STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

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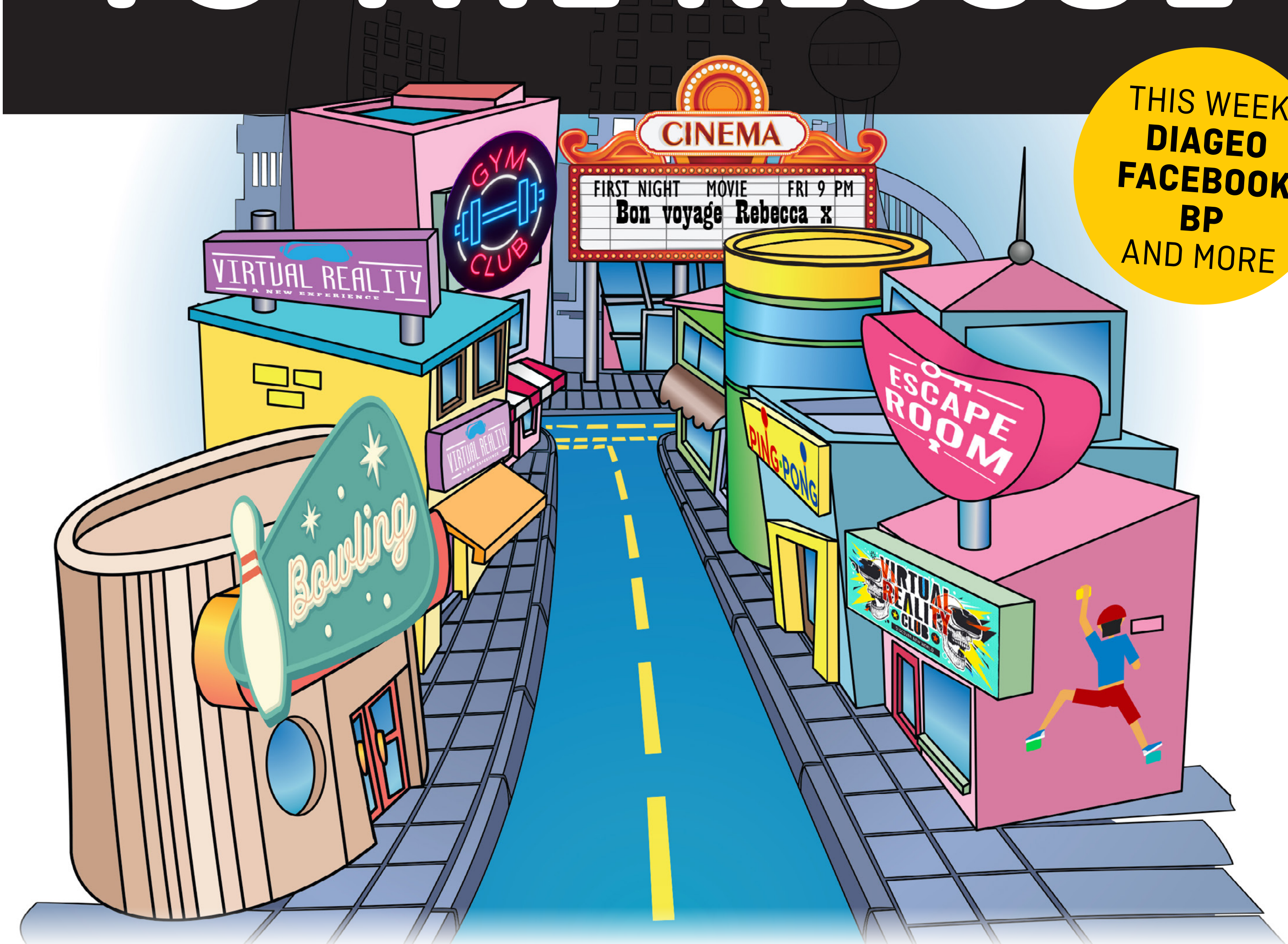

THIS WEEK
DIAGEO
FACEBOOK
BP
AND MORE

HOW EXPERIENCES AND ATTRACTIONS ARE HELPING TO SAVE RETAILERS

GOING GLOBAL: *FUNDS WITH INTERNATIONAL HORIZONS CAN DIVERSIFY YOUR PORTFOLIO*

Why it's important not to get blinded by big numbers

You need to keep some perspective when it comes to financial news

Some pretty astronomical figures have been thrown around in the financial press of late.

On 26 July headlines pointed to $118bn being wiped off the market valuation of social media giant Facebook, while recent research on UK dividends – the Link Asset Services *UK Dividend Monitor* report – highlighted a record £30.7bn in ordinary dividends being paid by UK companies in the second quarter.

Journalists look to draw readers to a story and highlighting such seemingly huge sums is one way of selling content and attracting clicks. Your job as an investor is almost the opposite. You need to look beyond these distractingly big numbers to place them in context and in relative terms.

To take the Facebook example, yes the shares fell heavily at the bell after the company downgraded guidance. And, even in percentage terms, 20% is a very substantial fall for a company of Facebook's size.

The negative market reaction reflected slowing user growth in the wake of the data breaches linked to its controversial association with Cambridge Analytica and new European privacy rules as well as constrained margins as the company spends money on advertising to restore its image and invests in data handling.

Amid a similarly negative reaction to the latest earnings from Twitter some observers are even beginning to question if the social media sector may have topped out.

LOGGING OFF SOCIAL MEDIA GIANTS

Saxo Bank head of equity strategy Peter Garnry says: 'Facebook, Alphabet/Google and Twitter are synonymous with selling "free services" in exchange for user data and serving online ads, and these companies will find themselves in an increasingly hostile environment from regulators (and perhaps also society as a whole as the pendulum swings back on privacy issues).'

However, Facebook is still trading above where it was when the data scandal initially blew up in March as the intervening optimism that the affair would leave barely a scratch on the investment case has been dashed. Taken at a glance the $118bn figure makes the story seem more cataclysmic then it really is.

Similarly the record £30.7bn identified in the Dividend Monitor report and a forecast for total annual dividends of £97.8bn – also a record – is less impactful when placed in its proper context.

The dividend total would represent an annual increase of 3.2% and compares with the £66.9bn paid out in 2008. However in real terms, factoring in the impact of inflation, the compound annual growth rate in UK dividends over the intervening period is a more underwhelming 1.6%. (TS)

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What bumper US growth means for funds, stocks and currencies

The US releases its strongest quarterly GDP levels for four years

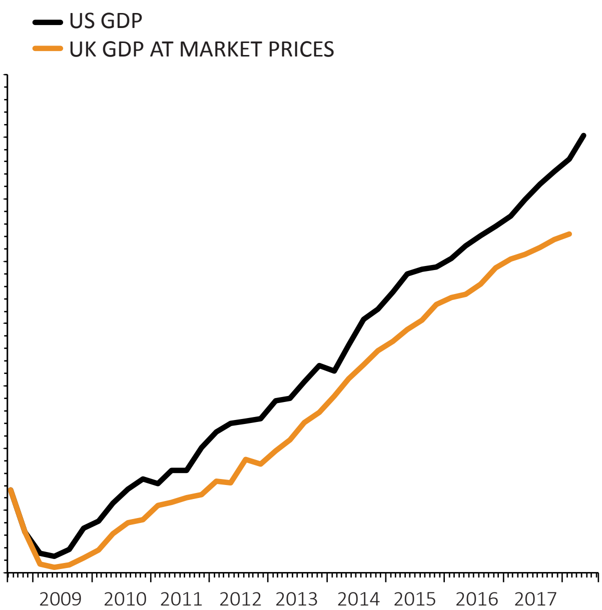
New figures reveal the US gross domestic product (GDP), expanded by 4.1% during the second quarter.

Although slightly below expectations this still represented the fastest rate of growth since 2014.

The update reflects the relative buoyancy of the US economy which have also evident in strong corporate earnings and UK investors with holdings in US-focused funds and companies such as **Ferguson (FERG)** who bring in most of their cash across the pond could benefit.

FUNDS

The **Artemis US Select Acc Fund (BMMV510)** which is aimed at capital growth has already gained 13% in three months. **JP Morgan US Equity Income Fund (B3FJQ59)** has returned 10.7% in three months.



STOCKS

The aforementioned Ferguson is a building materials distribution company which makes over 90% of its profits in the US hence it changed its name from Wolseley to the title of its US division last year.

This company has been on the ascent this year, the shares gaining 17.7% since March. For a cyclical company like Ferguson that needs a strong economy to really make money, the GDP data will be good news. When economies do well, orders go up and Ferguson's goods are required.

On a slightly smaller scale, marketing products company **4Imprint (FOUR)** also makes the lion's share of its money in the US and on 31 July it reported results for the six months to 30 June which were ahead of expectations. A feat it has achieved consistently in recent years. It is also heavily tied to US growth.

CURRENCY

While the best GDP numbers since 2014 should be seen as a positive developments, the forex markets reflected the high expectations ahead of the release and the dollar actually dipped in the wake of the news. (DS)

British businesses 'on sale' as deal flow set to accelerate

Digital disruption and emerging investor activism key drivers

Takeover, merger (M&A) and spin-out activity is expected to accelerate in the months ahead as UK businesses aspire to bolster their competitive advantages and/or release extra shareholder value.

Already this year several UK firms have been targeted with deals either agreed or negotiations ongoing, including the £18bn-plus potential takeover of TV and broadband supplier **Sky (SKY)** by US cable group Comcast or 21st Century Fox.

Other £1bn-plus British buyouts struck this year include property internet business ZPG and trading software supplier Fidessa, while the merger of **Virgin Money (VM.)** with banking business **CYBG (CYBG)** is expected to complete later this year.

Mature operators looking to secure market share in the face of disruptive emerging threats from digital new entrants are one of the chief reasons for this M&A splurge, according to investment bank Jefferies. Its analysts believe this is a major factor in some of the UK's biggest deals, **Sainsbury's (SBRY)** merger with Asda being a good example.

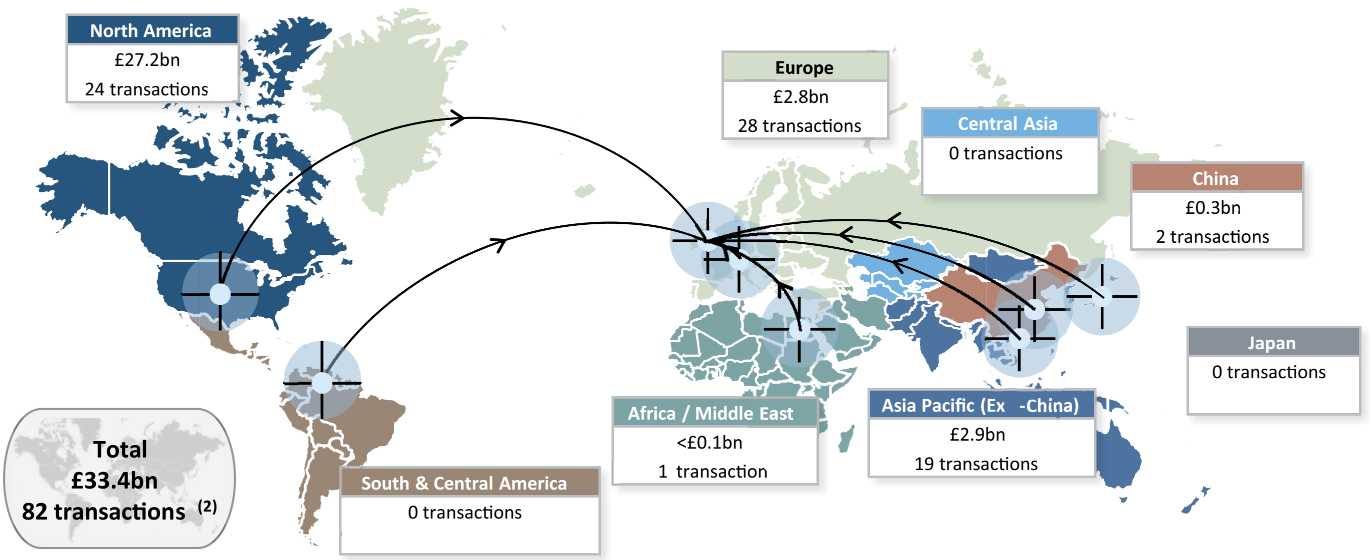
'On the face of it, the transaction is being driven by the need for the two companies to leverage their combined purchasing power to negotiate cheaper prices from suppliers,' say the Jefferies research team.

However, they also see an underlying concern that Amazon is circling the food retail sector, while the likes of **Ocado (OCDO)** and **Just Eat (JE.)** are emerging players in an increasingly complex UK grocery space.

Activist investors are also playing their part in the gathering swirl of M&A. This year US private equity firm Elliot has taken stake in **Whitbread (WTB)**, property group **Hammerson (HMSO)** and software business **Micro Focus (MCRO)** in attempts to encourage management to explore shareholder value creation measures.

'We expect to see a wave of pending and potential vertical mergers across technology, media, healthcare, energy and general industrials,' say the Jefferies experts. (SF)

UK Inbound M&A – By Acquirer Origin, Q2 2018 (1)



Source: Jefferies

Note: Transactions exclude share buybacks and recapitalisations

(1) Total of transaction values. Transaction value is calculated as the sum of the target's equity value and net debt. Excludes transactions with undisclosed transaction value

(2) Includes eight transactions with undisclosed acquirer geography

(3) David Geffen, GSO Capital Partners, LP Jynwel Capital, Mubadala Capital

Cloud firm UKFast fires the stock market starting gun

Fresh growth funding likely to fuel acquisitions spree

British data and communications hosting business **UKFast** is targeting joining the London stock market, with ambitions to secure a market valuation of £350m or more.

The company operates out of 40,000 square feet of data centre space in Manchester, providing customers with a full range of enterprise could tools and services.

While details of any initial public offering are currently thin on the ground it is believed that UKFast would use fresh growth funding to accelerate acquisition activity as it battles for market share with cloud giants Amazon Web Services and Microsoft's Azure.

'The company has an enviable record of strong organic growth, high margins and solid cash flow,' says Philip Carse of IT analysis company Megabuyte.

In 2017 UKFast saw revenues expand 18% to £47m while earnings before interest, tax,

depreciation and amortisation (EBITDA) margins are thought to be running around 40% to 45% mark. (SF)

SHARES SAYS: ↗
In the same space as Iomart (IOM:AIM), UK Fast would be a welcome high quality business addition to the UK technology investment space. (SF)

McColl's warning raises red flags

Supply chain disruption and margin pressures maul earnings at McColl's

CONVENIENCE STORES-TO-NEWSAGENTS operator **McColl's Retail (MCLS)** has taken a mauling following poor half year results (23 Jul) and a damaging profit warning.

Sentiment toward the stock, down from 294p last October to 157p, has also been hit by the resignation of finance director Simon Fuller, who is off to newspaper publisher **Reach (RCH)**.

Heavily affected by supply chain disruption following the administration of Palmer & Harvey and the 'Beast from the East', McColl's half year profits slumped on a 2.7% decline in like-for-like sales.

Warm weather has subsequently helped like-for-likes to improve, yet full year adjusted earnings will be flat and McColl's cautioned that 'looking further ahead, to 2019 and beyond, it will remain important to manage intense cost pressures in the business, whilst also investing in the customer offer to maintain our competitive position.'

Numis Securities lowers its 2018 earnings estimate from £50.4m to £43.4m and its 2019 estimate from £54.9m to £45.8m.

McColl's is making progress with its acquired Co-op stores and the successful introduction of the *Safeway* brand.

However, Liberum Capital points out the structural premium price gap enjoyed by convenience operators is narrowing, partly driven by increased industry M&A and the rise of the discounters and warns this consolidation may force a more capital intensive model upon McColl's. (JC)

Speculation brewing over South Western franchise future amid timetable issues

Operator FirstGroup is in talks over delayed timetable changes and improvements

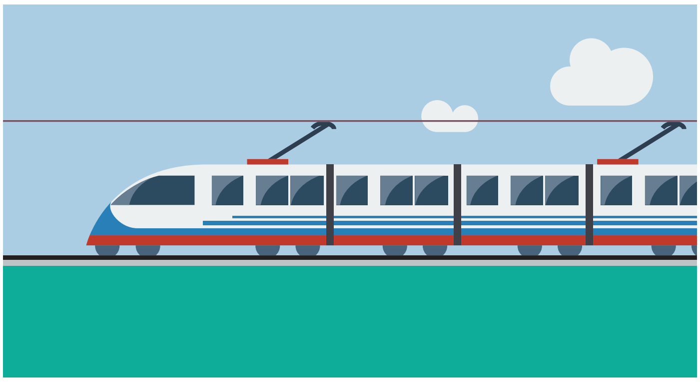
Trouble could be brewing at train operator **FirstGroup (FGP)** amid reports it is set to renegotiate its South Western Railway contract due to timetable changes barely a year after taking over the franchise.

According to media reports, South Western is at loggerheads with Network Rail on the operational and financial fallout.

FirstGroup says it is simply using a mechanism in its contract which allows for such discussions.

Liberum's Gerald Khoo notes FirstGroup's rail division is enduring mixed fortunes with Great Western in good shape, high losses in its TransPennine Express contract, while South Western is 'profitable but potentially at risk.'

Khoo says rail franchises have substantial downside risk as high fixed costs could expose profitability in the event of falling sales, even if the parent company has effective 'stop-loss arrangements' as part of the franchise agreement to limit the damage. (LMJ)



BP boosts dividend for first time in four years

Key milestone in Dudley-led renaissance at oil and gas giant

OIL MAJOR **BP (BP.)** is clearly feeling pretty confident as it ups the dividend for the first time in four years and unveils a $10.5bn deal to secure substantial US shale assets from **BHP Billiton (BLT)**.

The modest 2.5% increase in the quarterly dividend to 10.25 cents per share accompanied results for the three months to 30 June which beat expectations (31 Jul).

This beat is impressive given many analysts will have already increased their forecasts to factor in higher oil prices. It also comes off the back of weaker than expected second quarter numbers from BP's US rivals Chevron and ExxonMobil as well as UK counterpart **Royal Dutch Shell (RDSB)**.

BP's last quarterly dividend payment before Gulf of Mexico spill was $0.14 per share

With the big step out in US shale, investors will hope chief executive Bob Dudley is not departing too far from the template which helped steady the ship during his near eight year tenure. Dudley look over in the wake of the highly damaging Gulf of Mexico oil spill back in April 2010.

Encouragingly the BHP transaction is expected to boost cash flow and earnings from the get go and the company has pledged to maintain gearing below 30%. (TS)

Diageo is a spirited long-term investment

Guinness-to-Johnnie Walker brands owner is a high quality compounder worth buying and holding

Given the uncertainties brewing over Brexit and global trade wars, now is a good time to buy into the dependable earnings of, and the positive momentum behind, **Diageo (DGE)**.

The world's biggest spirits company continues to benefit from its enviable portfolio of winning brands include *Johnnie Walker* whisky, *Smirnoff* vodka, *Guinness* and *Captain Morgan* rum.

The top holding in star fund manager Nick Train's **Finsbury Growth & Income (FGT)**, Diageo is a high-quality compounder, ownership of which will help investors sleep better at night during what could prove turbulent market times ahead.

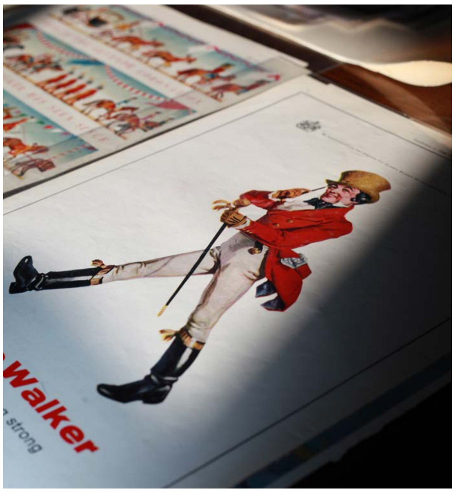
DIAGEO BUY
(DGE) £28.02
Stop loss: £22.42

Market value: £69.8bn

Highly cash generative, the progressive dividend-payer returned £1.5bn to shareholders through a buyback last year and management has announced a new £2bn share buyback programme for full year 2019 to boot.

HIGH-QUALITY TIPPLE

Shares remains an admirer of the spirits and beer producer's coveted brands. These represent an economic



moat, engendering loyalty among consumers, conferring pricing power upon the business and creating barriers to entry for Diageo's rivals.

This beverages behemoth owns more top-50 global spirits brands than any other company and boasts earnings that are diversified by geography and product category; Diageo is also the biggest spirits player in the US, the industry's largest profit pool.

PALATE-PLEASING PERFORMANCE

Since Ivan Menezes took over as CEO in 2013, Diageo has increasingly focused on emerging markets, operating margins and cash generation. The £69.8bn cap offers a compelling play on the long-term 'premiumisation' trend in developing economies, where the burgeoning ranks of the middle class increasingly

DIAGEO'S BIGGEST BRANDS MOST RECENT FULL YEAR PERFORMANCE

	Organic volume movement (%)	Organic net sales movement (%)	Reported net sales movement (%)
Global giants			
Johnnie Walker	3	5	5
Smirnoff	-	-2	-5
Baileys	6	6	5
Captain Morgan	6	2	-1
Tanqueray	14	15	12
Guinness	3	5	2

Source: Diageo

aspire to drink premium brands.

Better-than-expected results for the year ended 30 June (26 Jul) showed organic net sales growth of 5%, ahead of consensus estimates, with Diageo generating a bumper £2.5bn in free cash flow.

Furthermore, foreign exchange guidance for a negative £10m hit to 2019 operating profit was much more benign than the £49m impact consensus had been bracing itself for.

And in terms of the category performance, scotch and gin sales were firmly on the up, the former driven by Johnnie Walker, the latter by *Tanqueray* and *Gordon's*, albeit vodka continued to decline.

Through Tanqueray and Gordon's, Diageo is riding the major renaissance in the gin category, especially in the UK and Spain, that is powering the growth at AIM mixers marvel **Fevertree Drinks (FEVR:AIM)**, with Gordon's benefitting from the successful launch of its Pink variant.

'While Diageo's growth relative to the US spirits market improved in full year 2018,' writes Berenberg, 'management would not guide on when the company may stop losing market share. However, CEO Ivan Menezes appeared confident that market share losses will continue to slow over the course of full year 2019.'

Besides boosting the cash coffers, Berenberg also believes the rumoured disposal of Diageo's US 'tail brands' would be 'strategically positive, as US consumers continue to drink less but better.'

In addition to the organic

development of the business, Diageo has the balance sheet strength to return capital to shareholders whilst boosting its internationally-derived earnings through mergers & acquisitions (M&A).

Having acquired the *Casamigos* tequila brand last summer, Diageo is increasing its stake in China-based baijiu-to-wine seller Shui Jing Fang from 39.7% to up to 60%. And don't forget, it also has majority control of United Spirits, a key route to market for its brands in the gargantuan Indian market.

RISKS TO CONSIDER

Risks for investors to consider include valuation – Diageo trades on 22.6 times the 124p of year to June 2019 earnings per share forecast by Berenberg, based on pre-exceptional pre-tax profit of almost £4bn.

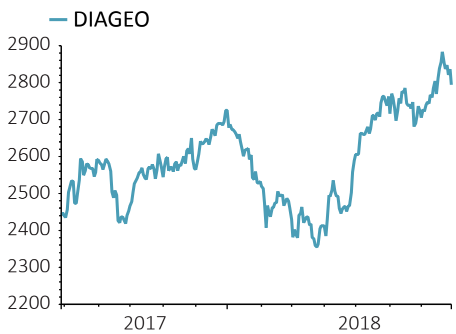
The investment bank looks for £4.27bn of pre-tax profit and 132p of earnings in fiscal 2020, with the dividend estimated to rise to 0.69p (2018: 0.65p) this year ahead of 0.72p in fiscal 2020.

Nevertheless, we are comfortable with the premium rating given Diageo's quality, international diversity, reliable cash flows and progressive dividend, while the new buyback should provide downside share price support.

Other risks for investors to weigh up include the potential for tighter regulation and higher excise taxes, notably in the US, as well as ongoing price competition in US vodka and its impact on Smirnoff's profitability.

Future bouts of Brexit-inspired sterling weakness could be positive for Diageo, not only providing a translation benefit, but a transaction tailwind too as its scotch would become even more competitive internationally. (JC)

BROKER SAYS: 14 8 3



Upbeat XP Power has scope to grow beyond expectations

Complex engineer is using clever acquisitions to add extra value

When a share price has doubled in 18-months investors might think that they have missed the boat.

This is not the case, in our opinion, with **XP Power (XPP)**, which we continue to view as a genuine growth stock.

Capable of outperforming current single-digit pre-tax profit growth expectations.

For those unfamiliar with the investment story, XP Power is a science-based engineer of complex power equipment solutions.

Many power systems require custom output voltage combinations, unique control or status signals and specific mechanical packaging for optimal performance and integration. This is kit designed for when off-the-shelf solutions simply won't do, which is encouragingly frequent.

This is where XP's engineering stands out. The company has a stated aim to have the most comprehensive and up-to-date product range in its target markets, particularly in defence/aerospace, healthcare, rail and a few other custom power niches.

Combined XP estimates a £1.5bn target market with projects typically several years in the making and often developed hand-in-hand with the end customer.

XP POWER BUY
(XPP) £36.20
Stop loss: £28.96

Market value: £697m

OUTSTANDING TRACK RECORD

XP's operating track record is outstanding. Order intake typically runs ahead of revenues, which tells investors that future demand is growing faster than work currently on its plate.

This increased about 10% in the first half to 30 June once currency fluctuations are stripped out, important to get a true picture because it sells most of its kit overseas.

In terms of profit, operating margins, which take into account staff and factory costs, nudged up, from 21.7% to 22.2%. That shows it is getting the benefit of new facilities in low-cost Asia.

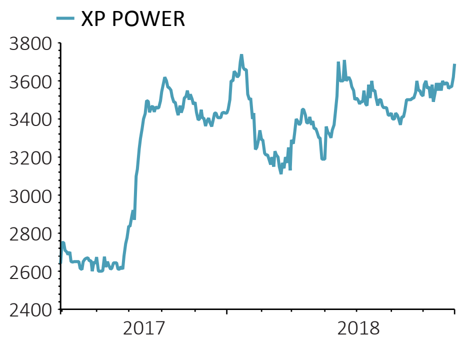
XP also makes select acquisitions, always with an eye to bolster the customer or product expertise base. May's £31.8m purchase of Glassman High Voltage, expanding the product range into specialised high voltage and high powered products, is a good example.

XP pays regular and growing dividends, up 6.5% in the half to 33p, paid out on a quarterly basis (16p Q1, 17p Q2). It's able to do so because cash generation is always solid. The modest dip to £15.8m in the first half from operations is impressive given that the company was building inventory to meet pre-existing demand.

Some components shortages have been in evidence this year and there's been a bit of price inflation added to costs but management seem to have managed the supply chain well to cap the impact.

The other concern would be from a major cyclical downturn in demand, although management have seen little evidence of that happening in the foreseeable future, while previously won design wins and strong orders offset that threat. (SF)

BROKER SAYS: 4 1 0



CRODA
(CRDA) £51.58

Gain to date: 18.5%
Original entry point:
Buy at £43.47, 15 Feb 2018

CHEMICALS COMPANY **CRODA (CRDA)** is continuing to deliver strong trading as its latest half-year results beat expectations thanks to its Personal Care and Life Sciences divisions.

Since our last update in April, shares in Croda have gained approximately 11% to £51.58.

Pre-tax profit rose 1.7% to £170.8m in the first half of 2018 and sales were up 0.6% at £702.8m when the impact of currency changes are stripped out.

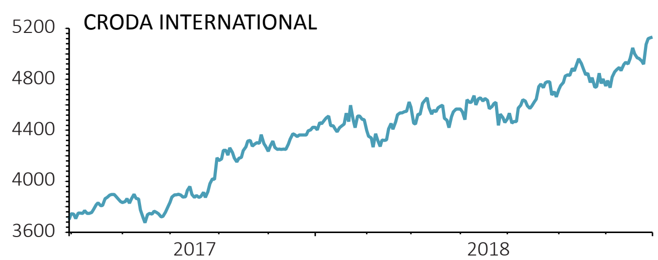
In Personal Care, sales growth came in at 9.3% while revenue growth in the Life Sciences division was 2.3%.

Croda's strategy is to drive top line organic growth for stronger margins and invest in disruptive technologies for future growth.

This latter part of the strategy was reflected in the acquistion during the period of marine biotech firm Nautilus, which uses microbial biodiversity to create new actives and ingredients.

Numis analyst Kevin Fogarty reckons Croda's strengthening balance sheet can yield rewards for shareholders with a special dividend potentially in the pipeline later this year.

He is impressed with improving profitability as Croda increased earnings margins by 50 basis points despite headwinds from currency fluctuations, which are forecast to moderate in the second half of 2018.



SHARES SAYS: ↗
We remain confident in Croda as a top quality pick with organic and acquisitive growth, and see the looming special dividend as another catalyst. (LMJ)

BROKER SAYS: 7 8 2

IBSTOCK
(IBST) 245.2p

Loss to date: 18.1%
Original entry point:
Buy at 299.4p, 10 May 2018

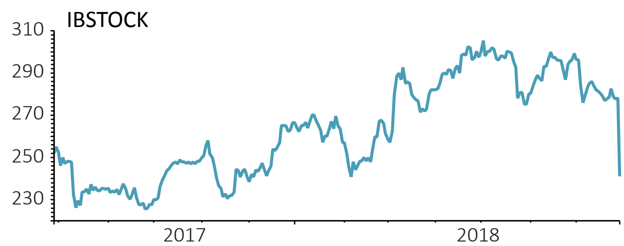
THE MARKET ALREADY knew brick maker **Ibstock (IBST)** was a victim of delays associated with an exceptionally cool winter and early spring in the UK.

However a 30 July trading update reveals that now demand has recovered, the company is unable to fully service its customer base thanks to issues in its production facilities.

As a result, and factoring in maintenance spend to address the problems in its factories, earnings before interest, tax, depreciation and amortisation will come in below previous forecasts for between £130m and £134m at between £121m and £125m.

This largely looks a headache of the company's own making which is frustrating for investors and for *Shares* given we recently highlighted the attractions of the stock.

Notably recent first half results (31 Jul) from its main UK rival **Forterra (FORT)** were more impressive with revenue up 10.6% to £162.7m.



SHARES SAYS: ↗
Given demand for its products remains strong, the shares could recover if the group successfully tackles its production issues. Investors will be hoping for more clarity when the group reports its first half numbers in full on 9 August. (TS)

BROKER SAYS: 5 5 0

ALLIANCE PHARMA

(APH:AIM) 92.2p

SUPERB STOCKS FOR 2018 UPDATE

Gain to date: 47.5%

Original entry point:

Buy at 62.5p, 21 Dec 2017

THERE HAS BEEN a good start to the year at **Alliance Pharma (APH:AIM)** with sales rising 10% to £54.5m in the six months to 30 June, driven by its International Star brands.

Sales of scar reduction treatment *Kelo-Cote* have surged 77% to £10.9m and macular pigment supplement *MacuShield* sales jumped 22% to £3.7m over the same period.

Profitability is expected to increase over the first half at a lower rate than sales due to the impact of spending to boost marketing and selling activities.

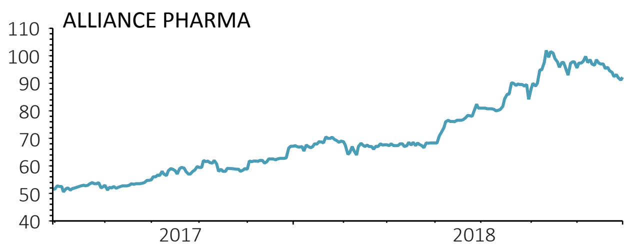
Alliance says head lice treatment *Vamousse*, which was acquired from **TyraTech (TYR:AIM)** in December, delivered revenue of £2.7m.

In the second half of 2018, Vamousse sales are expected to grow further as kids head back to school.

Niche products under Alliance's local hero product range are performing in line with expectations.

Unfortunately, Alliance's small bedrock products are trading slightly behind expectations due to manufacturing delays and distributor order phasing.

Numis analyst Sally Taylor remains upbeat, arguing some of the effects from delays and order phasing are expected to be resolved in the second half of the year.



SHARES SAYS: ↗

We are not overly concerned about the issues in Alliance's bedrock portfolio and remain confident on future growth prospects. (LMJ)

CRANSWICK

(CWK) £33.04

Gain to date: 12.7%

Original entry point:

Buy at £29.32, 8 Feb 2018

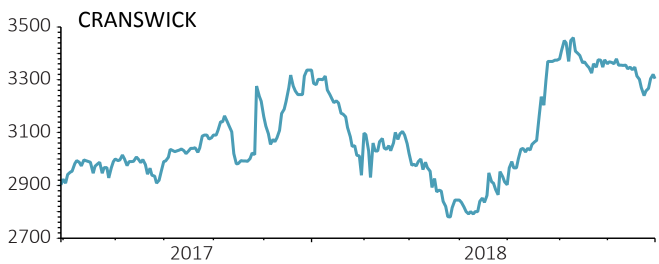
OUR BULLISH CALL on fresh pork, sausage and cooked poultry processor **Cranswick (CWK)** remains 12.7% in the money, although the shares have recently fallen back from their £34.60 June peak.

Fears over the potential impact of retail sector consolidation on suppliers, and on the meat industry of a recent CO2 shortage, may be weighing on sentiment.

Cranswick's first quarter update (30 Jul) also revealed a slowdown in sales growth to 3.2% amid modest deflation and against a barnstorming comparative.

Encouragingly however, the high quality food producer flagged positive contributions from each product category, said total export revenues were modestly ahead year-on-year and reassuringly left full year guidance unchanged.

Continuing to invest in its asset base, Cranswick attractions also include an unbroken dividend growth track record stretching back to 1990. Shore Capital forecasts pre-tax profit and dividend improvements to £95.3m (2018: £92.4m) and 55.7p (2018: 53.7p) respectively for the year to next March.



SHARES SAYS: ↗

We're sticking with Cranswick, a high-quality, cash-generative food producer well placed to drive long-term growth in profits and the shareholder payout to boot. (JC)

BROKER SAYS: 4 2 0

Have you missed the boat on these rising stars or is there still time to climb aboard?

Exceptional companies can deliver some extraordinary long term returns

A highly successful, yet unnamed, fund manager, is quoted in full year results (24 Jul) from flooring star turn **Victoria (VCP:AIM)** as delivering the following pearl of markets-related wisdom:

'[Investment is] not a well-behaved machine that cranks out returns to owners of all equities…Instead quite extraordinary returns flow from a tiny fraction of the companies in existence.'

This is certainly the case on AIM, where the likes of online fashion phenomenon **ASOS (ASC:AIM)**, soft drinks star turn **Fevertree Drinks (FEVR:AIM)** and litigation finance provider **Burford Capital (BUR:AIM)** have delivered share price gains beyond the dreams of even the most optimistic IPO backers.

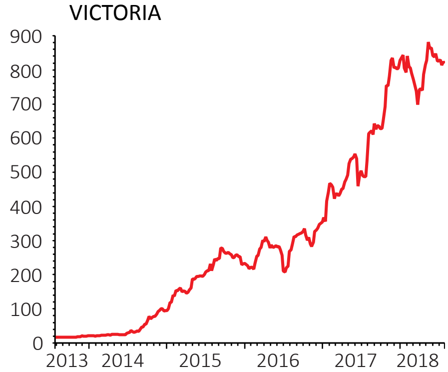
FLOORING THE COMPETITION

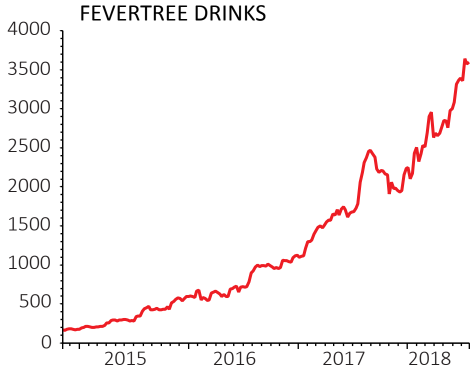
Another junior market listed stock that has given investors a magical ride is carpets manufacturer-turned-innovative flooring company Victoria whose shares have advanced more than ten-fold to 820p since Kiwi Geoff Wilding took control of the business in late 2012.

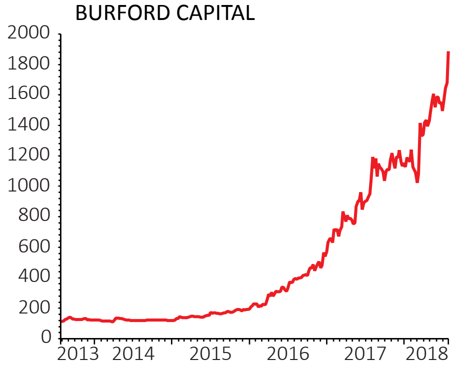
The latest results confirmed a fifth consecutive year of underlying earnings per share (EPS), free cash flow and operating margin growth, with sales up 28.6% to £424.8m including acquisitions and underlying pre-tax profit leaping from £29.4m to £40.8m.

In his outlook statement executive chairman Wilding says: 'I often hear non-shareholders worrying that they have "missed the boat" with Victoria - although I am at a total loss to understand why they would think that.'

He continues: 'Our earnings per share growth has happened for two reasons: firstly, organic "self-help" actions (reducing overheads, better raw material







procurement, more efficient logistics, leveraging the knowledge of our industry expert senior management to rationalise our production footprint, etc.), and secondly, earnings accretive acquisitions. And what on earth would make anyone think we will stop either activity any time soon?'

WILD-ING, I THINK I LOVE YOU

Yes, the shares have performed phenomenally well, but Victoria remains a compelling consolidation story in a highly-fragmented, growing global flooring industry, with just 12% share of the UK carpet market, around 15% of the Australian carpet market and less than 1% of Europe's ceramic market.

Under Wilding's stewardship, Victoria has been scaling up through acquisitions, last year completing the takeovers of ceramic tile makers Ceramiche Serra and Keraben, the latest in a line of earnings accretive deals.

Rather than paying a dividend, Victoria is deploying its free cash flow towards paying down debt and acquiring other high quality, earnings-accretive flooring manufacturers.

Wilding also insists that: 'The market opportunity we have before us is absolutely enormous. There is around 1,700m sqm of flooring sold each year in Continental Europe, 300m sqm sold in the UK, and 180m sqm sold in Australasia. Victoria sells circa 55m sqm of flooring (excluding underlay), in total, across all three markets.

'The point I am emphasising is this: there is almost unlimited scope for growth - both organically through increasing our market share and expanding our product offering, and, of course, through acquisition, for which we continue to find many promising and high quality opportunities.

'We could continue making three-to-four acquisitions a year for the rest of my (intended very long) life and not run out of good opportunities!'

With flooring industry expert Philippe Hamers, CEO, at his side, Wilding eschews 'failing turnarounds' and looks for fairly priced targets with modern, well-equipped factories, committed, talented and honest management and broad distribution channels.

Prospective new investors might also note that apart from acquisition-led growth, Vitoria has scope to grow margins and earnings within existing businesses. Victoria achieved a record underlying EBITDA margin of 15.2% last year, up 140 basis points thanks to efficiency measures taken across the group, and Wilding and Hamers have a 19-20% return on sales in sight on a three year view.

Still not convinced? Cantor Fitzgerald, a buyer with a 960p price target, forecasts growth in pre-tax profit to £70.8m this year, building to £75.1m and £79m in 2020 and 2021 respectively, although further acquisitions would alter the picture.

FEVERTREE'S GOT PLENTY OF FIZZ

Based on the current £35.91 share price, premium carbonated mixers marvel Fevertree Drinks is already up nearly 26 fold on its 2014 134p issue price, so prospective investors can be forgiven for assuming they've missed this particular party.

Fevertree has executed its market opportunity nigh-on flawlessly, leveraging first mover advantage in premium mixers to address a market need. Yet while the posh tonic water-to-smoky ginger ale seller's nosebleed valuation now means

> Fevertree has executed its market opportunity nigh-on flawlessly, leveraging first mover advantage in premium mixers to address a market need

future disappointments will be harshly punished, management has perfected the art of under-promising and over-delivering, guiding towards (24 Jul) full year profit 'comfortably ahead of expectations' following a tasty first half performance.

Half-year revenue grew by a forecast-busting 45% to £104.2m and Fevertree served up a 36% hike in pre-tax profit to £32.65m-plus as well as a 40% dividend uplift to 4.22p, underpinned by a bulging net cash pile of £56.4m (2017: £40.5m) with which to invest in the future growth of this international business.

CEO Tim Warrillow insists 'our relationships with key customers and spirits partners mean we are increasingly well positioned as the growing move to premiumisation and long mixed drinks continues to develop across the globe.'

Fevertree took over direct control of its US distributor relationships on 1 June, seeing a significant opportunity across the pond for its tonics and a wider mixer range for dark spirits, the latter an increasingly important component of the long-term investment case.

Fevertree has inked an agreement with Southern Glazer's Wine and Spirits (SGWS), North America's biggest wine and spirits distributor, to be its exclusive distribution partner in the on-trade channel across 29 US states.

Warrillow insists the tie-up 'is a significant endorsement and provides a strong platform for Fevertree US in 2019 and beyond'. SGWS distributes on behalf of Bacardi, **Diageo (DGE)** and Pernod Ricard, companies with strong spirits brands that require accompanying premium mixers, this looks an astute strategic move.

"SGWS distributes on behalf of Bacardi, Diageo and Pernod Ricard, companies with strong spirits brands that require accompanying premium mixers, this looks an astute strategic move"

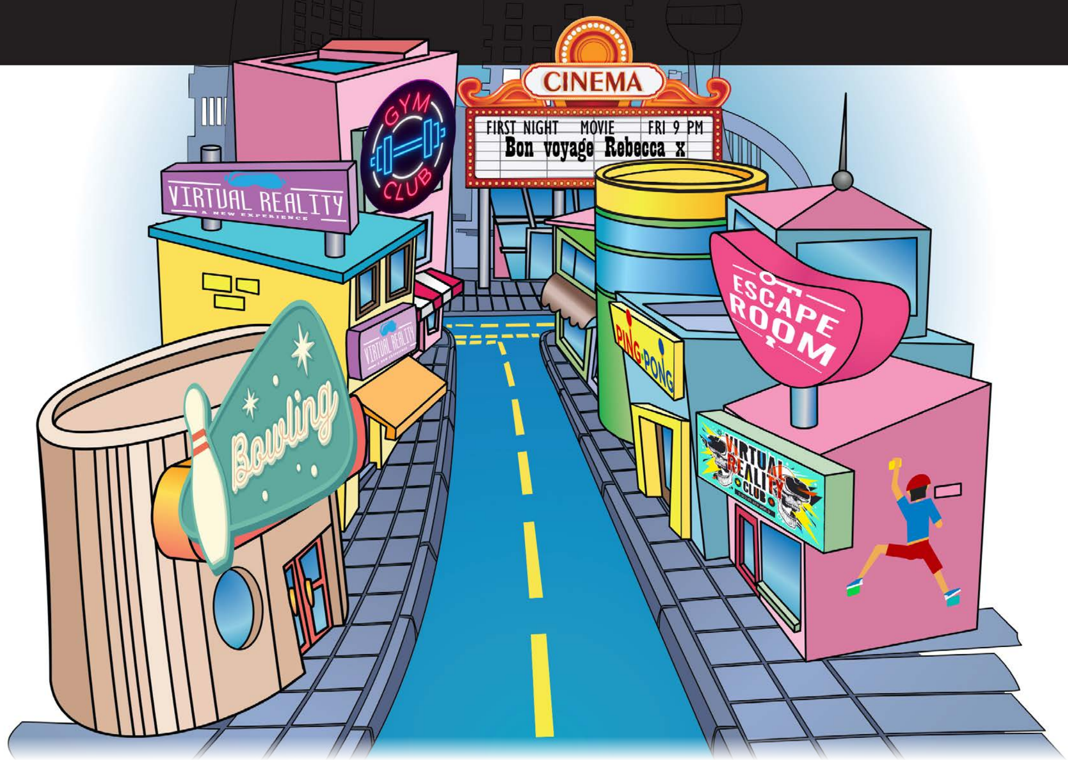
With a 'hold' rating on the stock due to its 'extremely premium valuation metrics', Shore Capital scribe Phil Carroll's upgraded estimates for 2018 point to adjusted pre-tax profit of £70.4m (2017: £56.4m), rising to £83.5m and £97.4m in 2019 and 2020 respectively.

Based on estimated earnings of 49.5p this year, Fevertree trades on an eye-watering 72.5 times forward earnings, falling to a still incredibly frothy 61.4 times the 58.5p of EPS Carroll has in his spreadsheet for next year.

Yet bulls will note that Shore Capital expects 'the premium mixer market to grow based on current consumer premiumisation trends and for Fever-Tree to continue to both drive this growth and be a beneficiary of it. The ultimate question is how big is the opportunity and what is a fair valuation for Fever-Tree? Part of the issue is that market expectations have been and will likely remain overly prudent.'

The brokerage adds: 'Our view is that the company is going to continue to grow strongly, maybe not at the percentage levels historically, but then if the US takes off it could be a possibility.' (JC)

LEISURE SECTOR TO THE RESCUE



HOW EXPERIENCES AND ATTRACTIONS ARE HELPING TO SAVE RETAILERS

The leisure sector is arguably the unsung saviour of the high street and other retail destinations. Companies offering attractions and experiences such as gyms and bowling are helping to fill vacant shops and bring back the energy which attracts consumers.

They are acting as very important tenants for shopping malls and similar retail destinations, helping to drive footfall which effectively brings new life to the retail properties and also puts other shops in a better position to trade well.

It is no wonder that many retail landlords are helping to foot the bill for revamped or new leisure fit-outs, as these companies are becoming the lifeblood of the surrounding premises.

Investors should look very hard at the UK-quoted leisure space as we believe many of the companies are being undervalued in terms of their importance and ultimately their ability to drive future earnings.

HIGH STREET WOES

The struggles of the high street have been well documented. Inflation, slow wage growth and Brexit uncertainties have created a problematic backdrop for the retail sector and indeed other consumer-facing businesses such as restaurant companies.

Profit warnings from **Debenhams (DEB)** and **Dixons Carphone (DC.)** as well as widespread closures by restaurant chains, including Carluccio's and Byron, are clearly concerning.

According to an independent Grimsey Review, 100,000 shops could be left empty within a decade if the crisis continues.

Retail property investor **Stewart & Wight (STE)** suffered a 12.1% drop in the value of its estate over the past year, saying it has little prospect of re-letting at current rental levels when leases expire on shops in its portfolio.

Real estate group **Hammerson (HMSO)** last month said it would sell £1.1bn of retail properties and confirmed plans longer term to exit the retail park sector completely, saying its future only lay in premium retail outlets and flagship retail destinations.

It's a bleak situation but importantly there are some bright spots as the consumer hasn't given up spending completely. The Confederation of British Industry's latest retail sales gauge showed stores enjoyed robust sales growth in July, slowing less than expected.

Some retailers with physical stores like **Joules (JOUL:AIM)** and **JD Sports Fashion (JD.)** are continuing to churn out good numbers, and many leisure companies are reporting decent earnings as they continue to grab a share of consumers' wallets.

PROPERTY OPPORTUNITIES FOR LEISURE COMPANIES

The closure of numerous retail outlets provides an opportunity for leisure companies to pick up property cheaply, either buying freehold or taking out lower than average leases.

Some leisure activities won't be able to fit straight into an existing building, but others can. Gyms are a great example of a business that could quickly set up inside an old shop or even a pub.

As more people adopt healthier diets and try and keep fit, there has been a surge in budget gym chains in the UK both on and off the high street to tap into these trends.

Gym Group's (GYM) chief executive John Treharne says his business has been able to take advantage of an increasing amount of retail space but stresses the location still has to be good.

When looking for new sites, Gym Group's management considers if it is close to the local community, has high visibility and whether it boasts lots of physical space for plenty of activities.

In some cases, new gyms are opened near retailers or in leisure centres where people can refresh themselves after a hard workout as Gym Group does not offer food and beverages.

An example of Gym Group working with retailers is the Redhill branch, which is located above a **Sainsbury's (SBRY)** store and offers free parking.

Treharne says the gyms do not depend on other retailers to bring in footfall and believes it is more of a collaborative effort to benefit local businesses.

LEISURE COMPANIES HAVE THE 'PULL FACTOR'

Cinemas tend to need larger buildings than most shops but they can open in old churches or large retail outlets, although most chain operators would probably prefer new-build sites.

Often cinemas are built as part of redevelopment projects. For example, various shops and cafes will be transformed at Piries Place in Horsham to make room for a new retail and leisure complex. **Everyman Media (EMAN:AIM)** is building a new cinema in a former Waitrose unit and **Whitbread (WHB)** is turning a café and a former Pets Corner shop into a Premier Inn hotel.

Cineworld (CINE) says some of the cost of refurbishing many of its existing cinemas is being met by landlords, illustrating how a leisure business is seen to be such an important 'pull factor' for retail landlords. Cineworld also benefits as it says customers tend to spend more in a refurbished site.

Landlords are also helping to spruce up some of **Hollywood Bowl's (BOWL)** outlets, with some paying out up to £2m for a full fit-out to gain further value from their investment.

In some cases, landlords can provide lease incentives instead of funding refurbishments and fit-outs, which boosts profits and cash flow.

Broker Liberum analyst Joe Brent argues return on capital employed (ROCE) for Hollywood Bowl is

strong even without landlord contributions.

The analyst says if landlord contributions for scheduled projects were 50% of new site capital expenditure, Hollywood Bowl's ROCE would grow to 20.6%. Without any contributions, returns would only be 112 basis points lower.

Cinemas' fortunes move up and down depending on the quality of the film slate in certain periods although there is generally a strong level of demand throughout the year.

Hollywood Bowl's chief financial officer Laurence Keen argues that bowling has an edge over cinemas as demand isn't dependent on particular events like a blockbuster film. People like to bowl at any time of the year.

Keen says bowling offers good value, decent food and arcades to keep people entertained after the pins are down. It can also be seen as a part of a broader day trip, whereby people meet their friends to go shopping, have a drink, go bowling and perhaps go for a meal at the end of the evening.

We note that more than a quarter of Hollywood Bowl's sales come from arcades which is perhaps an area more susceptible to a drop in trading should consumers experience harsher economic conditions.

EXPERIENCES RATHER THAN PRODUCTS

Many consumers are currently valuing experiences over buying material items which plays to the leisure sector's strengths.

Langton Capital analyst Mark Brumby says many people are looking for kooky activities to do instead of heading to the shops. Unusual social activities include axe-throwing bar Whistle Punks, crazy golf courses from Swingers, social darts bar Flight Club, ping pong club Bounce and even shuffle boarding.

Leisure analyst Mark Brumby from Langton Capital acknowledges these experiences are more popular, yet he is worried about how these firms will scale up and avoid becoming temporary fads should the market becomes more saturated.

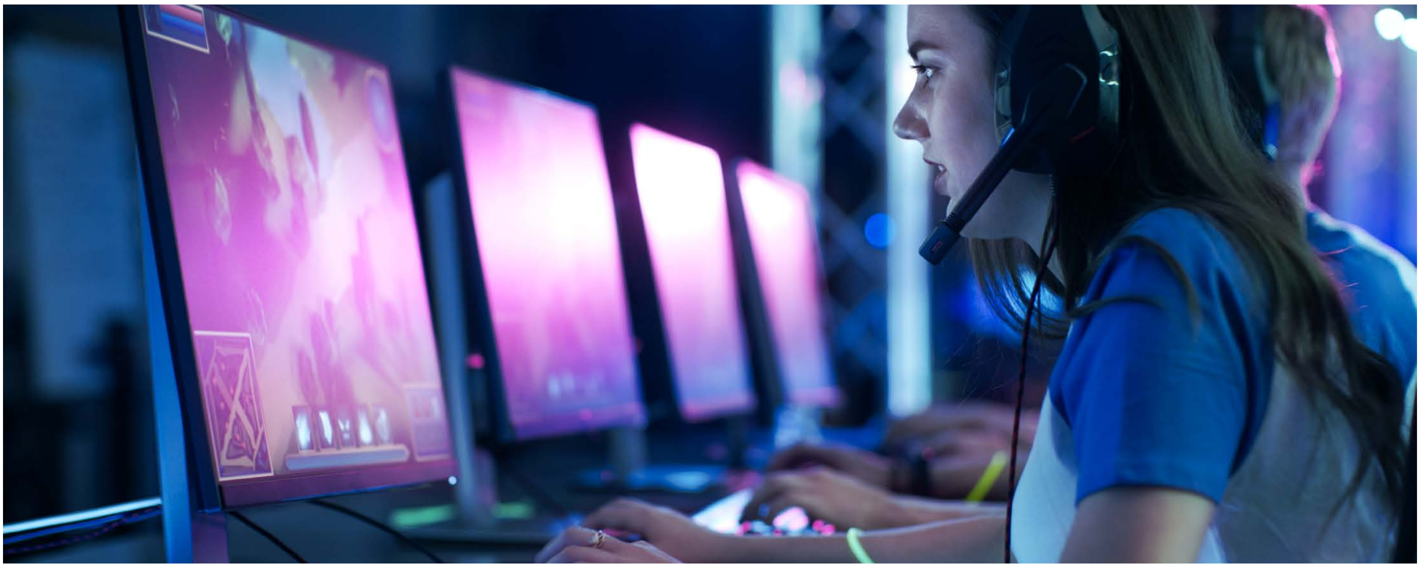
Relevant to this point on UK-listed leisure

companies is **Escape Hunt (ESC:AIM)**, which provides escape rooms where a group of people are encouraged to work together for their freedom by finding clues and solving puzzles.

The business is certainly 'trendy' at the moment and it recently struck a deal to build Doctor Who-themed escape rooms in the UK. However, it remains loss making and issued a veiled profit warning last month.

You can have a great idea, but the business won't be a good investment proposition unless it can achieve decent scale and operate with a handsome profit margin. We have major concerns that Escape Hunt won't be able to meet this threshold, particularly as the market is already well supplied.

Escape rooms usually involve a variety of scenarios such as people in room trying to evade a (pretend) kidnapper or murderer, or saving the



world from destruction.

Asset manager Gresham House owns a 5% stake in Escape Hunt as fund manager Graham Bird is confident the company can take advantage of an interesting niche and lack of knowledge around the activity.

Escape Hunt believes only 10% to 15% of people in the UK have heard of escape rooms based on a survey, up from 5% at the time of the company's stock market debut in April 2017.

Bird argues there is no established brand or network for escape rooms, offering an Escape Hunt an opportunity to build a high quality brand as it changes from a franchisee model to an owner-operator one. Locations in high streets with strong footfall, a high concentration of students and tourists would suit the business.

VIRTUAL REALITY'S NEW EXPERIENCE

We're more enthused by virtual reality being used as the backbone for leisure experiences. **Immotion (IMMO:AIM)** recently joined the UK stock market and is trying to build a business that supplies VR pods and associated content to leisure operators and shopping centres.

A partner builds the equipment in China and Immotion creates the content which includes sitting in machines that let you feel as if you are actually riding a rollercoaster or going down a very long slide, among many other ideas.

Immotion has a deal with **Merlin Entertainments (MERL)** to provide multi-sensory VR experience pods to two Legoland centres in the UK and US, letting six year-olds race across mountains, rivers and hot lava.

Executive chairman Martin Higginson says Immotion is talking to retail landlords **Intu (INTU)** and Hammerson about installing VR pods into various shopping centres as they are excited about using them to help boost footfall.

Merlin itself is looking at using different types of buildings to increase its range of attractions. Most of its outlets require large outdoor premises like theme parks or indoor locations such as aquariums. However, it does have some propositions that can be fitted into smaller buildings such as its Shrek's Adventure experience which is situated in London's County Hall.

One of its most intriguing new experiences this year is Merlin's Bear Grylls Adventure where thrill seekers can test their limits by undertaking tough mental and physical challenges. The first site will be located as part of the Birmingham NEC exhibition complex.

People can choose from indoor climbing and skydiving, tackling heights with high ropes or even go exploring underwater.

For hard core adventurers, they can choose the 'Basecamp' experience where they have to escape a room by solving puzzles, hit targets with precision, survive a challenging maze and tackle an assault course.

Numis analyst Tim Barratt says the growth opportunity from new brands is compelling with the Bear Grylls experience potentially hitting a margin conversion of 40% compared to 34% for the Midway division which includes Madame Tussauds and the Sea Life aquariums.

In a bid to capitalise on the success of *Peppa Pig* and appeal to families, Merlin is also planning indoor attractions that allow visitors to experience the world of popular kids franchise.

SPORTS DIRECT'S SPACE CONUNDRUM

The issue of space leaves us puzzled as to how **Sports Direct (SPD)** plans to roll out eSports arenas in some of its stores.

The retailer announced a partnership with **Game Digital (GMD)** to host live matches between players battling it out in various competitive video games.

We're perplexed as to how Sports Direct will make any decent money from this venture, plus question whether the benefits of e-sports is worth giving up store space previously used to sell clothes and sporting equipment.

ESports as a concept is very popular as many people – particularly youngsters – enjoy watching other people play games. Sports Direct may argue that it will increase footfall into its stores and players or viewers may pick up a few items while visiting its premises.

Game Digital is involved in the venture via its BELONG brand, effectively its eSports offshoot. Sports Direct paid £3.2m for 50% of the intellectual property of Belong and will be entitled to half its profits – in exchange for a £55m loan to Game Digital.

According to YouGov, eSports generated £565m in global sales last year and an audience of 385m. By 2020, forecasts by the data analytics firm suggest eSports will deliver over £1bn in sales and nearly double its audience to 600m.

Liberum analyst Adam Tomlinson is supportive of the deal as he believes it will boost Game Digital's transformation from a retailer exposed to the gaming console cycle into eSports.

FOUR LEISURE STOCKS TO BUY

Our top leisure picks related to the attractions and experiences theme are Gym Group, Hollywood Bowl, Cineworld and Immotion.

GYM GROUP

THE BUSINESS IS forecast to make £15.5m adjusted pre-tax profit in 2018, rising to £23.1m in 2019 and £27.1m in 2020, according to Liberum's estimates. While the gym sector is highly competitive, we believe Gym Group has proven its ability to run a highly-successful business and continue to drive up earnings.

HOLLYWOOD BOWL

IT HAS SUCCESSFULLY tested different pricing models and found ways to drive up the volume of people bowling and the amount of money people spend in its sites, as well as having more efficient operations.

It is a well-run business generating lots of cash that can be reinvested in its estate and returned to shareholders via ordinary and special dividends. Liberum forecasts £24.6m pre-tax profit in 2018, rising to £25.7m in 2019 and £28.2m in 2020.

CINEWORLD

THE CINEMA OPERATOR has exposure to multiple geographic territories and has proven the benefits of reinvesting money back into its estate as spruced-up cinemas led to higher spending per customer.

Its recent foray into the US market presents a new earnings growth driver, led by refurbishment gains and greater buying power. The analyst consensus forecast is for £316m pre-tax profit in 2018, rising to £403m in 2019 and £437m in 2020.

IMMOTION

THIS IS A high-risk investment selection as the business is still very young and currently loss-making. We think it is in the right place at the right time as leisure operators and companies on a broader scale are keen to embrace virtual reality as it greatly improves the end-user experience. There are presently no earnings forecasts in the market. (LMJ/DC)

Most loved investment trusts

These are some of retail investors' favourite collectives, but why are they so popular?

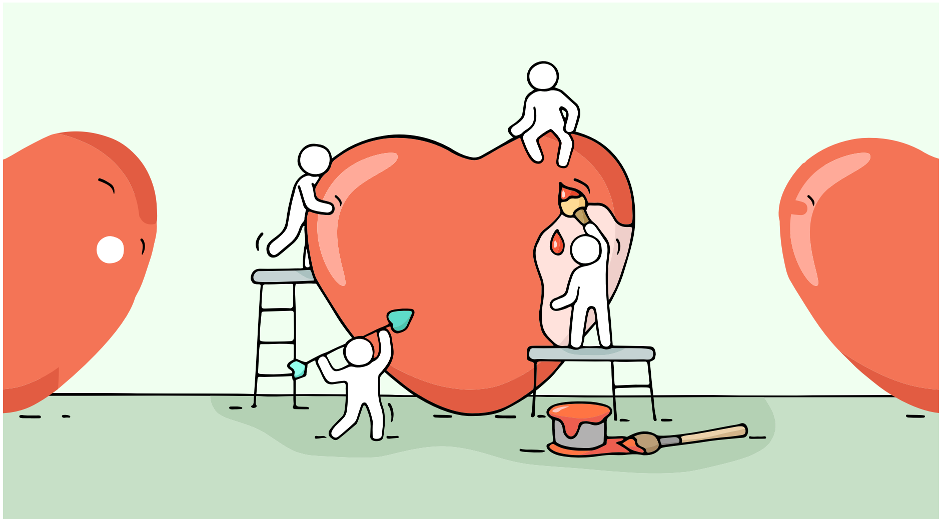
The whole investment trust space seems to be going through a resurgence in popularity.

In 2017 independent financial advisers (IFAs) bought a record £990m of investment trusts through their favourite platforms, according to statistics provided by the Association of Investment Companies (AIC).

That's a 46% jump on the £679m ploughed into investment companies in 2016, and 41% up on the previous high of £704m in 2015.

This is a stark change for a sub-sector of the stock market that has for years struggled with an image problem that had seen investment trusts ignored by many IFAs, wealth managers and DIY investors. Perhaps the penny is finally dropping.

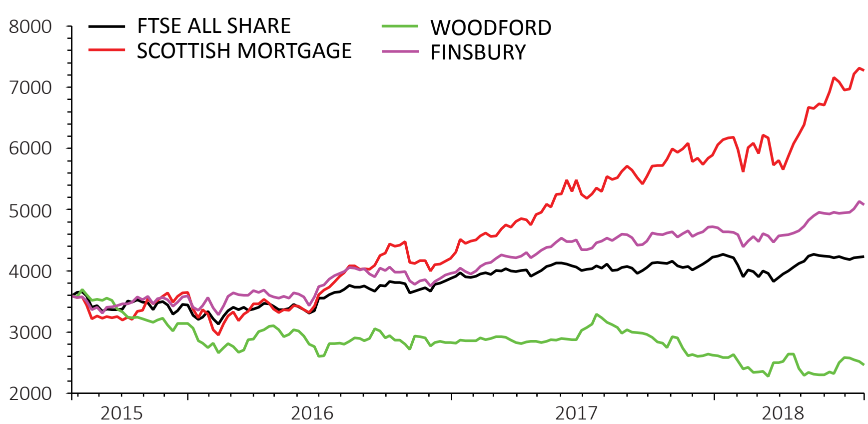
About time too because investment trusts can provide instant portfolio diversification across a range of companies, industries and geographic regions at a stroke.



Also known as close-ended funds, they are listed on the London stock market which makes them easy to buy (and sell), and are risk managed by expert fund managers.

Traditional funds split their assets into units, and as investor demand for a fund rises it issues more units. That's why they are called open-ended funds, because the number of units is not fixed.

Investment trusts work a bit differently. Like normal equities, they have a set number of shares in issue (although new shares can be issued and existing stock bought back as circumstances change), and the price of those shares rises and falls in line with buying and selling behaviour.



INVESTOR FAVOURITES

Not all investment trusts are equal, in the eyes of investors, with some much more popular than others. But why?

The obvious answer is share price performance, the ultimate arbiter. This makes perfect sense since the whole point of investment is to have more asset wealth in the future than you have today.

No exit penalties and consistently rising dividends

TOP 10 MOST LOVED INVESTMENT TRUSTS (SHARE PRICE PERFORMANCE, AJ BELL PLATFORM)			
	1 year	3 year	5 year
Scottish Mortgage	36.2%	105.6%	233.0%
Woodford Patient Capital	-21.8%	-30.6%	N/A
Finsbury Growth & Income	16.8%	50.0%	89.3%
City of London	4.9%	22.7%	44.5%
RIT Capital Partners	10.3%	37.8%	83.4%
HICL Infrastructure	0.5%	14.6%	52.4%
Witan Investment Trust	10.6%	48.9%	97.3%
Murray International	-5.9%	44.2%	23.2%
Edinburgh Investment Trust	-4.2%	12.2%	35.9%
Tritax Big Box	6.4%	46.5%	N/A
IT Global index	17.9%	61.2%	93.9%
IT UK Equity Income	5.9%	22.7%	43.4%
FTSE All Share*	9.0%	31.6%	52.8%
Source: Trustnet, *FTSE Russell to 29 June			

are other pluses for many investment trusts, while the width of discounts or premiums to net assets and the level of ongoing charges are also likely to form part of an investor's selection criteria.

A long track record of performance and the perceived quality of the managers running the show are other important factors, points out James Budden, director of retail marketing & distribution at Baillie Gifford, which runs the **Scottish Mortgage (SMT)** investment trust.

Scottish Mortgage stands out. Run by respected manager James Anderson for the best part of two decades (with help from capable deputy Tom Slater), it is the most popular investment trust with retail investors using the AJ Bell platform, as the table shows.

Scottish Mortgage stands out. Run by respected manager James Anderson for the best part of two decades (with help from capable deputy Tom Slater), it is the most popular investment trust with retail investors using the AJ Bell platform, as the table shows

That may be too small a sample size to draw firm conclusions on its own, but any claim that Scottish Mortgage is the UK's favourite investment trust is more powerful when you consider that it also heads popularity lists of other platforms too, such as Hargreaves Lansdown, Barclays and Interactive Investor, for example.

The same goes for **Finsbury Growth & Income (FGT)**, **City of London (CTY)** and **RIT Capital Partners (RCP)**, which sit on multi-platform popularity lists.

GROWTH NOT TECHNOLOGY

So what is the Scottish Mortgage secret sauce? Big stakes in some of the most exciting mega-cap growth companies helps. The trust has 9.9% of its funds invested in online retail giant Amazon, for example, whose shares have risen five-fold in five years.

There are decent stakes in Netflix, genome testing kit maker Illunima, and two of China's internet stars, Tencent and Alibaba.

So big of technology? No, says James Budden, who rejects claims that Scottish Mortgage is a tech trust. We are looking for 'blue sky growth,' he says, aiming to buy the 'best growth companies in the world for the next five or 10 years,' he says.

He also argues the point that Amazon is at its heart a retail business that very effectively is using the internet and other technologies to sell its wares.

The great thing about internet-based businesses is that they can 'scale-up with little capital needed', the Baillie Gifford man says.

'Facebook and Google are basically advertising businesses,' that's certainly where the vast majority of revenue and profits come from, while car makers Tesla and Ferrari feature among Scottish Mortgage's top 10 holdings.

'Sure, they use and develop technology to make their cars smarter, safer, more efficient and more desirable but they remain automotive firms, says Budden.

BLUE SKY THINKING

Investing in emerging stars of tomorrow is clearly popular with retail investors. That is just the strategy of Neil Woodford's **Woodford Patient Capital Trust (WPCT)**, still a firm favourite with investors even though its share price performance continues to stink up the stock market.

This explains the yawning 12.6% discount to net assets versus the 2.3% premium on which Scottish Mortgage trades.

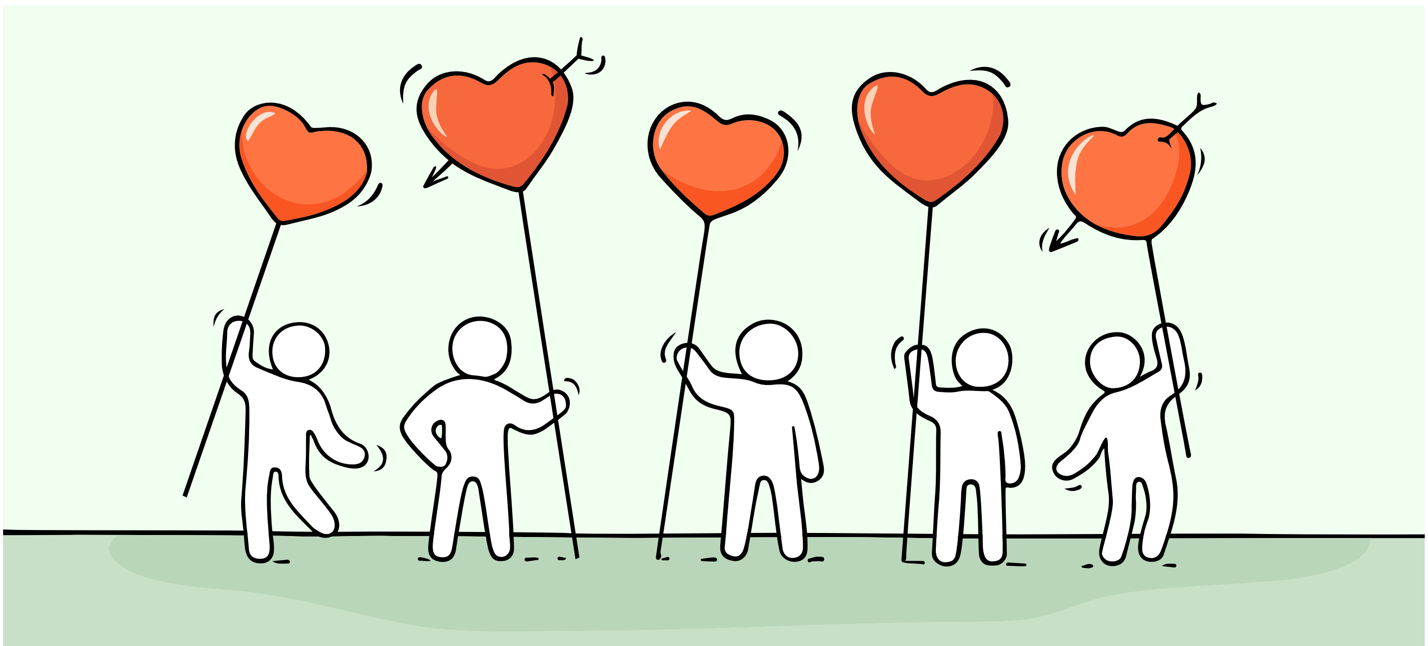
Presumably, Woodford Patient Capital's continuing popularity is down to the previously pristine, albeit now more blemished, reputation of Neil Woodford himself.

Online estate agent **Purplebricks (PURP:AIM)** is probably one of the trust's only major holdings that most people will know. But Woodford and investors will be hoping it doesn't stay that way.

There is certainly plenty of exciting potential around BenevolentAI's biotech research database internet bank Atom Bank and the cancer treatment technology of Autolus, the trust's biggest bet with more than 13% of its funds tied up.

Finsbury Growth & Income and City of London stand apart from both Scottish Mortgage and Woodford Patient Capital in their chosen investment universe, concentrating largely on UK-listed large cap companies, and ones that pay decent dividends too.

The respective share price performances set the pair apart. Finsbury, managed by star manager Nick Train, has put up returns around double those of City of London over the past three and five years. That makes their makes their similar premiums to net assets (about 1%, give or take) all the more puzzling. (SF)



Janus Henderson INVESTORS

Change brings opportunity

James Henderson, Fund Manager for Henderson Opportunities Trust, explains why this period of change and uncertainty is a good opportunity for active UK stock pickers.

Change, uncertainty and volatility in stock market prices are the ingredients that Henderson Opportunities Trust (HOT) thrives on. The Trust is relatively small with net assets of around £100m at the end of April, spread over a diverse list of companies. Our size enables us to move quickly when we see opportunities.

Equity markets around the world have experienced greater volatility in 2018. Change is a constant feature of the political and economic landscape, and this change is epitomised by the situation in the UK. Here, digital and technological innovations are challenging established business models, while the country's political leaders negotiate leaving the EU and begin to forge new partnerships in a globally competitive economy.

The Trust has the flexibility to go up and down the spectrum of companies in terms of size to find attractive opportunities. Currently, the HOT list holds approximately 15% in the FTSE 100, 9% in the FTSE 250, 13% in the FTSE Small Cap and 63% in non-FTSE All Share. The weight in FTSE AIM (alternative investment markets) has increased in recent years because we have tended to find more attractive opportunities within this space. These are typically young, high growth companies that are unencumbered by legacy issues.

An example of a successful FTSE AIM investment in the portfolio is robotic process software company, Blue Prism. Since its purchase in March 2016, the share price has appreciated 237%, owing to high demand for their robot process automation software. The software addresses a key pain point for enterprises – poorly integrated back-office systems – by enabling companies to automate interactions between legacy software applications. This allows companies to redistribute labour and save costs. For example, banks can use the software to process orders for new debt/credit cards, while insurance companies can use it to streamline insurance claims by checking internal data and producing a suggested pay-out.

ADDING VALUE IN DIGITAL TRANSITION

We are in a time of macro-economic and political uncertainty, and the digital shift is changing the shape of companies and the way in which people interact with them. Through this, we have focused on identifying companies that provide some sort of value add to help them control their own destiny. For example, we have shied away from holding Marks & Spencer, despite the shares trading on optically attractive valuations at times. The company is grappling with repositioning itself to address the structural growth in online sales, as well as the fragmentation of the market in their key categories. Barriers to entry have come down within the retail space with anyone able to create a brand from their living room without the need for large investments into stores or marketing.

Where we have invested into retailers, it has been in companies that have a niche within the market, which somewhat insulates them from the large structural shifts described above. We hold Joules, a premium family fashion brand, which has positioned itself well across online and offline channels. The brand is relatively immature and thus has a long run way for growth both in the UK and Internationally. We think the Joules brand, which addresses a niche within the expanding lifestyle apparel category, is attractive in the current environment. Indeed, Joules continues to see sales growth far outstrip new store space. This is driving an increase in profitability as management leverages their cost base.

The Trust has the ability to borrow money (gearing) to help grow its underlying net asset value, which is limited by the Trust's board to a maximum of 25% of the company's net assets. At the end of April, gearing stood at 13% of the portfolio and we expect to continue to utilise gearing to invest into differentiated and attractively valued companies with long term growth prospects to drive shareholder returns.

HOT has been trading at a discount of about -15% relative to the net asset value, which typifies investor sentiment towards UK equites generally. There is a growing consensus that the worst of Brexit – i.e. the worst possible outcome – has already been priced into UK equities, which could mean valuations have plenty of room to grow as we move towards a conclusion of the Brexit negotiations.

These are certainly interesting times for the UK and we are excited by the number of opportunities to buy companies with good businesses at attractive valuations and are adding value in a changing economy.

How to pick the right global equity fund for your portfolio

We present six funds picked by investment experts for global exposure

Global equity funds are very popular with investors, according to the latest monthly figures from the Investment Association. They showed the IA Global sector was the second bestselling sector in May, attracting net retail sales of £347m. The best performing fund in the sector has returned 92% over the last three years, according to FE data.

But why would you want a global equity fund, what role do they play in portfolios, and how can you choose the right one for you?

Global equity funds can be a useful one-stop shop for DIY investors who lack the time and skills to pick stocks for appropriate global markets. When you buy a global equity fund, you are letting the manager of that fund do the regional asset allocation for you.

The challenge is to know which global fund is best for you as inexperienced investors often find them hard to tell apart.

FOUR BUCKETS FOR YOUR FUNDS

When choosing any global fund, a good starting point is to think about what you want it to achieve in your portfolio.

AJ Bell fund manager Simon Molica says he would

assess global equity funds by putting them into four different 'buckets' according to whether they aim to generate income, whether they should be a satellite or core holding, and whether they buy quality businesses.

A core holding might be well diversified with no particular style tilt and perform in line with the benchmark, while a satellite fund might be the opposite, with high active share (meaning it is positioned quite differently from its benchmark) and requiring more patience from investors because of fluctuating returns.

The quality bucket might include funds like **Fundsmith Equity (B41YBW7)**, **Investec Global Franchise (B7VHRM9)** or **Morgan Stanley Global Brands (B45K057)**. These funds follow a Warren Buffett-style philosophy of companies with a 'moat', or high barriers to entry.

'You need to understand what you are actually buying, the circumstances in which it can outperform and underperform so you know what to expect in different market conditions and you don't end up disheartened,' Molica says.

He suggests it's also important to understand how a global fund manager screens stocks. With such a huge investment universe to choose from, funds either need a methodical approach in place to pick future winners or a large team of researchers to sift through ideas.

'If a group doesn't believe in fundamental screening it is harder because they have the whole global universe of stocks to research. You need discipline to bring the universe down to a manageable size or else you need a big team in place to help you do that.'

When choosing a fund, PSigma IM's chief investment officer Tom Becket advises investors to seek as much information as they can from independent data providers and read commentary and factsheets on providers' websites.

'Investors should always bear in mind that the asset class is large so you need to do your homework. Make sure you understand how that fund will blend with the rest of your portfolio or you could find yourself putting too many eggs in one basket.'

SIX GLOBAL EQUITY FUND PICKS

Simon Molica highlights two global equity fund picks in the open-ended universe. **Fidelity Global Special Situations (B8HT715)**, managed by Jeremy Podger, is one he suggests could work well as a core holding.

Podger has a long track record, and the fund is well diversified and style neutral with a tilt towards large-cap stocks. Focusing on misunderstood or undervalued growth prospects, the fund aims to deliver in a range of market conditions, and it is backed by Fidelity's large team of analysts.

The second is James Harries' **Troy Global Income Fund (BD82KP33)** which aims to protect investors' capital. Molica comments: 'I like the philosophy of the company; it is very focused on capital preservation, high and sustainable return on capital, long term dividend growth. I would expect if we had a big drawdown in the market that it could protect your capital.'

> **"Investors should always bear in mind that the asset class is large so you need to do your homework. Make sure you understand how that fund will blend with the rest of your portfolio or you could find yourself putting too many eggs in one basket"**

In the closed-ended space, he points to **Scottish Mortgage Investment Trust (SMT)**, managed by Baillie Gifford's James Anderson.

Molica suggests this could be held as more of a satellite holding because of its high active share. 'At the heart of Baillie Gifford's investment process is to search for stocks which display strong growth characteristics. This trust will at times deviate heavily from the returns of the benchmark given its long-term and high active share mentality. Investors should be aware that it is typically very growth-oriented by investment style.'

PSigma IM holds **Artemis Global Income Fund (B5N9956)** for its attractive yield and value bias, as well as **River & Mercantile Global Recovery (B9428D3)** which Becket says 'allows us to get exposure to cheaper parts of the world that are harder to access' such as deep cyclical sectors in Europe including industrials, energy, and some banks.

He also likes thematic fund **Polar Capital Healthcare Blue Chip (BPRBXV2)** which he calls 'a good long-term growth opportunity'. (HS)

DISCLAIMER: Editor Daniel Coatsworth has a personal investment in Fundsmith Equity referenced in this article.

The City state we're in...

The potential outcomes as the day for the UK's exit from the EU looms

With the omnishambles of Brexit continuing to dominate the front pages, the Parliamentary recess seems to have come just in time to spare the nation from the chaos taking place in Westminster right in front of our eyes.

Having unveiled a 'unified' Chequers plan that served up a smorgasbord of euphemisms for our existing relations with the EU, the combination of 'common rulebooks', 'mobility frameworks' and 'facilitated customs' was indeed successful in unifying both Leavers and Remainers, but in opposition rather than the support Theresa May had hoped to garner.

And so, with less than 150 days until an agreement is required between the UK and EU (of which Parliament will be in session for just 60), the prospect of no deal is one that both voters and investors must seriously begin to prepare for.

In this article we take a look at just what they might be.

• No Brexit

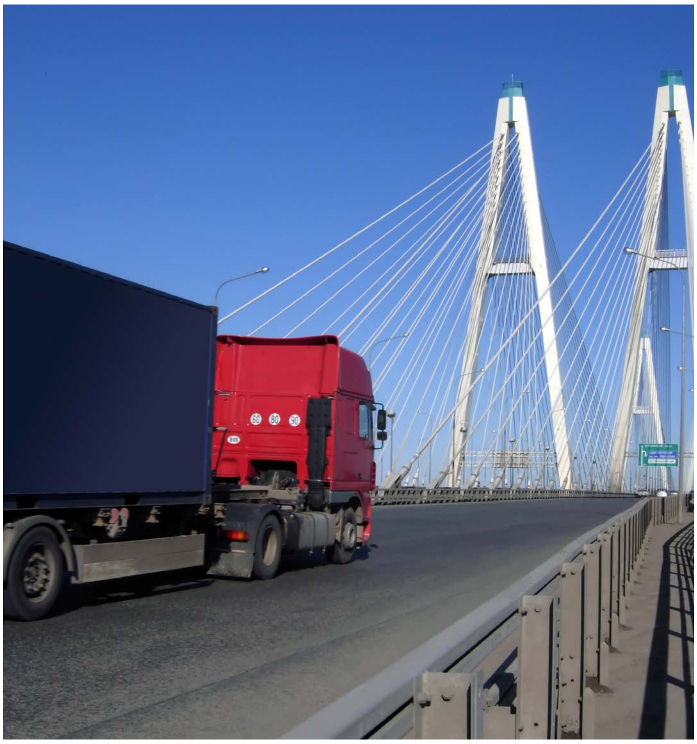
For a No Brexit outcome to arise, we have to assume at least a change of Government, followed by a second referendum. Whether that comes in the guise of a centralist coalition or a Jeremy Corbyn led Labour party would have a major impact on how markets would react.

Of greater significance however could be the potential social unrest to follow as, regardless of whether the 'will of the people' had changed, the sense of betrayal amongst the 17m who voted to leave in the original referendum might spill out onto the streets.

While investors may well welcome the no Brexit outcome, democracy and political engagement would mourn long into the future.

• A Deal of Sorts

Whether 'hard' or 'soft', a deal of any sort agreed in time for the UK Parliament to approve and EU to ratify at the December Council meeting would at least bring to an end the uncertainty that investors currently face. Having roundly rejected the softness of Chequers, any such deal currently seems more likely to be at the hard end of the scale.



With such hardness comes inevitable trade barriers, an increase in duties and a corresponding rise in inflation as tariffs are passed onto consumers. Swiftly following thereafter would be a slowdown in economic activity as trade between the EU and UK came to a shuddering halt whilst administrative processes are put in place.

And that's before we come to the square peg of the Good Friday Agreement, which declared the UK and Ireland as 'partners in the EU' and expressly removed any security installations at the border.

Containing a provision that promises the people of Ireland to facilitate a unification of North and South should the people of Northern Ireland wish it (Northern Ireland voted 56% to remain in the UK), the Good Friday Agreement mixed with Brexit, brings with it the prospect of a break-up of the Union. Given the SNP position on the subject, a constitutional crisis would be almost inevitable thereafter.

• No Deal

As the hardest of exits, the 'no deal is better than a bad deal' mantra seems increasingly likely to become a reality as the clock ticks down. In terms of acrimony and consequences, this is perhaps as bad as it could be in the short-term as the UK would become the only developed nation on the planet to have no free or preferential trade deals in place with any of its trading partners.

For businesses engaged in cross-border activity, the imposition of WTO rules (assuming we were allowed to join) would result in a jump in tariffs on a host of goods until such time that new deals could be arranged. These negotiations are typically measured in years, not months.

But just as reaching a deal of sorts creates a potential constitutional crisis, the same can be said for a no deal Brexit. As the heart of the global financial markets, London's multi-cultural, international focus led to the Capital voting to remain at a rate of three-to-two. Based on the 2011 Census data, inner London boasted a population of over 3.2m of which only 58% identified themselves as British.

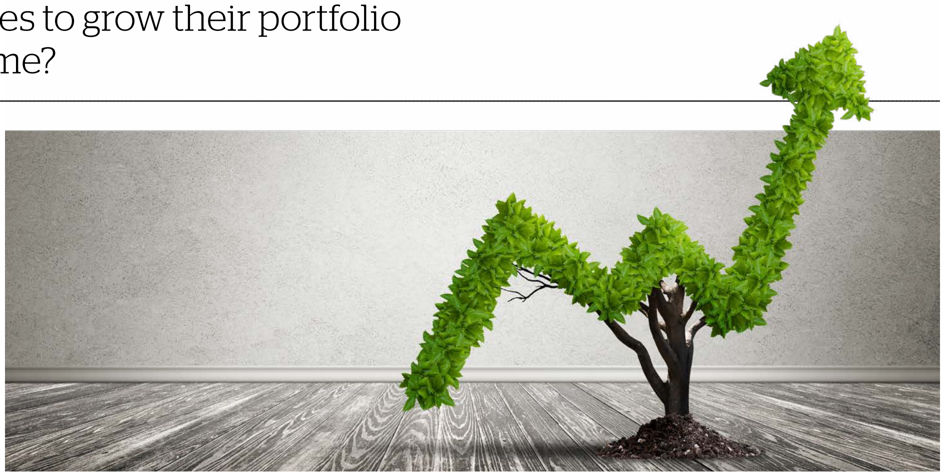
With this figure likely to have trended closer to 50% in the seven years since, the prospect of London striking out on its own, as a city state, akin to Singapore or Monaco is one not beyond the realms of possibility.

Responsible for over a third of UK tax receipts, the prospect of a wealthy constituent wishing to untie itself from the rest of the union, taking back control of its own laws, money, borders and trade is one that the UK should be most fearful of in the long run.

Kevin Doran, managing director, AJ Bell Investments

Investing for growth in retirement

Is there an easy way for retirees to grow their portfolio and generate an annual income?



Major changes to pension rules have given people in retirement more freedom than ever in how they use their money in retirement – and some retirees may even consider trying to grow their savings pot.

Pension freedoms, introduced more than three years ago, mean today's retirees are not forced to buy an annuity in order to produce a retirement income. Instead, a growing army of investors are choosing to keep their money in the stock market even after they stop working.

The traditional approach for older investors has been to find investments which will pay a reliable income, in the same way that an annuity would, to fund their overheads through retirement.

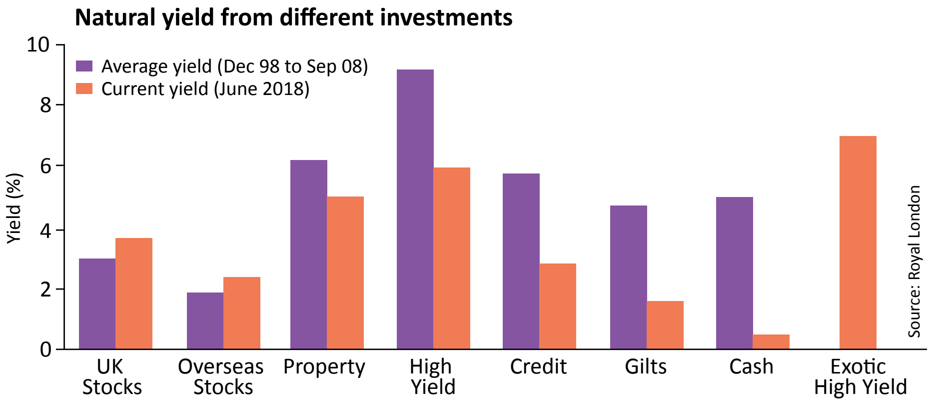
This has historically meant investing in UK Government bonds (known as gilts) and high-quality corporate bonds, which have reliable pay-outs and lower levels of risk.

But, with interest rates at rock-bottom for almost a decade, these traditional income payers no longer yield enough to even beat inflation.

NOW VERSUS THEN

Investors banking on gilts for their retirement income will instead find the value of their cash being eroded year after year. Research by Royal London (see accompanying chart) shows how much harder it is to find a decent yield compared to a decade ago.

As a result, investors are being forced into riskier income investments such as high-yield bonds – the debt of companies with a lower-credit rating – and even emerging market debt. These assets may produce the yield required but they come with a higher level of risk.



Trevor Greetham, head of multi-asset at Royal London Asset Management, says: 'Savers need to realise that chasing after high-yielding investments today can involve investing in an unhealthily narrow range of assets that could suffer as interest rates rise.

'Investment conditions today are a world apart from those before the financial crash and retirement strategies need to change accordingly.'

It's therefore not surprising that more investors are considering a growth strategy in retirement. A nine-year bull run has given people the confidence to keep some money in the stock market even after they retire.

A growth strategy in retirement doesn't mean upping your risk through extreme measures. Instead, investors consider how much they need as an annual income and try to build a portfolio which will grow by that amount. So, if you have a pension pot of £150,000 and need £7,500 a year, you would aim to produce growth of 5% a year.

HOW IT WORKS

Most investment platform providers will allow you enter a drawdown plan where you can withdraw the cash you need. So, if your £150,000 grew by 5% to £162,500, you simply withdraw your £7,500 and are back where you started ready to start making your money work for the next year.

Mike Deverell, partner at Equilibrium Asset Management, believes that's a very sensible strategy. 'If you just aim for as high a yield as possible then that actually increases your risk as it rules out certain asset classes and leads you to be highly concentrated in the few assets that provide enough yield.

'We prefer a broad spread of asset classes including equities and bonds, but also alternatives like property, infrastructure and absolute return funds.'

WATCH OUT!

HIGH YIELD BONDS PRODUCE THE YIELD REQUIRED BY RETIREES BUT THEY COME WITH A HIGHER LEVEL OF RISK

DON'T FORGET THE IMPACT OF INFLATION

But this approach is not without risk. First and foremost, investors need to factor inflation into their calculations.

Andrew McCulloch, relationship manager at 7IM, says: 'Not considering the future need to beat inflation can create problems down the line, which are exacerbated by the fact that people now live longer in retirement.'

He suggests a mixed approach, keeping enough money in liquid, low-risk choices to cover one or two years' expenditure, with further tranches invested for the medium and longer-term with the aim of growing your pot.

He likes the **Fidelity Money Builder Income (BBGBFM0)** fund as a shorter-term option; it invests in fixed income assets and yields around 3.2%.

For the medium-term he likes **Artemis High Income (BJT0KR0)**, which has around 40% of its assets in fixed income and the rest in equities, and yields 5.4%.

For the longer-term he suggests a growth- focused choice such as **7IM Moderately Adventurous (B2PB2K5)** – it has exposure to UK value opportunities and equities across the globe.

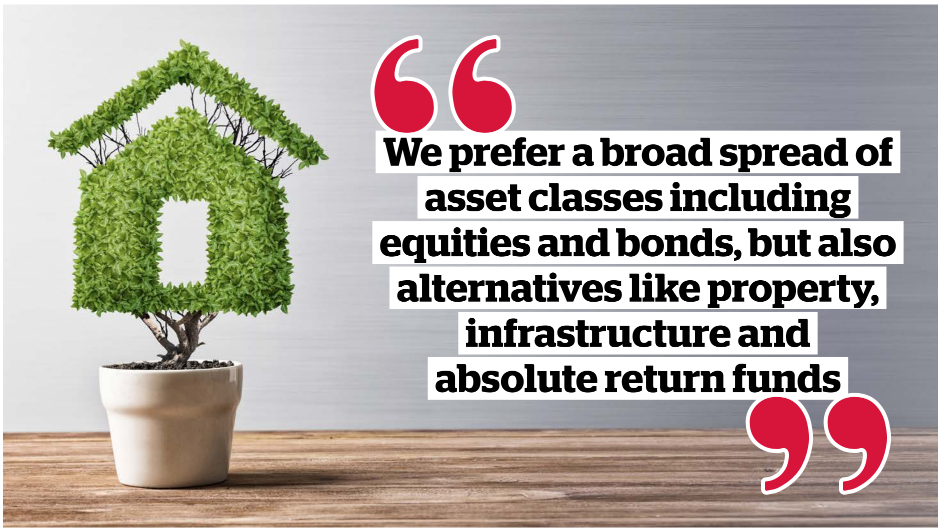
WORDS OF CAUTION

Other advisers are more cautious around growth as a retirement strategy. Brian Dennehy, director at Dennehy, Weller & Co, warns that a few years of poor returns or a downturn in stock markets is enough to 'obliterate' your retirement plan.

McCulloch adds: 'The problem with this approach is that if you have a year or more of flat or negative returns you start to eat into the capital. Like a snowball rolling down a hill, this can be hard to recover from.'

A final point to note, too, is the fees involved in drawing down capital from your pension pot.

For example, you might pay £25 per ad-hoc withdrawal or £100 a year for regular drawdown payments, as well as the usual trading charges of £1.50 for funds and £9.95 for investment trusts or shares. These should be factored into your calculations. (HB)



When you pay tax in your ISA and SIPP

Although tax-efficient these vehicles do not enable you to avoid HMRC's grasp entirely

People putting their money away into an ISA or SIPP can shelter their savings from tax, but you'd be mistaken for thinking that all aspects of these accounts are entirely tax free.

Here we explain the situations where you would end up paying tax on this money – from inheritance tax to being penalised for saving too much.

WHEN THEY ARE TAX FREE

Money put into an ISA account can grow free of tax, meaning that you pay no income tax or capital gains tax on the returns. When you withdraw the money from the account there is also no tax due.

With a pension or SIPP you get Government tax relief on the money you put in, proportionate with your income tax level. This means that your contributions are tax free. Any gains within the pension are also tax free, and you then pay tax on the lump sum or income you draw from it, at your marginal rate.

WHEN DO YOU PAY TAX?

Despite the above, ISAs and pensions are not entirely tax free. There are certain situations where you will pay tax.

First, most people pay stamp duty when they buy certain shares. This is usually a tax of 0.5% of the value of the transaction when you buy shares. You pay this money automatically if you buy the shares electronically.

This doesn't apply if you buy units of an open-ended investment company, also known as an OEIC, or buy units in a unit trust from a fund manager. However, the fund managers in the funds you buy will have to pay this tax, so you'll pay for it indirectly.

Another area where you may pay tax within an ISA is on dividends paid out by any foreign companies that you own in your ISA or pension. This would only arise if you own shares in a company based overseas, and it doesn't apply to all countries. This tax is known as a 'withholding tax' and the rate you pay depends on the country.

You can usually claim this money back, but it can involve a lot of paperwork and information being filed with foreign tax authorities. The UK has negotiated a double taxation agreement with some countries, meaning you are exempt from paying the additional tax in some places.

Inheritance tax poses the biggest threat to your ISA pot, as ISAs are considered part of your estate for inheritance tax purposes. Everyone can have £325,000 of assets before they have to pay inheritance tax, but anything above this amount will be taxed at 40%.

While this seems like a large limit, property is counted as part of your estate, so anyone with a higher-value home (particularly if they live in London and the south-east where property prices are higher) and a healthy investment pot may hit this limit.

The only exemption to this is if you invest in certain shares listed on the AIM stock market within your ISA. Some of these companies are eligible for something called Business Property Relief. This means that as long as you hold the shares directly and for at least two years, they will be exempt from inheritance tax.

However, these companies are smaller and so tend to be a riskier investment, meaning you may not want to put a large portion of your pension or long-term savings in these companies.

> Inheritance tax poses the biggest threat to your ISA pot, as ISAs are considered part of your estate for inheritance tax purposes

PENSIONS TAX CONSIDERATIONS

With pensions, you face specific taxes if you save too much in your pension, either each year or over your lifetime.

Pensions have an annual limit on contributions, which is £40,000 for the majority of people. It's limited to £10,000 for some higher earners, in what is known as the 'tapered annual allowance'. Anything you save over your limit each year is not eligible for tax relief, in the same way as the rest of your contributions are.

Once you've taken advantage of the pension freedoms you'll also find the amount you can save into defined contribution pensions, like SIPPs, is reduced to £4,000.

Pensions also have a lifetime allowance, placing a cap on how much you can save up into your total pension pot. The limit for the current tax year is £1.03 million, but this limit is not just on the contributions you make to your pension over your lifetime – it includes the tax relief you get from the Government and all the investment growth on your pension.

The value of your pot for the purposes of the lifetime allowance will be determined either at age 75 or when you take money from your pension. The tax rate you'll pay depends on how you use your pension money: it's a 55% tax charge if you take a lump sum from your pension or 25% if you take an income from it. Clearly this can add up.

Laura Suter, personal finance analyst, AJ Bell

> Property is counted as part of your estate, so anyone with a higher-value home and a healthy investment pot may hit this limit

Why you should ignore the Lifetime ISA cynics

This product risks being underappreciated

Last week the Treasury Committee, a group of MPs tasked with holding the Exchequer to account, published a wide-ranging report on household finances.

The report's recommendations have been widely picked up in the press, with the Lifetime ISA (LISA) – a product created in 2016 to help young people save for a first home or retirement – facing particularly harsh criticism.

The MPs criticise the LISA for being too complex and not complementing traditional pensions, and call for the product to be abolished.

I fundamentally disagree with this conclusion. To demonstrate my point, I will now provide a short, simple explanation of how the LISA works – and a few ways you could use it alongside your pension.

HOW IT WORKS

The LISA is only available to savers aged 18 – 39, so if you're 40 or over you can't apply. You can save up to £4,000 a year in a LISA and the Government will top it up by 25%.

Provided you open a LISA before your 40th birthday you can keep contributing – and receiving the 25% bonus – until your 50th birthday.

You can then withdraw the money tax-free to put towards your first home (provided it is worth £450,000 or less), if you're aged 60 or over, or if you become terminally ill.

In all other circumstances the Government will levy a 25% charge on the money you take out – likely to be more than the Government bonus if your fund has enjoyed investment growth.

And that's it.

SHOULD I GET ONE?

If you're saving for a first home it's a bit of a no brainer – the only thing you'll need to consider is your investment time horizon and the level of risk you want to take.

If you're using a LISA for retirement, it should be in addition to your workplace pension – which comes with a matched contribution as well as a tax relief bonus – rather than instead of.

Which is more appropriate then comes down to your individual circumstances. The automatic bonus on pension contributions is 25% if you're a basic-rate taxpayer, meaning an £80 contribution becomes £100 without you having to do anything.

Higher-rate taxpayers can then claim back a further £20 and additional-rate taxpayers £25 through their tax return. If you fall into either of these brackets, it's likely a pension will be a better deal than a LISA for your retirement.

However, for basic-rate taxpayers the combination of 25% bonus and tax-free withdrawal at 60 is compelling.

It could also be a viable retirement savings alternative for wealthier investors who are pushing up against the £1m pensions lifetime allowance, as well as self-employed workers who don't benefit from a matched employer contribution.

Tom Selby, senior analyst, AJ Bell

Why KPIs are an essential tool to decoding a company's performance

We look at some of the biggest sectors to reveal the key information you might be missing

Firms operating in different industries have their own yardsticks for performance, beyond the usual metrics like pre-tax profit, revenue and cash flow.

These key performance indicators or KPIs for short can help you spot positive or negative trends before they show up in the P&L or balance sheet. And having a handle on the key KPIs for specific sectors can help you decipher updates from sector constituents.

GETTING BUMS ON SEATS

Take the load factor, which is frequently referenced in financial statements from airlines **EasyJet (EZJ)**, **Ryanair (RYA)** and Jet2 owner **Dart (DTG:AIM)**.

Load factor essentially reveals how effectively airlines fill their flights by comparing how many miles they fly per seat and per passenger. Because airlines have lots of fixed costs the load factor has a significant bearing on profitability.

For the likes of Holiday Inn owner **InterContinental Hotels (IHG)** and Premier Inn owner **Whitbread (WTB)**, revenue per available room (RevPAR) offers a similar insight.

RevPAR assesses how well a hotel can fill its rooms, which is calculated by multiplying the average daily room rate by the occupancy rate.

Sales growth is vital to look at when exploring results from retailers and pub operators such as **Next (NXT)**, **Debenhams (DEB)**, **Greene King (GNK)** and **Mitchells & Butlers (MAB)**.

Like-for-like sales offer an insight into the underlying performance of these consumer-facing companies as they strip out any impact from acquisitions or the opening of new outlets or premises.

STRONG FOUNDATIONS FOR HOUSEBUILDERS

UK house prices have recently come under pressure, and this is starting to be reflected in the average selling prices achieved by the listed contingent of housebuilders. If house prices continue to decline, these businesses will have to drive sales at higher volumes to achieve growth.

The sales rate reveals the number of homes sold per outlet every week and is regularly reported by the likes of **Taylor Wimpey (TW.)** and **Barratt Developments (BDEV)**.

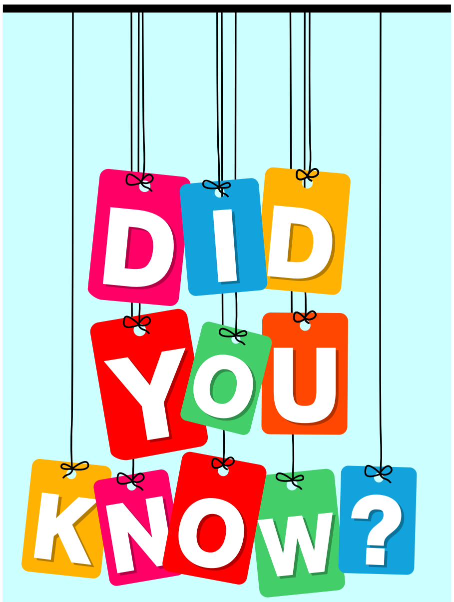
Investors should also focus on forward sales, which reveal homes that have been ordered but not yet bought by prospective owners, providing a measure of visibility on future sales.

CHECKING BANKS READINESS FOR STORMY TIMES

In the wake of the financial crisis there has been greater onus on banks to demonstrate their ability to withstand adverse economic conditions.

An emerging metric in the wake of the crisis has been the common equity tier 1 ratio (CET1). Expressed as a percentage, this measures a bank's core equity capital against its overall risk-weighted assets.

In other words it shows how much money they have put aside to cover their riskier assets. Current regulations require a CET1 of at least 8%.



Larger companies now have to identify and measure financial and non-financial key performance indicators in their annual report

RATIOS AND GRADES DECIPHERED

The insurance sector can be tricky to unravel, but one of the most important metrics to wrap your head around is the combined ratio. This reveals the difference in what's being paid by customers in premiums and what's being paid out to customers in claims by the insurer.

A combined ratio of under 100% implies profitability, and the lower the number the better its underwriting operations are performing.

This ratio can be found in results from firms such as **Admiral (ADM)** and **Direct Line (DLG)**.

Another set of hard-to-understand companies are the miners, references to terms like 'ore grade' can be confusing.

An ore is a type of rock that contains minerals and metals which can be extracted. The grade describes the concentration of metal and plays an important role in determining the costs of extraction

As a rule of thumb, high quality mines generally boast higher production grades as the precious metal can be extracted with relatively less effort, which results in lower costs.

In contrast, lower metal grades are generally worse as it will take the miner more effort and money to extract the metal and could lead to increased operating costs.

For their counterparts in the oil and gas sector, useful terms include: operating costs per barrel – which shows how much a company spends to produce each individual barrel of oil; the reserves replacement ratio – which measures the extent to which the company replaces reserves lost to production; and the level of proved and probable or 2P reserves – which are those reserves of oil and gas which geological analysis suggests are more likely than not to be recoverable. (LMJ)

KEY

- **Main Market**
- **AIM**
- **Fund**
- **Investment Trust**
- **IPO coming soon**

KEY ANNOUNCEMENTS
OVER THE NEXT SEVEN DAYS

HALF YEAR RESULTS:

3 Aug: Cobham, Essentra, International Consolidated Airlines, Mondi, Royal Bank of Scotland, William Hill. **6 Aug:** HSBC, Synthomer, Ultra Electronics. **7 Aug:** Domino's Pizza, Hargreaves Lansdown, InterContinental Hotels, Intertek, Meggitt, Standard Life Aberdeen, Zotefoams. **8 Aug:** Glencore, Hill & Smith, PageGroup, Paddy Power Betfair, Prudential, G4S. **9 Aug:** Coca-Cola HBC, Evraz, Ibstock, Legal & General.

TRADING UPDATES:

3 Aug: Pets at Home. **8 Aug:** Bellway, UDG Healthcare.

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.

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