopedia and based on its Fisher Growth screen

TWO STOCKS

Ashtead (AHT) £22.37

Ashtead rents temporary power generators and other equipment to the global construction industry and has been doing it well for years. For example, pre-tax profits have increased 300% since 2013 to last year's £862.1m, and that's even with various one-off profit drags.

The US is the big growth engine, a market that is still very fragmented which means bolt-on acquisitions can add extra value to underlying growth.

But we believe what would really impress Philip Fisher is Ashtead's free cash flow, channelled in to dividends that have increased by an average 37.8% a year since 2010.

Auto Trader (AUTO) 423.2p

It may have been around since 1977 but Auto Trader's proven ability to transform itself to the demands of the digital age would, we think, really appeal to Philip Fisher. With its firmly entrenched brand, the UK's widest motor vehicle inventory and range of car data, it's a first stop for most car buyers.

That makes Auto Trader vital for dealers to display stock, and they are willing to pay up for subscriptions, giving the company high level predictability to future earnings.

Impressive recent results vindicate *Shares* May view that the shares trade at an unfair discount to other internet-based businesses, which is starting to change. (SF)

FUND IDEA

Aurora Investment Trust (ARR)

Investors seeking to profit from a bargain-hunting style of investing might look to the **Aurora Investment Trust (ARR)**, a closed-ended fund that homes in on high-quality businesses with potential to scorch to the upside.

Growing in size, liquidity and marketability, the trust more than merits its modest premium to net asset value (NAV). Phoenix Asset Management Partners, which assumed management of Aurora in January 2016, seeks to achieve long term returns by investing in UK-listed shares using a value-based philosophy.

This is inspired by the teachings of Warren Buffett, Charlie Munger, Benjamin Graham and interestingly, Phillip Fisher, the author of *Common Stocks and Uncommon Profits* who popularised 'scuttlebutt', or primary research using a range of sources.

This approach leads Aurora to invest in high-quality names run by 'honest and competent management purchased at prices that, even with low expectations, will deliver excellent returns.' Aurora looks for great businesses when they are cheap, usually because they are having short term issues; if its research is correct these companies should recover and deliver high returns.

Phoenix's contrarian value approach is reflected in the fact the manager will only invest when there is at least 100% upside to its intrinsic value estimate.

Leading portfolio positions span supermarkets **Tesco (TSCO)** and **Wm Morrison (MRW)** – part of the rationale being food retailing should prove resilient in a downturn – as well as cut-price sporting goods purveyor **Sports Direct International (SPD)**, bowed-but-unbeaten funerals specialist **Dignity (DTY)** and low-cost carrier **EasyJet (EZJ)**. (JC)

JIM SLATER

A legendary figure in UK private investing, **Jim Slater** died in November 2015 at the age of 85. He wrote *The Zulu Principle*, published in 1992 and which is the best-selling book on investment by any British author.

He had earlier established himself through his 'Capitalist' column in the *Sunday Telegraph*. His investment banking venture Slater Walker, in partnership with Conservative MP Peter Walker, initially did very well but failed in the 1970s. Slater subsequently revived his fortunes through stock picking and property dealing.

THE APPROACH

Slater adopted what has come to be known as a Growth at a Reasonable Price or GARP strategy. As the name implies this approach combines both growth and value.

The eponymous *Zulu Principle* was drawn from his observation of his wife reading a short article on Zulus.

He noted she already knew more than he did within a few minutes and that if she borrowed all the books on Zulus in the local library she would have been a leading expert in the country.

If she had actually visited a Zulu kraal and read about their history at Johannesburg University for six months she would have become a leading expert in the world.

The point was that if you become an expert in a very narrow field you can give yourself an investment advantage.

Employing the price-to-earnings to growth ratio, which divides the price-to-earnings metric by the level of annual earnings per share growth, Slater looked to find smaller, growth companies which were undervalued relative to their growth potential. He also looked for a track record of growth and strong cash generation alongside other factors.

KEY RULES

Jim Slater: Zulu principle screen

- This strategy combines growth, value, quality and momentum factors
- Its key ratio is PEG (price-to-earnings-to growth)
- It also looks for a high return on capital employed and positive relative price strength in small and mid-cap shares

JIM SLATER STOCK SCREEN Examples of UK-listed stocks that meet Slater's investment criteria*
Caledonia Mining
Dotdigital
GoCompare.com
Impax Asset Management
Iomart
Morses Club
Phoenix Spree Deutschland
S&U
Ten Entertainmnet

*As interpreted by Stockopedia and based on its Slater Zulu Principle screen

TWO STOCKS

Iomart (IOM:AIM) 370p

Glasgow cloud computing specialist **Iomart (IOM)** may not trade on a price to earnings growth ratio of less than 1 desired by GARP investors. However, it is more difficult to find software firms on discounted valuations particularly ones with Iomart's upwards of 90% recurring revenues.

Stockopedia's screening process believes that Iomart still fits the bill when looking for Jim Slater-type investments.

Iomart's strong organic growth is likely to be augmented by M&A activity which is underpinned by a new £80m lending facility. Stockbroker Peel Hunt sees the potential for the company to double revenue from the near-£100m achieved in the March 2018 financial year.

Clients run the gamut from **BCA Marketplace's (BCA)** Webuyanycar consumer venture to well-known corporate entities such as Universal Music.

GoCompare (GOCO) 136.8p

The price comparison website is being vindicated in its decision to reject a 110p per share takeover offer from Zoopla-owner **ZPG (ZPG)** in November 2017 as the shares now trade materially ahead of this level.

Slater would be impressed by the track record of growth and the firm's strong cash generation.

Traditionally focused in the insurance 'vertical', which is highly competitive, the company recently boosted its presence in energy switching with the £10m acquisition of Energylinx (14 Jun).

This area is seeing rapid growth and GoCompare may be expected to augment its market position through further deals in order to take advantage of this trend. (TS)

FUND IDEA

Slater Growth Fund (GB00B0706C66)

The late, legendary private investor Jim Slater's son Mark Slater uses Zulu Principle-inspired rules at his **Slater Growth Fund (GB00B0706C66)**, a portfolio of dynamic growth companies trading at sensible prices that has delivered spectacular ten year annualised returns of 17.72% according to Morningstar.

Seeking to generate long-term capital growth, the fund's primary valuation measure is the PEG – star stock picker Mark Slater wants to combine the best of growth and value and build a margin of safety into the process – while there is also a focus on cash flow.

Slater hunts for companies with competitive advantage that operate in niche markets with a dominant share.

He likes to see identifiable drivers of profits growth to ensure profits progress is reliable and therefore sustainable.

Top ten portfolio positions in the unit trust include pharma firm **Hutchison China Meditech (HCM:AIM)**, big data analytics play **First Derivatives (FDP:AIM)**, as well as **Alliance Pharma (APH:AIM)** and document management group **Restore (RST:AIM)**. (JC)

Ferrari's share price race is still in top gear

This is a scarce, high quality, non-cyclical growth stock, argue analysts

It is not just Ferrari's army of Formula 1 fans that have something to cheer following last weekend's victory at the British Grand Prix. Investors have been winning with the iconic sports car brands' stock performance too.

Last month the Ferrari share price hit a record $149.33, marking a near-200% increase since the company listed at $52.00 on the New York stock market in October 2015. At the time investors worried that the shares were too expensive because they were valued as if Ferrari was a luxury goods company, not an automotive engineering industry sports car maker.

Designer hand bags, haute couture clothing and fancy jewellery makers typically require little capital investment to keep up with technology changes.

But Ferrari's financial performance since then has belied those fears. In early May, Ferrari reported a 13% rise in first quarter earnings before interest, tax depreciation and amortization (EBITDA) of $326m, compared with the same period of 2017, and a hefty 32.8% profit margin, up from 29.5%. EBITDA margins came in at 30.3% for the company's last full year to 31 December 2017.

Contrast those profit margins with other large car makers,

Ferrari sold 8,398 vehicles in 2017 and expects this to rise to more than 9,000 in 2018

General Motors or BMW, where EBITDA margins are running at somewhere around the 8% to 10% mark. It is the scope to improve those impressive margins further that forms a fundamental driver for more share price upside, according to analysts.

'With a convincing set of 2017 results achieved, attention now shifts to the next phase of Ferrari's advance,' say the number crunchers at investment bank Berenberg. They argue that the share price re-rating story 'now transitions to earnings growth potential that outstrips most peers in the luxury goods space.'

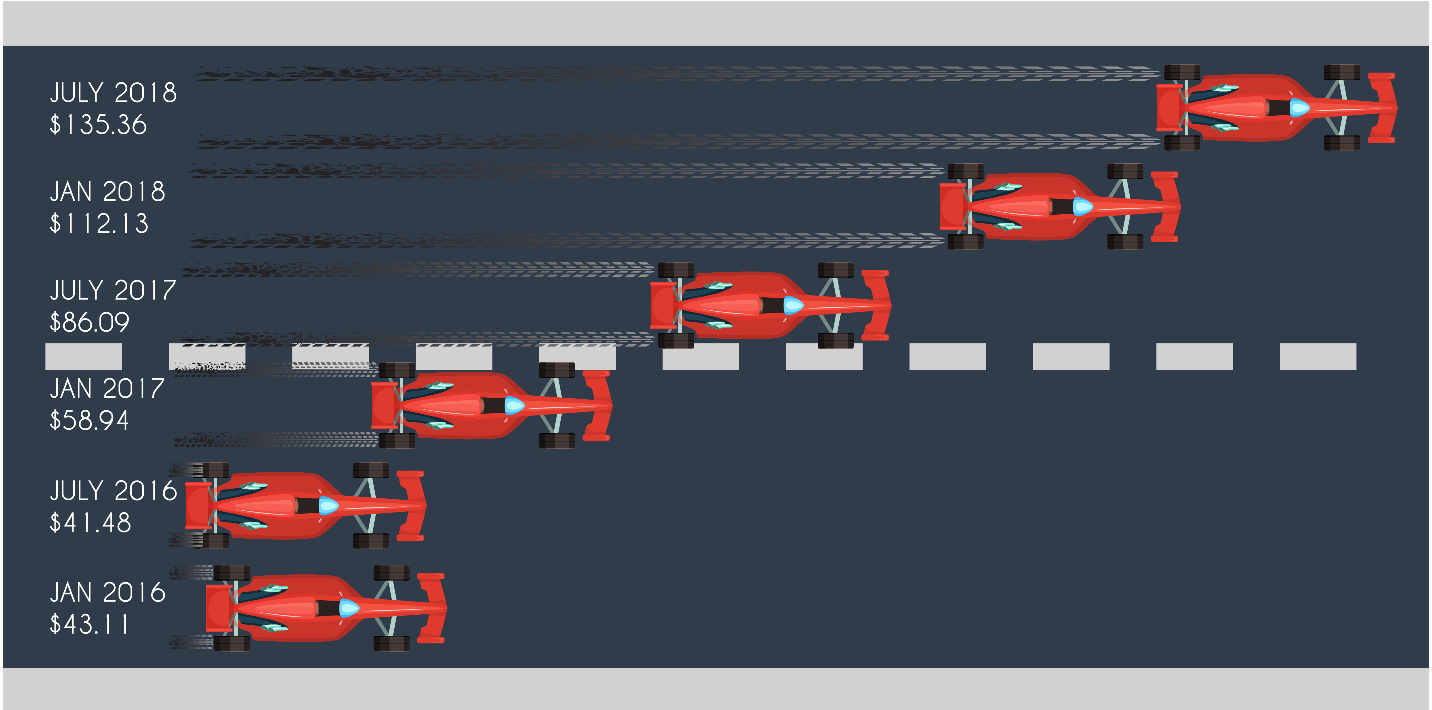
MARGIN IMPROVEMENTS TO 40%

By full year 2022 Berenberg estimates that Ferrari could be generating EBITDA margins in excess of 40% thanks to further super car price rises to outstrip the luxury goods industry benchmark of 36%. That would imply nearly €6.00 per share of earnings, pretty much double the €3.07 earned in 2017.

In 2018 earnings per share of €3.32 are anticipated, which still makes the shares look very expensive. After adjusting for the euro/dollar exchange rate, it leaves the 2018 price to earnings multiple at 34.6-times, and the market capitalisation at more than 600% of revenue.

Yet Berenberg's team are far from alone in thinking Ferrari's upside justifies the stock's current premium rating, and even a higher one down the line.

FERRARI'S SHARE PRICE



Source: Shares, Google Finance

'We need to recognize that this company keeps growing margins, keeps beating guidance and keeps announcing new product decisions that are almost guaranteed to drive growth higher to levels we never envisaged even a year ago,' Bernstein analyst Max Warburton said in May.

Ferrari sold 8,398 vehicles in 2017, led by 12-cylinder models like the GTC4Lusso and the 812 Superfast, and expects this to rise to more than 9,000 in 2018. Its ultra-wealthy clientele should mean it is as well-shielded from economic downturns as it is possible to be for any car maker, while production comes out of a single factory in Maranello in Italy, which means it doesn't have the huge fixed costs of larger volume car makers and can has more assembly lines downtime flexibility.

As well as price increases growth will come from a slew of new models, such as 488 Pista with a 710-hp V8 engine, launched at the Geneva Car Show in March, plus high-margin limited-run J50s and FXX-K Evos models. There's also talk of some sort of superior utility-type vehicle, mooted for launch in 2020/21. Ferrari is also surprisingly under-exposed in China where just 7% of deliveries went in 2017.

ASTON MARTIN COULD DRIVE FERRARI

There is also scope for a big share price re-rating if City gossip is to be believed about an IPO for James Bond sports car maker Aston Martin. Talk of a possible £4bn to £5bn valuation for the British marquee could argue for a Ferrari stock valuation of $280 or more, according to Berenberg's peer analysis assumptions.

We wouldn't be too concerned about higher production volumes undermining the prestige of the Ferrari brand, as some commentators have suggested. We think the biggest challenge to long-term growth lies in regulatory shift from petrol to electric powered cars, with several European nations putting outright petrol, bans target in place, albeit a couple, of decades out at least from now.

Yet rule changes in Formula 1 racing have already seen Ferrari embrace hybrid engine technology (combined electric and petrol engines). The company is also believed to already have a fully electric sports super car on its product roadmap, although this has not been confirmed.

SHARES SAYS: ↗

This is a higher risk investment given the current rating but on balance, we believe the production volume increase and margin improvement story will likely keep the shares price moving forwards. (SF)

BROKER SAYS: 5 3 2

Janus Henderson INVESTORS

The opportunities in volatility

Henderson International Income Trust's Fund Manager Ben Lofthouse gives his thoughts on where income opportunities are emerging amid global stock market volatility

Volatility has crept back into global markets after a good run in the past few years, but its good news for active income investors (i.e. a team of fund managers that aims to beat an index rather than a fund that tracks an index).

Uncertainty in markets is an advantage for active stock-pickers and we are seeing plenty of opportunity to add high dividend-paying stocks at good valuations to the Henderson International Income Trust.

Technology stocks have gradually become important names in the Trust's portfolio, which is not something you would have heard from an income-driven fund manager just a few years ago and is a clear reflection of the changing times.

Janus Henderson's latest Global Dividends Index revealed tech stocks have grown their dividends far more than any other sector since 2010, while bottom of the class is utilities, which is also the smallest sector weighting in the portfolio (<5%). Dividend growth momentum has been evident in the tech sector for some time and we have been monitoring the technology companies globally for opportunities to buy at attractive valuations.

There are several technology stocks in the Trust's top ten holdings, including Taiwan Semiconductor Manufacturing (2.7%), Cisco Systems (1.9%) and Microsoft (3.7%), which is also the Trust's largest holding overall.

ACTIVE ADVANTAGES

An advantage of volatility in markets for active managers is the ability to capitalise on nascent

trends – and the reversal of trends. For example, oil companies and banks are showing signs of a return to their high-dividend paying days pre-financial crisis. This comes after a substantial period of financial turbulence for both sectors.

The financial sector was targeted by regulators around the world in the wake of the crisis. In the main, banks, insurers and lenders were instructed to improve their balance sheets with stronger reserves and rainy day money. That did lead to a dip in the sector's dividends for some time. Since then, lots of financial companies have been increasing capital positions and economic growth has helped them improve their financial health, so we are seeing better than expected growth from the banking sector across the board.

Banks make up roughly 15% of the Henderson International Income Trust (HINT) portfolio and our exposure is globally diversified, including but not limited to Japanese group Mitsubishi

UFJ Financial, China Construction Bank, Natixis and Nordea, while Dutch banking conglomerate ING Groep is the largest bank holding in the portfolio at 1.81%.

The oil sector's dividend-paying ability suffered after a pretty hefty shock between 2014 and 2015 when the price of crude oil dropped more than 50%. Following that shock, many companies were failing to cover their dividends even when oil was $100 per barrel a day.

Now they are very focused on generating cash and for the first time in years they are covering their dividends with cash. We have been increasing exposure to them gradually over the past 18 months with the additions to the portfolio US companies Occidental Petroleum and Chevron.

PRIORITISING PRUDENCY

The purpose of HINT is to provide global diversification and that means maintaining a diversified portfolio both geographically and on a sector basis. The US is our biggest country weighting (36%), with China (9.3%), France (8.7%), Germany (8.3%) and Switzerland (8.1%) completing the top five country exposures.

As well as maintaining sufficient diversification, it is also important to consider value. Valuations are important to total return, income is one part of it, and the value at the point of investment also has a significant impact on your longer term capital returns.

The Trust is currently not using the gearing facility (the ability to borrow money). We have the ability to add up to 25% and we have been up to 16% before. We tend to be counter cyclical to the market with the gearing, so by that I mean investing in companies whose attractions are underappreciated and using the gearing when people are worried about markets. At the moment people are worried about lots of things but the actual level of the market has appreciated a lot over the last couple of years, so we've allowed the gearing to run down.

Looking ahead, the global dividends prognosis is good. Dividends tend to lag earnings, which are strong, and the tax changes in the US are generating much higher earnings with some of that expected to come back in dividends. Commodity prices are higher, which in part will generate much more sustainable dividends and on top of that interest rates are still low, so I think we could see good dividend growth over the next 12 months.

SLI Property shrugs off property market concerns with new spending spree

The 5% yielding investment trust has a simple approach to property investing

There are plenty of distractions for an investor in UK property at present as the Brexit process continues along its torturous route, yet the manager of **SLI Property Income (SLI)** Jason Baggaley likes to maintain a simple approach.

In his words, 'I like to buy things that excite me'. More fundamentally he aims to buy commercial property assets which can provide an attractive level of income, focused on 'good properties, in good locations, with good tenants'. This underpins a 5% dividend yield paid in quarterly chunks to shareholders.

He also pursues an active approach to managing the portfolio beyond just buying and selling assets.

By remaining plugged in with his tenants Baggaley says he does not need to be obsessed with securing assets on long leases as most of them are not interested in incurring the costs and disruption of a move anyway so long as their properties are fit for purpose.

The top 10 assets account for more than 30% of the entire portfolio which is weighted towards the South East in geographic terms, with an additional bias towards the industrial or logistics space.

Denby Hall – A regional distibution centre, warehouse or industrial unit. (Computer generated image)

Jason Baggaley – manager of SLI Property Income

TOP TEN HOLDINGS

£18-20m	Denby 242
£16-18m	Symphony
£14-16m	Chester House
£12-14m	Pinnacle
£12-14m	New Palace Place
£12-14m	Hollywood Green
£12-14m	Charter Court
£12-14m	Howard Town Retail Park
£12-14m	Timbmet Distribution
£12-14m	Unit 1 March Way

Source: Standard Life Investments website

KEEPING IT SIMPLE

Baggaley says he likes the simplicity of this asset type relative to retail where you need a good understanding of industry trends and dynamics.

The company recently completed three acquisitions for a combined £32.5m (5 Jul). This included a data centre office in Birmingham, an industrial building in Kettering and, showing that Baggaley is not too dogmatic about his cautious retail stance, an office and retail unit in the City of London close to Bank and Moorgate stations.

'The purchase of the City office reflects an opportunity to re-enter that market at an attractive price point, especially as 20% of the income is secured against two small retail units that trade very well and we look forward to marketing the two vacant floors to increase the yield on the property,' Baggaley says.

These deals helped Baggaley recycle some of the cash banked from asset sales. He sets store by having the discipline to sell at the right time – particularly if there is a risk of a property sitting vacant or if a building is likely to require significant investment in the near future.

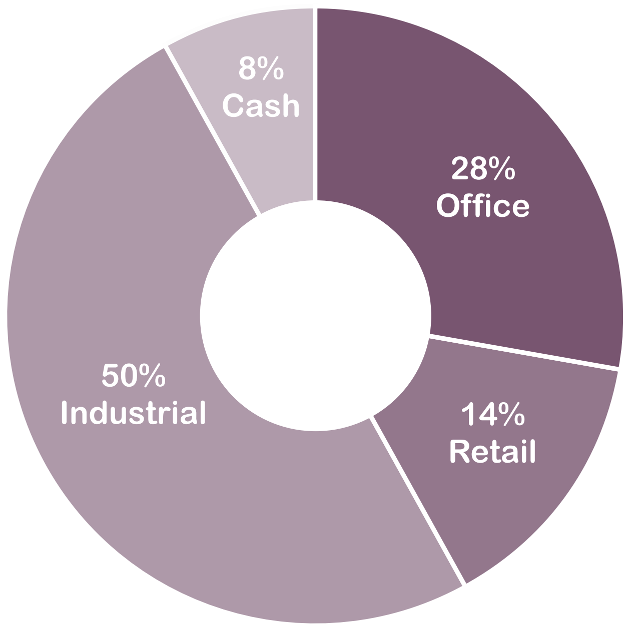
Researchers at Edison note the current 6.5% premium to net asset value (NAV) is just below average premiums over one, three and five years with the trust issuing shares to limit the premium.

Its NAV total return has come in ahead of the IPD Monthly Index Funds benchmark on a one, three, five and 10-year view and Baggaley remains 'cautiously optimistic' on UK property. (TS)

SECTOR ALLOCATION

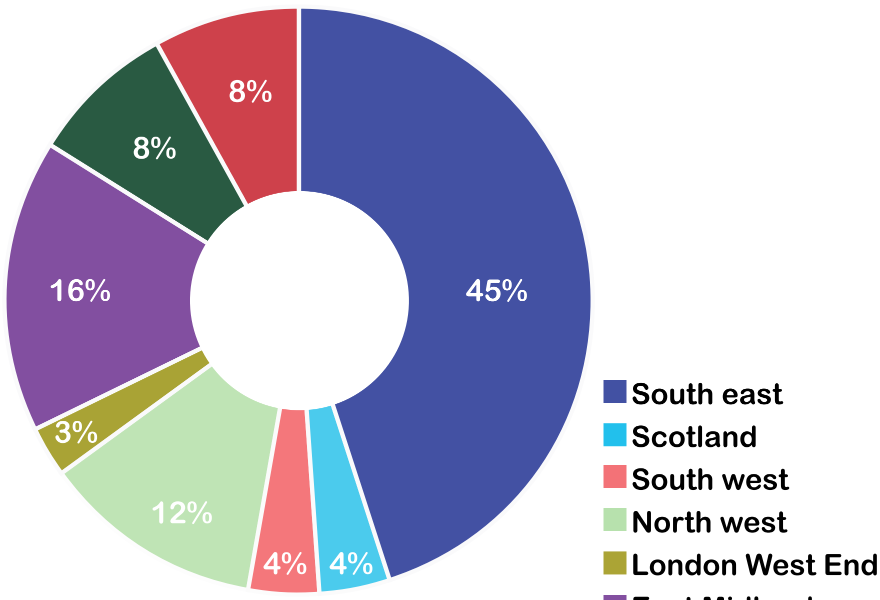
Diversified by asset and location

Portfolio % allocation by sector (including cash)



Source: Aberdeen Standard Investments, 31 March 2018

Portfolio % allocation by region



Source: Aberdeen Standard Investments, 31 March 2018

How diversified do funds really need to be?

Focusing purely on how concentrated funds are in certain sectors is not always helpful

Investors backing a UK All Companies fund might think they are getting exposure to a spread of businesses across lots of different sectors, but they may need to check closely to make sure.

There are more than 250 funds in the UK All Companies sector, all tasked with finding UK-listed companies worth investing in. But the styles and approaches of these funds vary greatly. Many may not be what they first appear.

A number of funds concentrate their efforts on just one or two sectors, which could leave investors who don't do their research over-exposed to particular industries.

CONCENTRATED ON A HANDFUL OF SECTORS

Lindsell Train UK Equity (GB00B18B9X76), for example, has more than 90% of its investments in just three sectors: consumer cyclicals, consumer defensives, and financial services. Meanwhile, the £5.4bn fund has no investments in the utilities, real estate, healthcare, industrial or communications industries.

Ardevora UK Equity (IE00B3WN9227) has almost 50% of its assets in just two sectors, and **Unicorn UK Growth (GB0031217937)** has 75% of its investments across three.

That these funds are so concentrated certainly doesn't seem to have affected their performance. Unicorn UK Growth has returned 115.4% over the past five years – more than double the sector average of 56%.

The Lindsell Train fund has returned 96% and Ardevora 86%, making them both top-quartile performers in their peer groups over the period.

THE BENEFITS OF GENUINE ACTIVE MANAGEMENT

Tom Becket, chief investment officer at Psigma IM, says: 'I'm a big believer in genuine active management and fund managers investing in areas where they have the greatest expertise. If you look at something like Lindsell Train, there is a genuine skill for stock-picking in certain sectors.'

Lindsell Train UK Equity has a bias towards consumer-branded goods, internet and media companies, financials and healthcare. Rather than this sector concentration adding risk to the fund, the team says the fact they only invest in 'exceptional' companies that have a low likelihood of disappointing means quite the opposite.

A Lindsell Train spokesman says: 'For us, the definition of exceptional is a company that is likely to be profitably in business in 20 years' time. Surprisingly few meet this test.

'We are looking to identify durable businesses with high dividend-paying potential and our many years of investing leads us to find such businesses predominantly in these industry categories.'

Peter Michaelis manages the **Liontrust UK Ethical (GB00B84BWN15)** fund, which has 50% of its assets in two sectors: consumer cyclical and financial services stocks. The fund has zero exposure to four sectors and less than 3% of its money in a further two.

Sector concentration is, perhaps, more inevitable in an ethical fund. As part of its screening process it immediately rules out companies involved in oil and gas, tobacco, arms and animal testing. That means no energy or healthcare investments and very few in the consumer staples sector.

STRONG CONVICTION

Michaelis says: 'We invest in companies that are more sustainable and linked to long-term positive trends such as energy efficiency and digital security. If investors want exposure to the entire index they should just buy a passive fund.

'Active funds should be actively managed. You are paying for manager's skill in choosing the best companies where they have strong conviction.'

Richard Curling, manager of the **Jupiter UK Alpha (GB00B457WC97)** fund, also points out that focusing purely on sectors may be misleading.

His fund, for example, has around a quarter of its assets in financial firms but these include banks, insurers and a litigation company. He says: 'These all come under the banner of financials but they're quite different businesses, so we may look more concentrated than we really are.'

His fund takes the best ideas from the various other UK funds at Jupiter, but there is a cap on how far overweight it can go on sector exposure compared to the index in case managers have ideas within the same industries.

Becket adds: 'While managers should do what they do best, I also believe in diversification. You shouldn't put all of your eggs in one basket, especially if the fund manager has already put all of his eggs in just one or two baskets.'

THE BENEFITS OF CAREFUL RESEARCH

He says investors should be sure to do their research when picking funds to ensure they are not over- or under-exposed to any particular sectors. If all of your funds have a bias towards financial firms, for example, and there's another financial crisis, the value of your investments could all fall at once.

Investors can find out where their money is invested by checking a fund's fact sheet, which will typically show a breakdown of the sectors where the manager has put his money.

For those who are concerned about being over-exposed, using a so-called 'core and satellite' approach to investing may be a good choice. This mean picking a wider-reaching, diversified fund as your main holding and then picking out some specialist investments, which focus on a particular area such as healthcare or technology, or where the manager has a specific style.

Curling adds: 'Managers need to be very clear about what their biases and style are and what risks that exposes them to. Investors might think they are getting generalist all-round exposure to the market and sometimes that is not the case.' (HB)

EXAMPLES OF FUNDS WITH HIGH EXPOSURE TO CERTAIN SECTORS

	Allianz UK Mid Cap A Acc	Ardevora UK Equity B GBP Acc	Jupiter UK Alpha	Jupiter UK Growth fund	L&G UK Alpha Trust R Acc	LF Lindsell Train UK Equity Acc gain / loss
Portfolio Date	30/04/2018	30/04/2018	30/04/2018	30/04/2018	30/04/2018	31/05/2018
Basic Materials	7.51	19.21	12.43	6.46	2.27	0.00
Communication Services	0.00	0.00	6.04	5.15	2.49	0.00
Consumer Cyclical	11.95	11.08	23.01	34.20	4.61	27.64
Consumer Defensive	0.00	3.84	11.61	0.00	0.00	37.76
Healthcare	4.56	20.90	4.23	3.54	14.77	0.00
Industrials	26.69	28.91	10.71	13.31	14.37	0.00
Real Estate	0.00	0.00	0.00	1.06	4.36	0.00
Technology	29.38	1.37	1.51	9.00	39.81	-22.7
Energy	5.84	0.00	8.57	0.00	5.06	0.00
Financial Services	11.62	3.24	31.28	26.19	4.82	8.91
Utilities	0.00	3.74	2.96	0.00	25.68	0.00

The A to Z of fund share classes

We look at some popular funds to explain what different letters mean for retail investors

Investors can often find it difficult to find the right fund out of thousands at the best of times, but have you ever wondered what the various letters attached to individual collectives mean?

For investors looking for a good deal, these letters are important and can determine whether you end up paying more for the same fund and whether that fund is even available to ordinary investors.

Back in 2014, fund managers brought in funds with no commission levied on them after the Financial Conduct Authority (FCA) banned the payment of trail commission by managers to investment platforms.

For example, **Guinness Global Equity Income Fund** comprises four different share classes, which are Y, X, Z and C.

For retail investors looking for the most competitive price, **Guinness Global Equity Income Fund Y (IE00BVYPNY24)** features the lowest ongoing costs at 0.99% and complies with Retail Distribution Review (RDR) rules.

In some cases, this type of fund can replace the legacy class X version, which has a higher charge of 1.24%.

Guinness Global Equity Income Fund Z (IE00BQXX3N15) is a bookbuild class which was used to build the fund to a critical mass of approximately

£100m before being converted to a Y class. Ongoing charges are low at 0.74% to appeal to early adopters of the fund.

The most expensive is **Guinness Global Equity Income Fund C (IE00B3PB1722)** with an ongoing charge of 1.99% and an initial fee, but this fund is non-RDR compliant and only suitable for offshore advisers with a set amount of money.

THE DIFFERENCE IS NOT ALWAYS SIGNIFICANT

In some cases, the different share classes may not have a big impact on charges. **Neptune Global Equity Fund C (GB00B8DLY478)**, the newest Neptune fund following the FCA rules, has a 0.96% ongoing charge.

The older and bundled version, **Neptune Global Equity Fund A (GB0030679053)**, has an ongoing 0.94% charge after 0.92% is rebated from the original 1.7% charge.

Investors should be wary as some investment platforms rebate costs and have lower fees for individual funds, but these may not be available if they invest in a fund directly.

AJ Bell active portfolios head Ryan Hughes says for some funds R stands for retail and I for institutional, with the latter being the cheapest.

'The problem with the I class for direct investors is that unless they are investing through a platform like AJ Bell, the minimum investment on the I class can often be at least £1m, if not higher,' comments Hughes.

He recommends investors take a close look at the charges to make sure they invest in the correct share class if there is more than one. (LMJ)

Three quick ways to measure the second-quarter results season in America

What are the latest earnings reports from US companies telling us?

By Russ Mould, investment director, AJ Bell

For all of President Trump's tax cuts, a share buyback and acquisition bonanza and ongoing enthusiasm for tech stocks and the FAANGs in particular, America's headline S&P 500 index is up by just 2% for the year in dollar terms, which some advisers could argue seems like a pretty paltry return given how bullish everyone seems to be.

Worries over tariffs, inflation and a steely Federal Reserve, which seems unwilling (quite rightly) to mollycoddle the markets, are all weighing on share prices and once Independence Day is out of the way investors will start to focus in the second-quarter earnings season. The revs will really start to hit top gear on Friday 13th when megabanks JP Morgan Chase, Citigroup and Wells Fargo will publish their latest earnings.

After 20% year-on-year growth in Q1, the consensus is looking for a 38% advance in Q2, buoyed by tax cuts, share buybacks, initial dollar weakness and also a strong operational performance from oil and tech firms in particular.

Estimates have crept consistently higher but the dollar is now rising again – which will lessen the value of profits made outside the US once translated back into the American currency – and surveys such as the ISM purchasing managers' survey, NFIB smaller business optimism index and the NAHB housebuilders' sentiment survey are all flagging future price rises or cost pressures, with some identifying the President's trade sanctions and tariffs as the root cause of this trend.

US stocks trade near all-time highs and it is easy to see why, since profits are at an all-time high and so are operating margins across the S&P 500's members.

ANALYSTS ARE LOOKING FOR ANOTHER BIG YEAR-ON-YEAR LEAP IN US EARNINGS IN Q2

Source: Standard & Poor's

FLOOD OF FIGURES

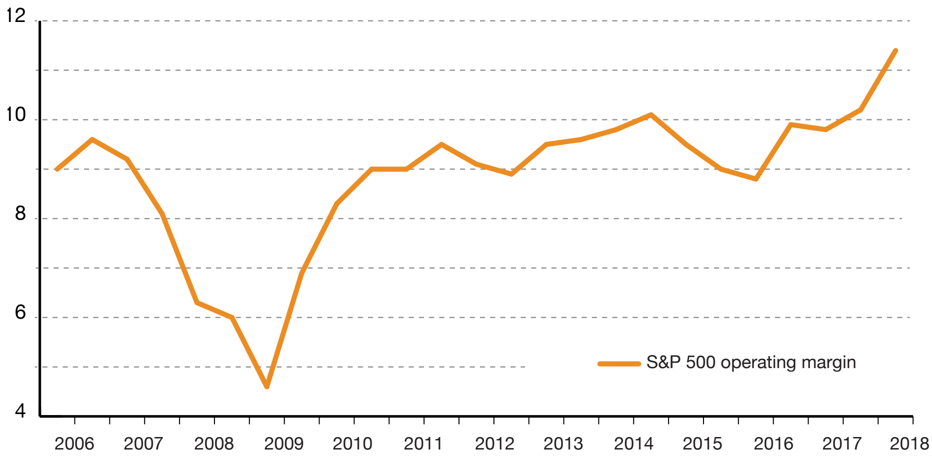
But that also means growth forecasts must be met and margins maintained or increased to keep stocks going ever-higher. No-one is expecting a 2008-09 style margin collapse but with US stocks having done so well

ANALYSTS HAVE CONTINUED TO UPGRADE THEIR US EARNINGS FORECASTS IN 2018

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Change in 2018
EPS estimate for Q2 2018	$ 33.78	$ 33.72	$ 33.56	$ 33.97	$ 35.64	$ 36.54	7.6%
EPS estimate for Q3 2018	$ 35.96	$ 35.59	$ 35.59	$ 35.95	$ 38.49	$ 38.65	7.5%
EPS estimate for Q4 2018	$ 39.08	$ 39.11	$ 38.70	$ 38.51	$ 41.84	$ 42.16	9.5%

Source: Standard & Poor's

AGGREGATE PROFIT MARGINS AT THE MEMBERS OF THE S&P 500 ARE NEAR RECORD HIGHS AGAIN



Source: Standard & Poor's

It is of some concern to see the Dow Jones Transportation index roll over. It is now down 1.5% for the year, compared to the 2.0% gain in the S&P 500.

This does not sit easily with estimates for 3.5% to 4.0% GDP growth for the USA in the second quarter but stock markets look forwards, not backwards, and the implication may be that that America may not be able to win any trade war or keep growing at such a speed independently of events across the rest of the world in the future.

even a dip in corporate returns on sales may not be received too well.

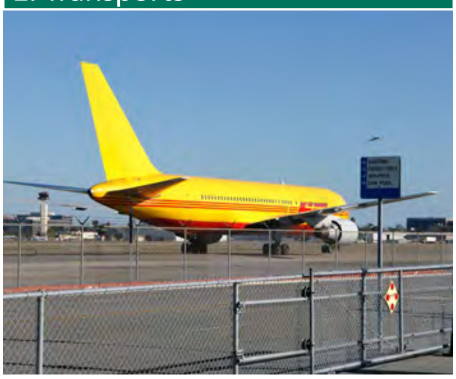
However, checking all of the results statements is too laborious a chore for any adviser or client: 61 members of the S&P 500 will report in the week beginning 16 July, 183 more in the week of 23 July and 144 in the week of 30 July, according to Standard & Poor's.

To spare investors from reading a lot of statements and listening to a lot of webcasts, three useful stock indices might help to cut out some of the donkey work and help to take markets' temperature as the numbers flood in.

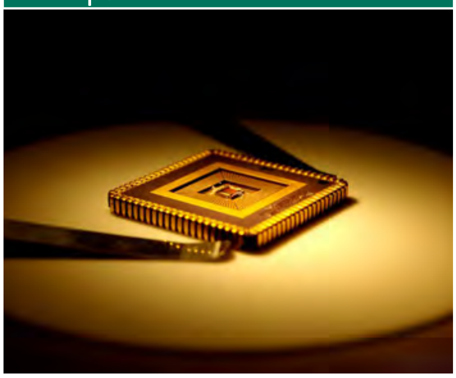
THREE TESTS

They are the Dow Jones Transportation index, the Philadelphia Semiconductor index (known as the SOX) and the Philadelphia Banks index. They tap into three key sectors of the US economy and stock markets and tend to be good indicators of wider sentiment – while the past is by no means guaranteed to repeat itself, the S&P 500 tends to do well when they are doing well and badly when they are doing badly.

1. Transports



2. Chips



The Philadelphia Semiconductor index, or SOX, contains 30 companies who are involved in the design, manufacture and sale of silicon chips and it is therefore a very useful guide for investors on two counts.

These integrated circuits are everywhere, from smart phones to computers to cars to robots, so they offer a great insight into end demand across a huge range of industries and therefore the global economy.

Chip-makers' and chip-equipment makers' shares are generally seen as momentum plays, where earnings growth is highly prized and valuation less of a consideration. As such they can be a good guide to broader market appetite for risk.

The whole index has sagged a little and Intel's numbers on 26 July – and the market's reaction to them – could be a key test.

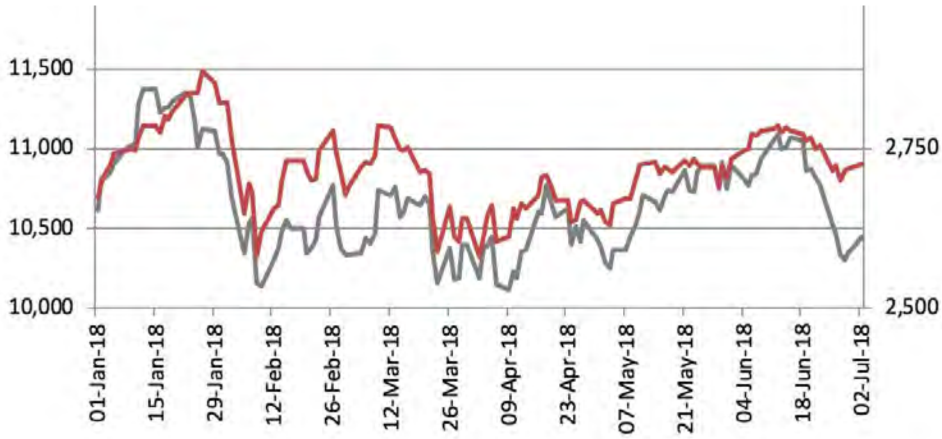
3. Banks

American banks stocks suffered a shocking run at the end of June as investors nervously awaited the latest Federal Reserve stress tests. Deutsche Bank's US operations failed and others, notably Goldman Sachs and Morgan Stanley, were told to leave dividends and buybacks broadly unchanged so they could top up their capital buffers.

But it could have been a lot worse so perhaps the banks will now kick on again.

Both the economy and the financial markets do need healthy banks if they are to thrive so any further weakness in the Philadelphia Banks index could warn of economic and market troubles ahead – the sector lost momentum well before indices such as the S&P 500 in early 2007, before the Great Financial Crisis broke.

1. US TRANSPORT STOCKS SEEM TO BE LOSING A BIT OF STEAM

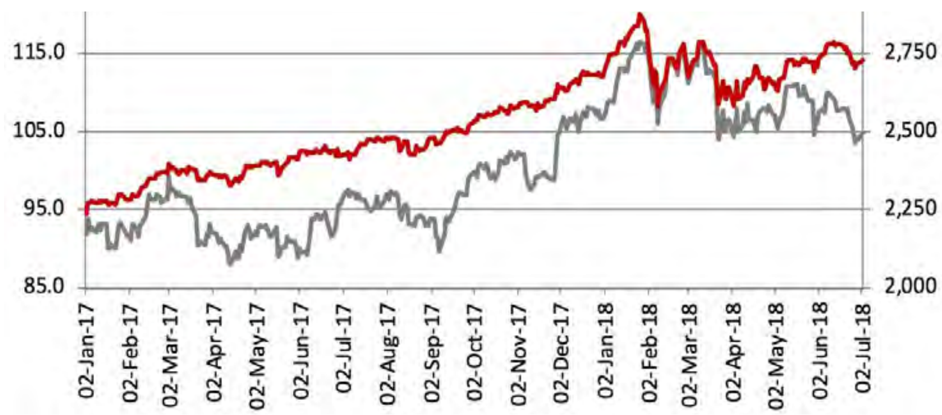


Source: Thomson Reuters Datastream

2. SILICON CHIP INDEX LOOKS A LITTLE SOGGIER THAN OF LATE

Source: Thomson Reuters Datastream

3. US BANKS STOCKS HAVE LOST A LITTLE LUSTRE



Source: Thomson Reuters Datastream

Is there still a place for bonds in your portfolio?

We debate whether fixed income assets are still a useful diversification tool

In the past, before extraordinary monetary policy became a mainstay of central bank decisions across the world, holding bonds in your portfolio was a popular way of investing.

Some government bond yields across Europe have moved into negative territory due to asset purchases by the European Central Bank as prices (which move inversely to yields) hit record highs.

And investors looking for material income from this asset class in the UK will be sorely disappointed. David Roberts, global head of fixed income at Liontrust, says 'would I lend money to the UK government for 10 years for 1.25%? not a chance'.

UK government bonds or gilts are the most easily accessible government debt instrument available to UK investors.

However, there are a plethora of reasons why they might not be the best type of bonds to hold in this part of the economic cycle. Paul Jackson, head of multi-asset research at Invesco says there was a time when he was saying that the UK looked the most interesting government bond because he thought yields would go up in line with rising interest rates.

'My concern is that Brexit limits how much the Bank of England can tighten if at all,'

Jackson says. 'The weakening of the economy would bring down gilt yields, therefore I don't see much interest because in real terms looking at the inflation linked index you're getting a sizeable negative yield'.

He adds that if he was 25 years old he would stay away from gilts due to the lack of returns, although as someone gets older the asset class' use for diversification becomes more interesting.

A DIVERSIFICATION TOOL

Holding high grade bonds, either highly rated sovereign bonds or triple A investment grade bonds issued by companies can be a means of diversifying a portfolio.

James de Bunsen, a portfolio manager at Janus Henderson, makes the point that diversification is very valuable but only applies to government bonds and to some investment grade. He adds that riskier bonds act more like equities.

For yield starved investors looking for income they offer the prospect of higher yields but at the cost of going significantly up the risk spectrum.

Although bondholders are ahead of shareholders in the queue if a company goes bust, it could still default on its bond payments or coupon.

He adds retail investors should stick to sovereign bonds with the main risk to understand being the direction of interest rates. Once used to these assets, they may want to want to move into areas such emerging market bonds with higher yields 'where you get real returns'.

Another option in the bond space is retail bonds, which are available via the London Stock Exchange's ORB platform.

USING BOND FUNDS

Holding one or two retail bonds is not going to provide much diversification, so it may be more prudent to invest in a bond fund. Ben Edwards manages both the **BlackRock Corporate Bond Fund (GB0003749982)** as well as the firm's **Sterling Strategic Bond Fund (GB00BZ6DDJ74)**.

Edwards likes to invest in the triple BBB and double BB rated corporate bond space as this can offer the most upside. This is where it really makes sense to pay for professional expertise as there are plenty of risks to navigate.

Triple-B and double-B is the link between the lowest type of investment grade and the highest part of high yield or 'junk' bonds.

For Edwards, these classifications are 'arbitrary'. If I looked at the double B space in sterling most people would not be worried about these companies, the Tescos, the Sainsburys, the Jaguar Land Rover of this world. These aren't in investment grade indices.'

However, Edwards adds that the bond market valuations have been quite rich recently so he has moved into government bonds waiting for corporate bonds to become cheaper. It's similar to managers moving into cash when equities have become expensive as both are low-risk places to park your money.

> People aren't going to lose a lot of money holding bonds but aren't going to make a great deal either

BONDS AROUND THE WORLD

With many managers bemoaning the state of the UK gilts at the moment, where is a good place for an investor looking for government bonds to go hunting? The US is highlighted by a couple of managers as US Treasuries yields have picked up of late.

John Stopford, a multi-asset manager at Investec, thinks Australian state bonds offer attractive yields at decent prices although concedes these are difficult for UK retail investors to access.

His conclusion seems apt, 'people aren't going to lose a lot of money holding bonds but aren't going to make a great deal either'. (DS)

Understanding Vanguard LifeStrategy funds and how they work

We take a look at the competition for this popular series of funds and how recent criticisms of them stack up

Many people will have heard of (and be invested in) Vanguard's LifeStrategy range of funds. The funds are intended to be a one-stop-shop for investors, giving access to different asset classes at a cheap price.

They have proved popular with investors, with the amount invested in them doubling to £10bn since February.

However, recent action by the City watchdog, the Financial Conduct Authority, that forced asset managers to reveal the true cost of funds has shown the funds to be more expensive than thought. The funds have also come under criticism as the investments do not change according to current market conditions quickly enough.

WHAT IS ON OFFER?

There are five funds in the LifeStrategy range, which invest in stock markets and bonds. Each fund has a different allocation to stock markets, ranging from 100% to 20%. The remainder of the allocation is to bonds. One shortcoming is that the funds do not invest in any other assets, such as property, commodities or infrastructure.

The funds invest in low-cost 'passive' funds to get exposure to the markets. These funds track a market or index, such as the FTSE 100, and mimic their performance.

The funds are marketed as costing just 0.22% a year, a low figure for a ready-made portfolio. However, figures released this year show that the extra costs on the funds, not included in this figure, are higher than many in the industry thought.

These transaction costs, which include the cost of buying and selling different investments, range from 0.08% for **LifeStrategy 100% (GB00B41XG308)** up to 0.13% for **LifeStrategy 80% (GB00B4PQW151)** and **LifeStrategy 20% (GB00B4NXY349)**.

WHO DECIDES WHERE THE FUNDS INVEST?

Many of the Vanguard funds are run by computers, which automatically rebalance the portfolios every day.

However, a committee of people decides whether the allocations should change every three months – for example they may decide that more money should be invested in emerging markets and less money be allocated to the US.

Because this committee only meets four times a year, it means the funds will not react to day-to-day changes in politics, economies etc. For example, the fund allocations would not change based on the recent trade tariff moves between the US and China, or on the latest missive on Brexit.

A spokesperson for Vanguard said: 'We believe that a strategic, as opposed to tactical, approach to asset allocation gives investors the best chance of investment success. Market timing is extremely difficult, even for professional investors.'

The funds are built on a market capitalisation-weighted basis – the largest companies in the indices carry a higher weighting than the smallest companies. This means the funds have a higher allocation to large companies – which over time may not deliver as high returns as small or medium-sized companies.

The funds also have a UK bias. While the UK makes up around 6% of global stock markets, 25% of the stock market portions of the Vanguard funds are allocated to the UK. However, Vanguard plans to reduce that over time.

A spokesperson for Vanguard said: 'Investors often prefer to hold more in their home market. Over the past few years we have been gradually reducing this tilt in the fund range.'

HOW HAVE THE FUNDS PERFORMED

Taking a look at the performance the **LifeStrategy 60% (GB00B3TYHH97)** fund, which is the most popular with investors, who have put £3.7bn of money into the fund, it delivered 8.8% performance each year over the past five years. This compares to 7.5% per year over the same time period for its peer group.

During the same period the LifeStrategy 80% fund, which has 80% invested in global stock markets, has returned 10.4% a year for the past five years, compared to 7.5% per year over the same five years for its peer group.

WHAT IS THE COMPETITION?

While Vanguard LifeStrategy is the fastest growing fund range, there are competitors out there.

Asset management giant BlackRock has a similar set of funds, called Consensus. They have a more flexible allocation to stock markets, for example the **BlackRock Consensus 85 (GB00B8D7RH96)** fund can be between 40% and 85% invested in shares. The funds typically cost 0.23%.

AJ Bell also has a range of funds, with annual costs capped at 0.5%, running from **Cautious (GB00BYW8RV97)** to **Adventurous (GB00BYW8VG25)**. The Cautious fund invests mainly in bonds and cash-like assets, with a small allocation to stock markets, while the Adventurous fund is mainly invested in shares and high-yield bonds. There is currently no custody charge and no charge to buy the funds on the YouInvest platform.

> **Investors often prefer to hold more in their home market. Over the past few years we have been gradually reducing this tilt in the fund range**

> **While Vanguard LifeStrategy is the fastest growing fund range, there are competitors out there. BlackRock, AJ Bell, L&G and Standard Life also have a range of funds**

L&G also has a range of eight funds, called the 'Multi-Index' funds – five target growth while three target income. Ongoing charges range from 0.31% to 0.39%.

Standard Life offers the MyFolio range, which is pricier at between 0.45% and 0.52% annual costs. The range runs from **MyFolio Market I (GB00B7KSN259)**, which invests more in cash and bonds, to **MyFolio Market V (GB00B3T5XZ20)**, which has around 90% invested in shares.

Laura Suter,
personal finance analyst, AJ Bell

The retirement investing mistakes that could cost you dear

Some common errors people make when planning for post-work life

Savers now have almost limitless options when it comes to spending and investing their retirement pot.

Flexible rules mean from age 55 you can keep your fund invested, take a regular income, access ad hoc lump sums or secure a guaranteed income by purchasing an annuity from an insurance company. For many, a combination of these will be the most suitable approach.

Staying invested in retirement gives you the opportunity to grow your fund and, if you want to, pass it on tax efficiently to loved ones when you die. However, there are also numerous pitfalls to navigate as you look to make the most of the freedom on offer.

Here are just a few of the common retirement mistakes you should avoid.

INVESTING ALL YOUR FUND IN CASH

According to the Financial Conduct Authority (FCA), the City regulator, around a third of retirement investors who don't have an adviser are entirely invested in cash.

While this might be sensible if you are planning to withdraw money from your fund in the near future (and so want to avoid any stockmarket fluctuations), it is unlikely to be a sensible long-term strategy.

In fact, the FCA says over a 20 year period someone could increase their annual income by a third if they invested in a mix of assets rather than just cash. You should also remember that, with inflation currently running at 2.4%, any money sitting in cash is losing value in real terms.

OVERPAYING IN CHARGES

Small differences in the costs and charges you pay for investing your pension pot can make a big difference over the long-term. When it comes to taking an income, the FCA says the charges levied by providers range from 0.4% to 1.6%.

By switching from a higher cost provider to a lower cost provider, the regulator says you could increase your annual income by 13%. For an individual with a pot of £100,000 this would be an extra £650 per year.

This is one of the reasons why it's critical you shop around before choosing both a provider and pension product.

TAKING TOO MUCH RISK WHEN MAKING BIG WITHDRAWALS

While taking too little risk in retirement could cost you dear (see 'Investing all your fund in cash'), taking too much at the same time as making big withdrawals could spell disaster for your long-term plans.

Take someone who invested a £100,000 fund in the FTSE All Share, paying 1% in pension and administration charges. They withdraw £10,000 a year in income from their pot.

If they started taking an income in 2007 – just before the financial crisis hit – they would have withdrawn £100,000 by December 2017 but would only have £16,400 left in their fund.

If the same person started taking an income at the end of 2008 – at the beginning of the bull run – they would have taken £90,000 of income and still have a fund worth over £113,000.

While clearly circumstances can dictate retirement outcomes, it is important you take these into account when setting and reviewing your investment and withdrawal strategy.

Tom Selby, senior analyst, AJ Bell

Will the CYBG tie-up with Virgin Money be any match for the big banks?

The re-emergence of consolidation in the banking space is not just a matter of necessity

Now challenger banks **CYBG (CYBG)** and **Virgin Money (VM.)** have agreed terms, they are entering into an unchartered area of banking, challenger plus perhaps.

Neither as large as the big boys but with significantly more scale than the dwindling number of challenger banks elsewhere on the market.

To create a truly full service bank, CYBG and Virgin Money needed changes to make it a more level playing field.

Banking regulator the PRA granted approval for Virgin to reduce the amount of capital it needed to hold against mortgages also known as mortgage risk weighted assets to around 13%.

This in turn boosted its common equity tier 1 (CET1) capital to 16%, a 250 basis points improvement in its buffer against economic shocks.

The disadvantage the smaller banks had was that for taking exactly the same credit risk the smaller lenders have to set aside ten times more capital than the six biggest banks. Now ex-Tory MP Andrew Tyrie is chair of the Competition and Markets Authority he has changed this rule, boosting challenger banks CET1 ratios.

CYBG ALSO GRANTED MORTGAGE RELIEF

CYBG should be granted its Internal Ratings Based (IRB) approach to mortgage risk weighted assets by 1 October, thought to be around 14%.

This is a big drop from the current 37% and should free up £432m of excess capital. This is equivalent to 30p per share of the combined entity.

According to Alex Medhurst, analyst at investment bank Berenberg, the tie-up between the financial institutions should be 15% accretive to 2021 earnings per share (EPS) figure, although his stated forecasts do not extend to this year.

He adds that due to restructuring and rebranding costs the first three years post deal will result in lower EPS.

The use of the Virgin name will cost £12m from year one and increases to £15m from year four. However, Virgin is already paying to use the brand name now so it would be odd if this practice was not continued.

One key sign of a bank's profitability is it's net interest margin (NIM) and here the tie-up looks compelling. The combined entity will have a NIM of just under 2% which compares favourably to the **Royal Bank of Scotland (RBS)**, for example, which has a NIM of just above 2%.

According to Berenberg's Medhurst, if the combination can achieve its targeted synergies it can achieve a cost to income ratio below 50%. 'This is significantly lower than we believe either CYBG or Virgin Money could achieve on a standalone basis, and goes a long way towards unlocking attractive returns for shareholders,' he adds. (DS)



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Eve Sleep's nightmare update

Management missteps, weaker big ticket spend and hot competition slow progress at the premium memory foam mattress seller

A disappointing trading update (2 Jul) and the sacking of CEO Jas Bagniewski have turned premium memory foam mattresses seller **Eve Sleep (EVE:AIM)** from a dreamy growth stock into a near-term nightmare, judging by the share price reaction.

Weaker consumer spending and management missteps were blamed for slower growth, but investors also need to factor in hot competition from e-commerce mattress rivals.

Neil Woodford-backed Eve Sleep warned sales fell short of expectations in the half ended 30 June, thereby delaying UK profitability from Q4 2018 and triggering Bagniewski's immediate departure.

Group sales grew 61% to £18.6m, tracking well behind full year expectations for 100%-plus growth, albeit Eve continues to outperform the broader big ticket market with UK & Ireland and international sales both up by roughly 60%.

WAKING UP TO COMPETITIVE THREATS

Eve attributed the growth slowdown to the challenging consumer spending backdrop and 'the fact that key growth initiatives have been launched at the latter end of the half and as such are yet to generate a meaningful financial contribution'.

It also explained 'management has made some strategic missteps, underestimating what is required to develop a meaningful footprint across Continental Europe, while losing focus on creating an aspirational sleep brand in its core markets.'

However, Eve Sleep will also be feeling the heat from disruptive direct online mattress competitors *Simba*, *Casper*, *Emma* and *Leesa* as well as traditional mattress brand *Tempur*.

Despite claiming first-mover advantage in Europe, e-commerce rivals threaten its ability to win market share against traditional mattress players, while many consumers may well have reached 'peak stuff'.

Now on the hunt for a new CEO, Eve Sleep will refocus its strategy from scaling across multiple new countries to prioritising investment into core growth markets (principally the UK and France).

SWEET DREAMS

But it certainly isn't all bad news. Eve has a net cash balance sheet and has bagged a major new partnership with bed retailer Dreams which should benefit the traditionally stronger second half.

A first for Dreams with a mattress in a box brand, the partnership will see the eve mattress sold nationwide in 193 Dreams stores and through its website.

It increases Eve's retail presence across its three largest markets to 331 stores, building on partnerships with Next Home, Fenwick and **Debenhams (DEB)** in the UK, Karstadt in Germany and BUT in France.

Chairman Paul Pindar remains convinced 'the sleep market will continue to transition online, that the opportunity to build a new brand of size and strength is significant and that eve is well placed to achieve this.'

That being said, Peel Hunt has placed its 135p price target under review and downgraded its recommendation from 'buy' to 'hold', also reducing its 2018 turnover forecast from £59.9m to £41.5m for an estimated EBITDA loss of £18.5m.

Competition can put a serious dent in a company's long-term growth prospects and confidence in Eve Sleep has certainly been rocked by the unsettling update at 25.2p. (JC)

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KEY

- **Main Market**
- **AIM**
- **Fund**
- **Investment Trust**