STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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SHARES

WE MAKE INVESTING EASIER

TURKEY CRISIS
WHAT IT MEANS FOR INVESTORS

UP, UP and AWAY

The market may have stalled but we've spotted 8 excellent stocks that should keep on going

The ultimate income investment trusts

Higher dividends expected from pension providers

Why free cash flow is so important

INSIDE: *THE LOWDOWN ON THEMATIC ETFS*

Why hasn't gold rallied on the Turkish crisis?

The precious metal has failed to follow historical patterns and rally on the latest troublesome event

Stock markets are flashing red in various parts of the world, Turkey's economic crisis and lira collapse continues to dominate the headlines and several other emerging market currencies are going through a patchy period.

In theory these conditions should be positive for gold given it is seen as a safe haven asset. So why is the precious metal trading at a 19-month low?

While an appreciating US dollar is partly to blame, there are other possible reasons that may explain why gold is not shooting up in value, as it has done in previous times of peril.

Turkey's central bank was the biggest buyer of gold after Russia last year, picking up 85.9 tonnes of the precious metal. It may therefore dip into this stockpile and sell some gold during its current crisis – something that could be seen as negative for the metal price, according to Nitesh Shah, director of research at ETF provider WisdomTree.

He says Turkey has an unusual system whereby commercial banks can use gold to meet reserve requirements with the central bank. 'In 2017 gold inflows into the Turkish Central Bank from commercial banks (held on reserve) amounted to 187.7 tonnes. Combining these two sources of flows to the central bank, gold inflows were into Turkey were the highest of any central bank.'

Turkish Lira has weakened by more than 30% versus the US dollar since late July. Over the same period, gold has fallen by a mere 1.1%.

CONFUSED BY GOLD'S FAILURE TO REACT

Clearly many investors will be left confused by gold's failure to strengthen when a currency has depreciated by a significant amount in such a short period of time.

Gold also has a reputation of moving up when stock markets are moving down. For example, gold moved up 0.9% during the two month stock market sell-off in February and March this year where the FTSE All-Share declined by 7.4%. Previous sell-offs in August 2015 and January 2016 saw gold rise 3.7% on both occasions versus a 9.3-9.5% decline in the UK stock market.

What's interesting this time is that the FTSE All-Share – a benchmark for the UK stock market – has barely moved since the lira started its latest descent in July. One could argue that Turkey's economic problems and spat with the US aren't deemed serious enough to destabilise the UK market which is dominated by banks and resource companies at the upper end of the market cap spectrum.

But what if investors are simply being cautious now and waiting for events to unfold before they start to seriously reduce exposure to higher risk assets such as emerging markets?

Shah at WisdomTree points out that gold doesn't always react quickly in times of stress. 'During the Argentine crisis, the Minister of the Economy froze bank accounts on 1 December 2001 (a clear sign the writing was on the wall) and on 23 December 2001 the government defaulted on its sovereign debt,' he says.

'In the month of December 2001, gold only rose 1%. But in the first half of 2002, gold rose 15% as the ramifications of the Argentine crisis (and dot-com bubble issues) introduced a clear geopolitical premium into gold.'

We see merit in having some exposure to gold in a portfolio but do not believe the current situation warrants dumping equities in favour of increasing positions in the precious metal if you already have decent exposure. (DC)

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Why the collapse in Turkish lira matters to investors

The currency is in freefall amid rising inflation and clashes with the US

A plummeting Turkish lira is raising fears of more widespread chaos given the size of Turkey's economy, its strategically significant geographic position and its close ties to the Eurozone.

In this article we examine four key questions raised by this ongoing currency-led crisis.

WHY IS TURKEY'S CURRENCY FALLING?

Since the beginning of 2018 the lira has been weak thanks to rising inflation and substantial government borrowings but the sell-off has accelerated in August amid a dispute with the US and the currency is now down more than 40% year-to-date.

The Trump administration has imposed tariffs on imports from the country after Turkey's detention of American pastor Andrew Brunson.

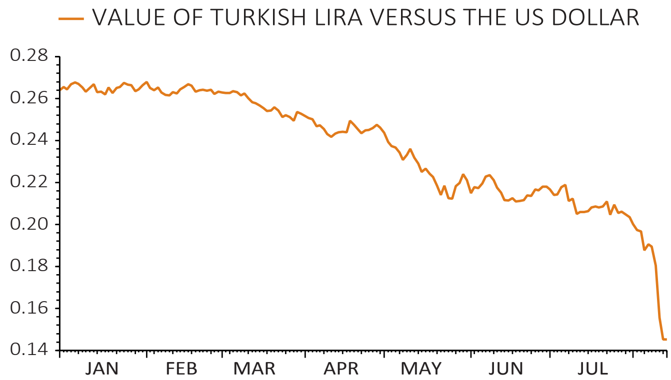
Turkish president Recep Tayyip Erdogan has resisted calls for an increase in interest rates despite inflation running wild and instead is blaming 'economic terrorists' and claiming his country has been stabbed in the back by Western allies.

WHY DOES IT MATTER TO YOU?

The question for investors is whether Turkey is a canary in the coal mine for a more significant financial crisis or an isolated case whose impact should largely be confined within Turkey's borders. There has already been some contagion with the euro falling along with other emerging markets currencies.

WHAT HAS BEEN THE WIDER IMPACT SO FAR?

Many developing economies, like Turkey, have significant amounts of dollar-denominated debt. Rising US interest rates and a strong dollar are not helpful, and the Argentinian peso and South African rand are among the currencies which have fallen in the wake of the Turkish crisis.



Capital Economics' markets economist Oliver Jones says: 'Regardless of what happens next in Turkey, we remain fairly pessimistic about the medium-term outlook for EM currencies, particularly given our view that growth in China will slow further this year, and that the US economy will lose momentum in 2019.'

WHAT HAPPENS NEXT?

For the Eurozone the fear is that fragile Spanish and Italian banks could see losses thanks to exposure to bad debts in Turkey and that there could be a politically unpopular influx of Turkish immigration to the economic area.

Edison Investment Research chief strategist Alastair George says: 'Outside Turkey the key risk in our view is a greater degree of spill-over to other relatively fragile regions of the world economy.

'Fortunately in terms of direct exposures, the amounts appear to be relatively modest. Press reports indicate the ECB believes there is approximately $100bn of exposure to Turkey within the Eurozone banking system, which on the face of it is a manageable figure. However, the impact on investor sentiment could be a much more significant factor.' (TS)

Esure snapped up by Bain Capital

While the UK motor insurance market is in the doldrums, private equity outfit spots a bargain and swoops on Esure

Motor and home insurer **Esure (ESUR)** is set to be taken over after agreeing to an all-cash offer made by private equity house Bain Capital.

The offer values Esure at £1.2bn as Bain made the offer at a 37% premium to Friday's closing price of 204p, or 280p per share in other words.

Kamran Hossain, analyst at RBC Capital Markets, says 280p per share is the 'best that Esure could expect for now' at least until the UK motor insurance market turns.

DOWNBEAT RESULTS

This view seems borne out by the company's half year results to 30 June, which were weaker than market forecasts. For instance the pre-tax profit figure of £36.1m is 13% behind consensus with net income 8% short of what was pencilled in at £31m.

The all-important combined ratio, a key measure of an insurance company's profitability, is two percentage points above forecasts at 101%. A ratio above 100% implies a company's underwriting operations are paying out more in claims than they are getting in premiums.

The company attributes the profit slip to 'adverse weather related claims' which hit its main motor and home insurance businesses. Excluding these, Esure says that pre-tax profit would have been £50.1m although whether adverse weather is a one-off is highly debatable.

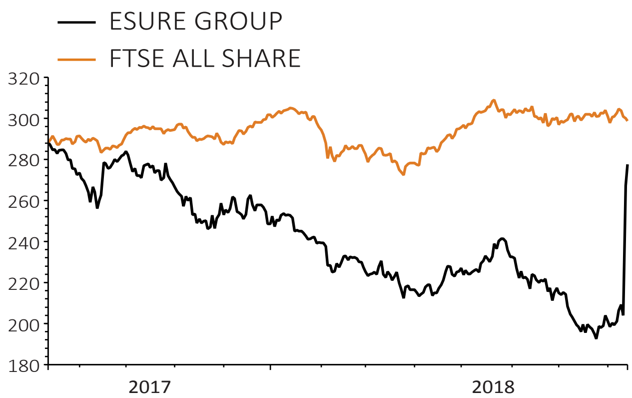
The 'Beast from the East' pushed the company's home insurance division combined ratio to 130.1%, with claims for flash flooding also not helping with that metric.

Given Esure's acceptance of Bain's offer, it could be argued that the company's results pale into insignificance.

This is the view of Edward Morris, analyst at investment bank JP Morgan, who says the results are unlikely to be a 'major focus'.

The offer values Esure at £1.2bn

RBC's Hossain sees the offer as a 'good outcome' for Esure shareholders, although he also believes the reserves set aside for the weather losses are likely to be 'highly conservative'. (DS)



Sensyne Health floats on AIM with plan to speed up drug discovery via NHS partnership

The £225m business will join the stock market on 17 August

British healthcare technology firm **Sensyne Health (SENS:AIM)** has raised £60m to coincide with its stock market debut on 17 August. It will be valued at £225m when it starts trading on AIM.

Sensyne Health works with three NHS trusts by using its anonymous datasets for analysis, which can be used to improve patient care and speed up the discovery of new medicines.

It also licences its analysis to companies, which can help identify patients that may respond to certain treatments in clinical trials, identify new drug targets and help understand specific diseases.

Its NHS trust partners, Oxford, South Warwickshire and Chelsea & Westminster, collectively have a 10% stake in the company and receive 4% in royalties from licenced analysis.

The new money raised at its IPO (initial public

offering) will be used to hire more doctors and computer scientists to analyse the data using clinical artificial intelligence and algorithms.

Sensyne has its sights set on 15 licences over the next few years, but investors should recognise potential risks such as competition and difficulty in attracting experts in artificial intelligence. (LMJ)

Electric vehicles boost for auto-engineer TI Fluid

AUTOMOTIVE FLUID systems engineer **TI Fluid Systems (TIFS)** has secured around €700m worth of contracts to supply components to the emerging electric vehicles (EV) market.

Doubts over the company's ability to retain a valuable spot in the global automotive supply chain that is increasingly embracing electric-powered cars, trucks and buses has been one of the chief concerns for investors since the company returned to the stock market in October last year.

It helps explain why the share price has remained stubbornly anchored to its 255p admission price, currently trading at 270.4p. The hefty near 66% stake still held by private equity house Bain Capital is another worry for investors although analysts see up to 45% share price upside from current levels.

Numis Securities believes the swathe of new EV business underscores management's optimism that the company is capable of doubling the value of components per EV over the coming years, from roughly €200 per vehicle. (SF)

More in the tank for TT Electronics as it scales value chain

Connectivity, automation and machine learning are hot opportunities

An acquisitions spree designed to drag **TT Electronics (TTG)** up the value chain is paying off with operating profit margins soaring beyond analyst expectations.

In half year results to 30 June the electronic components business reported profit margins of 7.5%, 'well ahead of our 6.7% expectations,' say analysts at Berenberg. That has prompted the investment bank to upgrade forecasts by between 8% and 10%, with profit margins 'trending to 8.6% by 2020,' the researchers say.

That's exactly double the 4.3% profit margin run-rate back in 2015, when chief executive Richard Tyson joined the business.

Part of the reason for this robust performance is a telling contribution from Stadium in the UK and, to a lesser degree, US-based Precision, a pair of businesses acquired during the first half (April and June respectively).

EMBRACING THE DIGITAL AGE

These additions are helping TT expand beyond its traditional sensors and instrumentation markets into fast-growing, and importantly more profitable, digital niches. These include areas like supplying complex connectivity, automation and machine learning components and systems for automotive, industrial and medical applications, where TT is increasingly investing in in-house designed solutions.

TT management gave an upbeat assessment of the foreseeable future, with Tyson talking up 'confidence of progress for the full year ahead of our prior expectations'. This optimism is supported by a book-to-bill ratio above 1.0, implying that the company is winning future workloads at a faster rate that it is currently producing products.

TT shares have rallied roughly 20% to the current 265p since *Shares* last wrote about the company

on 26 April, where we highlighted the improving prospects of the company. That still leaves the stock trading on an implied 2019 price to earnings multiple of less than 15.

KPI: ORGANIC GROWTH (%)	
2015	-2
2016	-3
2017	5
H1 2018	3

KPI: RETURN ON INVESTED CAPITAL (%)	
2015	9.9
2016	9.2
2017	10.6
H1 2018	11.2

Source: TT Electronics

SHARES SAYS:
We have become fans of TT since Tyson took the helm and agree with analysts that see additional share price upside to 320p levels. (SF)

International Biotechnology Trust set to benefit from population growth

The trust trades at a 3.4% discount to net asset value

We think **International Biotechnology Trust (IBT)** offers an attractive entry into a biotechnology sector which has several value opportunities at present due to pricing concerns in the US.

The trust's benchmark is the NASDAQ Biotech Index, which has consistently outperformed global equity and healthcare indices over the last 20 years.

International Biotechnology Trust invests in biotech and life science firms in the US, Canada and Europe, some of which focus on rare and orphan diseases. These treatments target a small patient population and thereby enjoy better pricing power.

The trust's largest holding is in neurologic and endocrine-related disorders specialist Neurocrine at 5%, while Vertex which has a pipeline of cystic fibrosis treatments accounts for 4.4% of the fund. Oncology is also an area of focus with participants in this space Celgene, Array, Genmab and Morphosys among the fund's top holdings.

PRIVATE COMPANY ACCESS

International Biotechnology Trust aims to pay a 4% dividend. Investment manager Carl Harald Janson looks for businesses with growth prospects, experienced management and good potential upside through the development and commercialisation of products or technology.

INTERNATIONAL BIOTECHNOLOGY TRUST
BUY
(IBT) 664p
Stop loss: 531.2p

Market value: £246.3m

There are 75 companies in the portfolio, 50 of which are listed. Not limited solely to larger companies, the trust invests in small and mid-cap businesses that can help generate strong capital growth and benefit from M&A activity.

WHAT ARE THE CATALYSTS?

Population growth is one of several catalysts for International Biotechnology Trust as the proportion of people over 65 is set to double by 2040, prompting higher demand for medicines.

Rising demand is not only expected in the West as developing countries are benefiting from more money to spend on healthcare according to Janson.

Among the main drivers of growth is innovation, with US Food and Drug Administration Commissioner Scott Gottlieb encouraging more drugs to be approved at a faster rate.

There have been a surge of drugs in development with the number of treatments in Phase I alone nearly tripling to approximately 1,800 between 2012 and 2016.

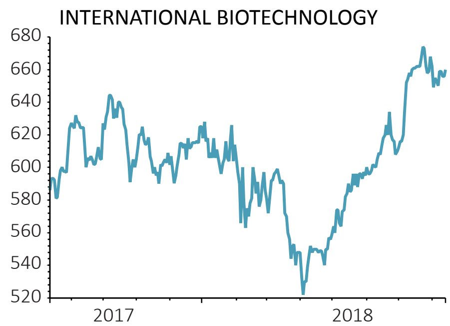
SIDESTEPPING CLINICAL TRIAL RISKS

One of the biggest risks for anyone considering the biotech sector is clinical trials, which can make or break companies depending on whether their treatments actually work.

IBT sidesteps this issue by taking advantage of the share price rally in the run up to the clinical results before selling off beforehand to avoid a sharp downturn if the results are bad.

An example of this is when the trust sold its entire holding in Dermira ahead of Phase III results for an acne treatment, effectively avoiding a 70% share price crash on disappointing results. (LMJ)

BROKER SAYS: n/a



Load up on Sabre Insurance for juicy dividends with potential 7.8% yield

The market is starting to warm to the highly profitable motor insurer

The market is starting to have more faith in **Sabre Insurance (SBRE)** so now could be a good time to snap up this generous dividend payer and highly profitable business.

Sabre floated on the stock market in December 2017 and was ticking along nicely until March this year when the share price took a hammering upon publication of its full year results.

Berenberg analyst Trevor Moss says the insurer 'got a proper market kicking' for failing to grow when market conditions weren't right. 'We thought this was a poor market reaction and still do,' he adds.

The company has previously talked about wanting to prioritise profitability over chasing market share; however it had no choice but to cut prices earlier this year to stay competitive amid softer market conditions.

Importantly, Sabre was able to maintain its market leading combined ratio in the first half of the year despite lower premium rates, suggesting there has been an equal offset from lower claims costs.

The combined ratio is an insurance company's measure of profitability. The lower the number, the more profitable the company's underwriting operations.

SABRE INSURANCE
BUY
(SBRE) 285p
Stop loss: 228p

Market value: £725m

For the six months to 30 June, the company had a combined ratio of 68.6% and pre-tax profit of £32m, a 14% improvement on the prior year.

TAKING ACTION

Chief executive Geoff Carter last month said the company took pricing action to reflect 'observed reductions in the frequency of small claims earlier in the period under review'.

He added: 'It is apparent that other insurers made similar adjustments, some earlier than Sabre, which meant that we lost some market share in the first few months of the year.'

In May, Moss at Berenberg insisted that Sabre should be viewed as an income stock, not a growth stock.

'Growth is an outcome, not an aim, for Sabre with the company trading volume and price for the benefit of shareholders,' stated the analyst. 'While we expect this can result in growth over the medium term, it may cause some volatility as investors grow comfortable with this approach.'

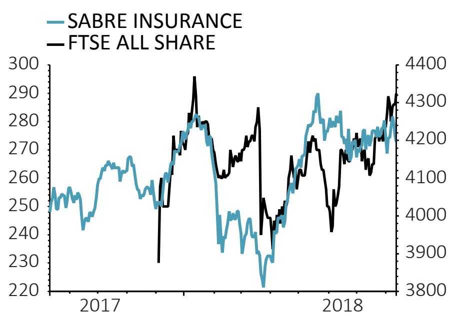
THE SECRET OF SABRE'S SUCCESS

Sabre focuses on niche parts of the market, writing policies for 'non-standard' drivers who tend to shunned by the major insurers. These include among others, young male drivers who may drive powerful cars.

This focus allows the business to charge higher premiums than the average player although this is justified by the greater risk it is taking.

The company trades on 14.5 times 2019 forecast earnings and offers a 6.2% prospective dividend yield based on Numis estimates. Berenberg has higher dividend expectations, believing Sabre will pay 22.1p per share in 2019, equating to a 7.8% yield. (DS)

BROKER SAYS: 4 0 0



SCISYS
(SSY:AIM) 189.5p

Gain to date: 35.8%

Original entry point:

Buy at 139.5p, 19 April 2018

This year seems to be shaping up very nicely for bespoke IT systems supplier **SciSys (SSY:AIM)**, yet even after a near 36% rally the share price (since we said to buy) still looks inexpensive.

SciSys is a Chippenham-headquartered provider of project-based IT skills, tools and services to large public sector (the ESD division), broadcast media (M&B) and space industry clients.

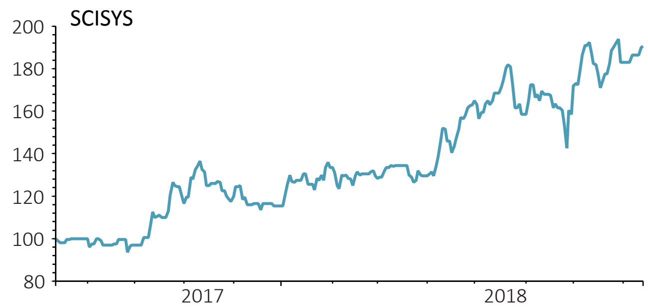
The UK's Ministry of Defence is a big public sector client, while it has worked for years with the BBC and European Space Agency, including on its Galileo and Mars missions.

SciSys's most recent trading update in June and confirmed 'impressive start to 2018', delivering on contracts that formed part of its £100m-plus record opening order book, winning notable new contracts and generating strong cash flow.

SciSys continues to manage Brexit question marks, with various contingency plans in place depending on the ultimate outcome of UK and EU negotiations.

Broker FinnCap has nudged its 2018 forecasts a fraction higher with earnings per share of 12p pencilled in this year instead of the previous 11.7p. Estimates for 2019 stand at 14p, implying a price to earnings multiple of 15.8, drifting down to 13.5.

Half year results are due in mid-September.



SHARES SAYS:
An accelerating growth story remains intact and the shares are still good value. Buy. (SF)

BROKER SAYS: 1 0 0

VOLUTION
(FAN) 191p

Loss to date: 4.5%

Original entry point:

Buy at 200p, 22 March 2018

A year-end trading update on 10 August did not prove the positive catalyst for **Volution's (FAN)** shares that we hoped it might be.

The company, which designs, assembles and markets ventilation fans, systems and ducting for domestic and commercial buildings, warned the market it had incurred extra costs due to delays in getting its new factory in Reading up and running.

The scale of these costs is not going to be spelled out in full until it publishes results for the year to 31 July 2018 on 11 October.

Apart from this negative news, trading has been robust. Revenue growth of 11% looks impressive and although a large proportion of this was attributed to M&A, organic growth was only just short of the typical 3% to 5% level.

Liberum analyst Charlie Campbell says: 'Management has expressed optimism for 2019, which we think is justified by the contribution to come from the recent acquisitions, price rises from September in the UK and new product launches which should deliver improved momentum in UK (especially the public sector), Central Europe and New Zealand.

'Clearly this optimism requires the factory move to be completed successfully but we think that the worst is now past.'

SHARES SAYS:
We remain positive. Keep buying. (TS)

BROKER SAYS: 3 2 0

RELX

(REL) £16.99

Gain to date: 13.3%

Original entry point:

Buy at £15, 1 March 2018

Amid the flood of first half results in late July and early August we neglected to update on our positive call on publisher **RELX (REL)**.

Its interim results on 25 July were reassuring on the investment case, addressing fears over pricing disputes with universities in Germany and Sweden.

Its Elsevier division, which publishes academic journals, posted a 3% increase in revenue despite being at loggerheads with institutions in both countries.

This backs up research ahead of the results from Liberum which implied as little as 2% of the group's profit could be at risk from this issue.

Underlying revenue growth of 4% for the group as a whole was in line with what the company typically delivers and management expressed their confidence in delivering another year of revenue, profit and earnings growth.

As we discussed when adding the stock to the *Great Ideas* portfolio in March, chief executive Erik Engstrom has done a good job of adapting the business to structural changes in the media sector and in our view this remains a high quality stock which does not look too expensive relative to its quality.

The shares trade on 19 times 2019 forecast earnings per share of 89.5p.

SHARES SAYS:

Keep buying. (TS)

BROKER SAYS: 13 5 2

DP EURASIA

(DPEU) 92.9p

Loss to date: 35% (stopped out)

Original entry point:

Buy at 230p, 9 November 2017

Takeaways firm **DP Eurasia (DPEU)**, which operates the Domino's Pizza franchise in Russia and Turkey, has seen its shares fall heavily as the Turkish lira has been devalued.

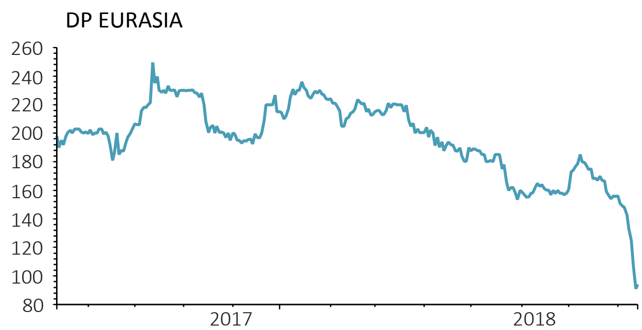
DP reports in Turkish lira and its shares are sterling denominated. Put together this is a toxic combination and the shares are now trading at less than half the level they were at when we highlighted the company's attractions in November 2017.

To date, trading has held up reasonably well if you put the currency headwind to one side but the currency collapse in Turkey may have an impact on the consumer environment in the country.

As essentially a US brand, the company could also be affected by president Recep Tayyip Erdogan's anti-American rhetoric in the wake of the crisis.

The company will be able to address these points when it reports half year results on 11 September but for now this looks like a salutary reminder of the risks associated with investing in emerging markets focused businesses.

Our stop loss has been triggered, so DP Eurasia is now removed from our *Great Ideas* portfolio.



SHARES SAYS:

Fundamentally we like the business but acknowledge that the shares could remain volatile until the Turkey crisis passes. One to watch for a potential bounce-back. (TS)

BROKER SAYS: 4 1 0

Failing life expectancy growth could boost pension providers' dividends

Shifts in life expectancy and rising interest rates could have an impact on shareholder returns

As a nation, we stopped living longer in 2010. The upward trend in life expectancy ended and now a host of pension providers are reaping the benefits.

Insurance companies sell annuities, which are guaranteed incomes for life to people at retirement based on assumptions about longer lives. These companies have to hold cash in reserve to cover these guarantees. If someone dies before they are expected to, the companies gain.

Earlier this month, the Office for National Statistics said the UK had one of the largest slowdowns in life expectancy growth from the top economies in the world.

Two of the main reasons for the trend are a slowdown in improvements in fighting heart disease and rising deaths from dementia.

Tom Selby, senior analyst at AJ Bell, says 'it is no exaggeration to say this [life expectancy slowdown] could yet prove to be the biggest public policy challenge of our generation'.

LOOKING AT THE CMI DATA

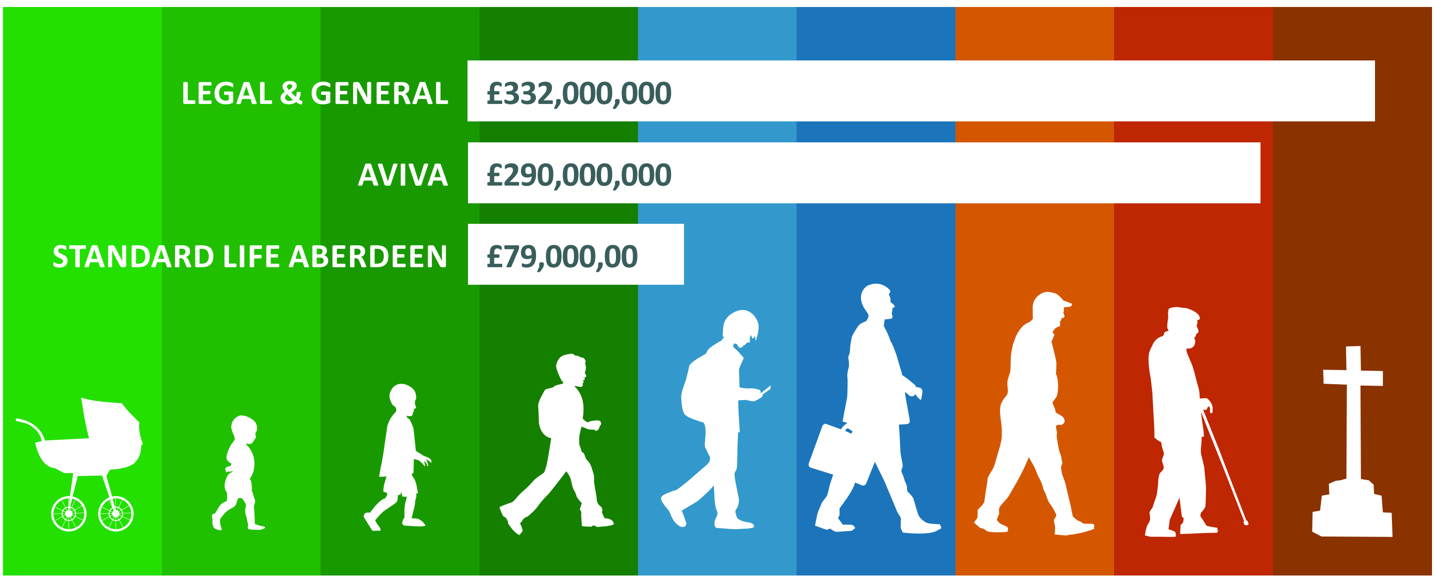
It could however be a positive driver for returns from the big insurers. Data from the Continuous Mortality Investigation (CMI) is used to provide mortality tables for actuaries advising UK life insurers and pension funds.

Insurance companies do not tend to adopt the latest CMI mortality tables as figures from the CMI may not be immediately relevant to their own annuity books.

Insurers' 2017's results were largely based on 2015's CMI tables and saw significant mortality reserves released.

- **Standard Life Aberdeen (SLA)** reported an additional £79m back in February after releasing mortality reserves. This is before the business went 'capital light' and sold its insurance businesses to **Phoenix (PHNX)**.

RECENT MORTALITY RESERVES RELEASED



- In March, **Aviva (AV.)** released £290m of mortality reserves which helped bolster its dividend paying prowess.

- **Legal & General (LGEN)** released £332m last year and is guiding to release a further £300m to £400m in longevity releases during 2018 due to changes in mortality rates.

Legal & General is now using CMI's 2016 mortality tables for its current year analysis. Chief executive Nigel Wilson says 'people are not living anywhere near as long as anyone thought they would'.

Jamie Clark, co-manager of macro funds at asset manager **Liontrust (LION)**, says: 'Legal & General's capital release this year reflects a move to apply the Continuous Mortality Investigation's 2015 findings. As longevity improvements decelerate, current reserves are deemed overly-cautious and excess capital can be released.'

DOES THIS TREND HAVE LEGS?

The fall in life expectancy may also affect company pension schemes as along with rising interest rates it should cut deficits in corporate schemes.

As annuities give savers a guaranteed income for life, they are based on the safest type of investment around, government bonds.

The Bank of England's recent 25 basis point hike bringing interest rates to 0.75% is good news for corporate pension schemes as these funds tend to have large holdings of low risk government bonds.

At the start of the year, falling life expectancy and strong financial markets resulted in an average reduction on private sector pension scheme liabilities of 3%.

With smaller pension deficits, companies are in now a better position to pass on the schemes to insurance companies in the form of bulk annuities.

The big purchasers of bulk annuities have been Legal & General and Rothesay Life. However, with the amount of potential reserve releases on offer other firms such as Aviva and Phoenix have entered this potentially lucrative market.

The new changes to life expectancy may have an impact on the pricing of new annuity business. The products may become better value as insurers scale down their assumptions regarding how long their customers will live.

As an investor, Liontrust's Clark says: 'Simply put, reserve releases should increase earnings, help allay capital concerns and permit dividend growth.' (DS)

UP, UP and AWAY

The market may have stalled but we've spotted 8 excellent stocks that should keep on going

Investing in companies that are in a rising trend can often be a great way to profit from the market. Stocks on a tear often find those strong runs last far longer, and go far higher, than most normal investors might expect.

Fund manager and renowned momentum investor Richard Driehaus takes exception to the old stock market adage of buying low and selling high by saying 'far more money is made buying high and selling at even higher prices'.

DOES IT WORK?

It certainly can. Almost exactly two years ago *Shares* ran a momentum exercise focusing on half a dozen UK stocks.

These six companies included: Smirnoff vodka-to-Guinness stout owner **Diageo (DGE)**, acquisitive floor coverings maker **Victoria (VCP:AIM)** and attractions software supplier **Accesso (ACSO:AIM)**. We also give our view on lifecycle management software play **Sopheon (SPE:AIM)**, e-learning software and services provider **Tribal (TRB:AIM)** and pharmaceuticals company **Indivior (INDV)**.

The 2016 year-to-date returns at the time of selection ranged from the reasonably good (17% from Diageo) to the quite astonishing (253% Sopheon, 138% Tribal and 71% Accesso).

Most sceptics would be hard-pressed to see substantial extra upside from stocks that had already chalked-up such staggering returns. Yet nearly all of them have made investors even richer in the subsequent period.

Here's how the six have performed in the two years since 18 August 2016:

STOCK	WAS	NOW	%
Accesso	£14.15	£29.95	+90.5%
Diageo	£21,71	£27.97	+28.8%
Indivior	301.2p	299.6p	-0.5%
Sopheon	202p	915p	+353%
Tribal	57p	88.1p	+54.6%
Victoria	291p*	848p	+191%

*adjusted for 5/1 share split, Sep 2016)

Despite being roughly 10 years into the current bull run for UK (and global) share prices there remains more investment upside. *Shares* has looked across the FTSE All Share index to see what's been going up this year. We've picked out 10 investment stories we think are worth explaining. All of these highlighted shares have been outstripping the overall market performance.

True, so far this year the UK stock market has done precious little, clawing out a measly 0.6% so far in 2018. That's the FTSE 100 performance, but it's pretty much matched by the 0.5% return of the wider FTSE All-Share index.

DOUBLE THE MARKET'S RETURN

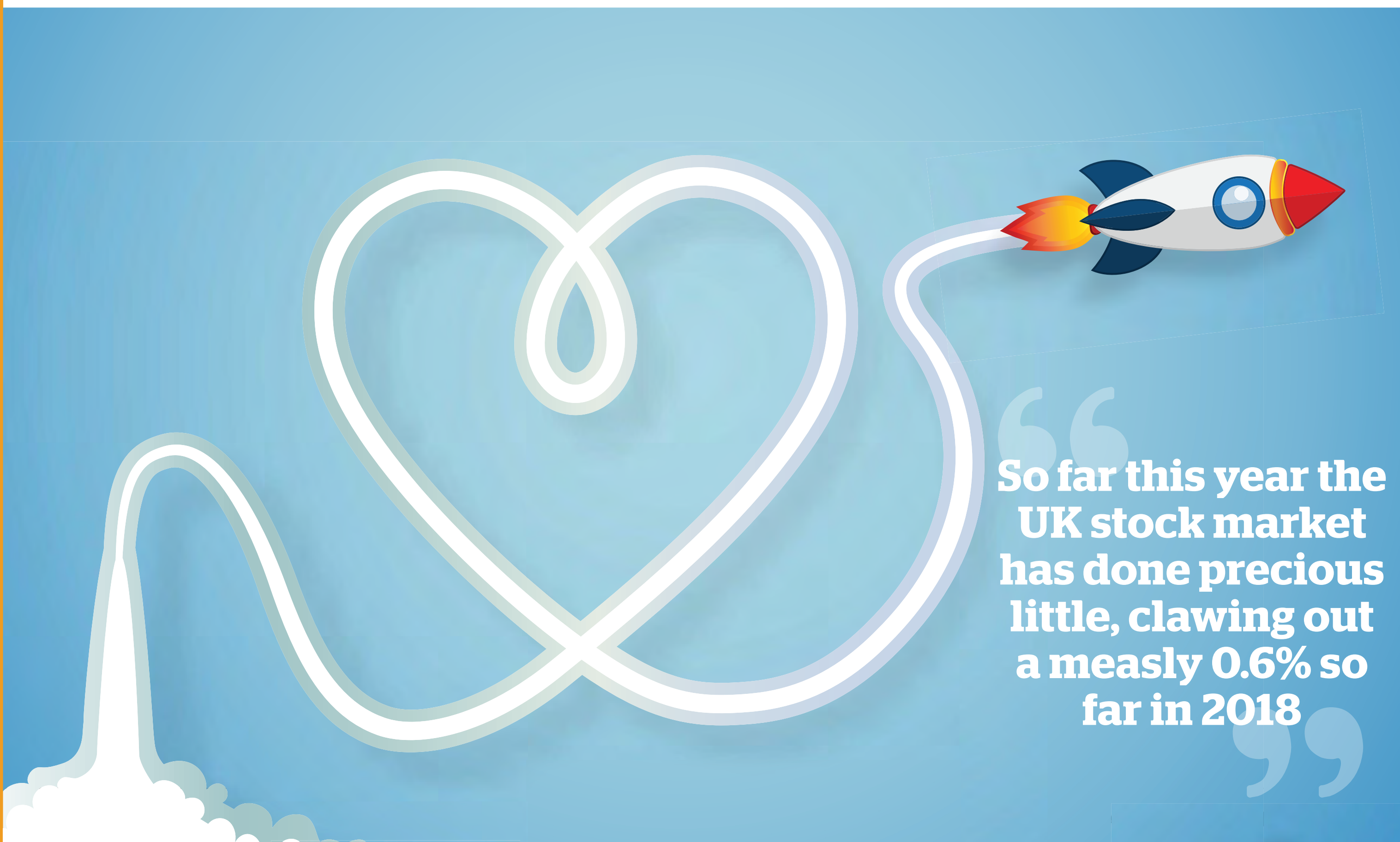
That said, the seven and a bit months since 2018 began have not been entirely uneventful, with anodyne UK economic growth, rising interest rates, higher inflation and those big Brexit questions churning below a seemingly calm surface.

Since the end of March (26 March, 2018 low point), for example, the FTSE 100 has jumped by nearly 1,000 points, while the FTSE All-Share has rallied more than 11%.

Interestingly, of the 638 companies included in the FTSE All-Share index (according to FTSE Russell's 31 July data) 87 have put up return of at least double that performance. Some of those performances are due to takeovers, either real or speculated, but many have been driven by firm trading, forecast outperformance and optimism on future prospects.

Our 10 stocks might not be the best performers in absolute terms during the past few months but these are (largely) companies that we believe have a very good chance of continuing their forward momentum.

A couple – supermarket chain **J Sainsbury (SBRY)** and pharma firm **Hikma Pharmaceuticals (HIK)** – stand apart because we see very good reasons why market sentiment is at risk of turning against these investment stories. Here's why we believe eight of our 10 featured companies are worth buying high to go even higher.



"So far this year the UK stock market has done precious little, clawing out a measly 0.6% so far in 2018"

BCA MARKETPLACE (BCA) 235p. BUY
55.8% gain since 26 March 2018

BCA Marketplace (BCA) owns car auction sites and webuyanycar.com and has a large market share of the used car market. The company sold 1m used cars in its 2018 financial year, with around a 60% share of the auction market which accounts for about 20% of annual used car transactions.

Its share price ascent stepped up a gear when private equity house Apax Partners approached the company with a buy-out offer in June.

However, the company's share price had been rising before the Apax bid came in and continues to ascend after the private equity house walked away when its second improved offer was rebuked by the board.

BCA's chairman Avril Palmer-Baunack says the company looks after the whole life of the car and its deal with BMW shows the scope of the business. It provides BMW with a host of services from refurbishment, inspection and remarketing.

Despite Brexit, BCA is creating a standardised platform called 'One Europe' which sells cars across various borders in continental Europe. The company currently operates auctions in nine countries in Europe, it looks to be growing the number of jurisdictions it operates in and should continue to see its value rise. (DS)

BCA Marketplace:
4% dividend yield in 2018

BLOOMSBURY PUBLISHING (BMY) 234.2p BUY
27.1% gain since 26 March 2018

The starting gun on **Bloomsbury Publishing's (BMY)** recent outperformance was fired by full year results showing pre-tax profit, before one-off items, up 10% to £13.2m in the 12 months to 28 February.

The company also noted that a strong autumn book list and the acquisition of I. B. Tauris & Co would result in performance for the February 2019 year well ahead of previous expectations.

An encouraging first quarter update on 18 July maintained that guidance and revealed some encouraging new developments – including a new book from celebrity chef Tom Kerridge to accompany a major BBC TV series.

Results for the six-month period to 31 August will be announced on 23 October and could provide a relatively near-term driver for the share price.

The *Harry Potter* series continues to generate significant sales for the publisher and the release of the *Fantastic Beasts: The Crimes of Grindelwald* film this winter should sustain interest in the series given it is set in the same universe.

In the longer-term the company's Bloomsbury 2020 digital resources growth strategy aims to focus on digital non-consumer publishing for the business-to-business academic and professional information market. (TS)

Bloomsbury Publishing:
31% increase in Harry Potter-related sales in February 2018 financial year

ELECTROCOMPONENTS (ECM) 754.4p BUY
30.7% gain since 26 March 2018

Electrical goods distributer **Electrocomponents (ECM)** has enjoyed and continues to enjoy a renaissance since Lindsley Ruth took over as CEO in 2015. His performance improvement plan began in 2016 and achieved savings of £30m; part two looks to make £12m of annualised savings a year from now until 2021.

The company's addressable market is huge, it supplies a vast array of equipment to engineers such as tools, safety equipment and even semiconductors.

Electrocomponents is cyclical in nature. As economic activity remains resilient, there should be a heightened need for the company's services.

It has made a great move with the introduction of the RS Pro range of equipment. These tools are made by the company so rather than distributing products made by others, Electrocomponents is also manufacturing which will increasing its profit margins substantially.

With the International Monetary Fund's predictions of improving global growth for 2018 and 2019, there doesn't look to be too much immediate risk to Electrocomponent's continued share price ascendancy.

Last month's first quarter growth statistics show a company in good shape, with all its geographic regions being in growth mode. (DS)

Electrocomponents:
50,000 products shipped per day

FINDEL (FDL) 280p BUY
25.4% gain since 26 March 2018

Shares in value retail-to-educational supplies specialist **Findel (FDL)** are flying high and we reckon the positive momentum can continue.

Under the stewardship of CEO Phil Maudsley, adjusted profit before tax ticked up 21% to £26.8m in the year to March 2018 and the multi-channel retailer has made a strong start to fiscal 2019 too.

Revenue growth at its core Express Gifts division accelerated in the 16 weeks to 20 July with online ordering levels rising from 68% at the year end to 70%, providing a strong platform ahead of Christmas.

Meanwhile, the turnaround of the Education business is showing encouraging signs with the customer base now in growth for the first time 'in several years' and online ordering on the rise.

A purveyor of budget clothing, footwear and toys whose active customer base grew 0.2m to 1.8m last year, Express Gifts is geared into the structural shift online and the quest for value.

Findel's largest shareholder **Sports Direct (SPD)** is already supplying menswear ranges to Express Gifts and can help Findel to improve its own supply chains.

Extending ties with Sports Direct could turbocharge the top line and even pave the way for an eventual takeover bid. Meantime, the investment is being de-risked with Findel's balance sheet strengthening, core net debt (excluding receivables-related debt) was down 8.7% to £73.8m last year. (JC)

Findel:
1.8m Express Gifts year-end active customer base, up by a third over the last two years

HALMA (HLMA) £14.06 BUY
22.7% gain since 26 March 2018

This is a big business with significant growth tailwinds such as advances in safety regulations, ageing and urbanising global populations, and other demographic trends.

Halma is a global manufacturer and seller of a wide range of equipment largely demanded by health, safety and environmental rules. This includes hazard detectors, sensors and assorted environmental protection kits.

Organic growth is supplemented by carefully selected bolt-on niche acquisitions that generate strong returns and which it can help to develop, under its Halma 4.0 growth strategy, which should protect the company as its markets adapt to technological changes and opportunities.

The strategy has produced a virtuous circle of reliable growth and cash generation that pays for the next stage of investment. Analysts note it has a 30-year track record of 11% a year compound revenue growth rate, impressive to say the least.

But there's a valuable income story too thanks to Halma's unrivalled record in dividend expansion which extends to 40-odd years. (SF)

Halma:
Nearly 250% total shareholder return over the past five years

HIKMA PHARMACEUTICAL (HIK) £16.75 AVOID
45% gain since 26 March 2018

Hikma has enjoyed a share price rally recently, but we think this is unwarranted as the generic drugs market remains difficult with overseas rivals such as Teva and Mylan suffering over 20% declines in sales.

The ongoing struggle to launch a generic version of **GlaxoSmithKline's (GSK)** Advair continues as Hikma needs to conduct a further clinical trial, delaying its attempt to beat rivals to the US market.

In May, the drugs developer revealed a robust start to its financial year across the business, driven by several product launches.

Unfortunately, intense competition remains a concern and is expected to accelerate throughout the year, potentially keeping pricing under pressure. Investors should be cautious and wait for greater evidence of a recovery as Hikma was forced to cut profit guidance three times in 2017. (LMJ)

Hikma:
Sells close to 700 products globally

JOHNSON MATTHEY (JMAT) £37.17 BUY

20.1% gain since 26 March 2018

By 2022, chemicals business Johnson Matthey is expected to have the best long-range, high-nickel cathode technology in the world according to Berenberg analyst Sebastian Bray.

Johnson Matthey is making impressive progress developing its enhanced lithium nickel oxide material for use in electric vehicles. Earlier this year, capacity at its demonstration plant was doubled to 1,000 tonnes with more capacity potentially being added in the future.

One of the biggest issues clouding sentiment is a disconnect between investor expectations and Johnson Matthey's outlook, leading to a significant discount to rival Umicore according to Berenberg.

Despite the growing 'death of diesel' rhetoric, the company is still expected to grow its autocatalyst business by 5% to 6% every year until 2022.

Investors should note that Johnson Matthey can tap into a growing switch to electric cars with its battery tech and it is unlikely the diesel industry will disappear anytime soon.

This is not the only division with strong prospects as Johnson Matthey also creates active pharmaceutical ingredients for treatments, which is forecast to add £100m to earnings by 2025. (LMJ)

Johnson Matthey:
15,000 to 20,000 tonnes, that's how short industry is of high performance cathode materials, according to Credit Suisse data

PREMIER OIL (PMO) 123.2p BUY

79.6% gain since 26 March 2018

Oil producer **Premier Oil (PMO)** is on the march as it gets its balance sheet under control and starts to see the benefits of a higher oil price reflected in its financial performance.

The company took on too much debt ahead of the oil price crash in 2014 and completed a fairly painful financial restructuring in 2017.

The rise in crude has allowed it to begin paying down its borrowings and under chief executive Tony Durrant, former finance director, considerable emphasis has been placed on cost discipline.

As Premier deleverages we would expect the market to ascribe more value to its equity. In terms of catalysts the company is scheduled to being appraisal drilling on its substantial Zama discovery offshore Mexico in the fourth quarter.

That said, indebted oil firms are particularly sensitive to movements in the oil market as even relatively modest movements can make a significant difference to their financial position, so a big fall in oil prices could undermine our positive view. (TS)

Premier Oil:
$2.65bn of net debt

J SAINSBURY (SBRY) 333.7p AVOID

47.2% gain since 26 March 2018

Shares in **J Sainsbury (SBRY)** have surged since CEO Mike Coupe announced an audacious £7.3bn takeover of Asda that would see the combined entity leapfrog **Tesco (TSCO)** in UK market share terms.

Coupe insists the combination will create a dynamic new player in UK retail, a resurgent Tesco and the looming Amazon threat no doubt giving him sleepless nights. Yet this complex merger will prove a huge distraction for management and has understandably fallen into the clutches of the Competition and Markets Authority (CMA) given the impact on suppliers and customers.

Shore Capital says the CMA's involvement means 'the Sainsbury investment case is fossilised and so based more around speculation and likelihoods rather than financial visibility'. And don't forget, Sainsbury is already swimming in treacle.

Like-for-like sales growth slowed to 0.2% in the first quarter to 30 June and the latest Kantar Worldpanel (24 Jul) data, covering the 12 weeks to 15 July, revealed a 0.4% market share decline to 15.6% in the face of growing competition from Aldi and Lidl, albeit Asda surprisingly proved the best performer of the big four retailers for the first time since December 2014. (JC)

J Sainsbury:
30.7% is the combined UK grocery market share if Sainsbury seals its Asda deal

SCOTTISH MORTGAGE INVESTMENT TRUST (SMT) 555.5p BUY

24.1% gain since 26 March 2018

Lots of investors prefer collectives to buying individual company shares but that needn't mean missing out on a momentum ride.

Scottish Mortgage's shares have consistently grown for five years and its track record of returns makes it one of the stock market's most popular investment trusts.

Run by respected manager James Anderson for the best part of two decades (with help from capable deputy Tom Slater), it takes big stakes in some of the most exciting mega-cap growth companies in the world including Tesla.

For example, the trust has 9.9% of its funds invested in online retail giant Amazon, whose shares have risen five-fold in five years.

There are decent stakes in Netflix, genome testing kit maker Illumina, and two of China's internet stars, Tencent and Alibaba as well. But this is not a technology fund; Scottish Mortgage's management team look for 'blue sky growth,' the trust says, aiming to buy the best growth companies in the world for the next five or 10 years.

Investing in emerging stars of tomorrow will be a popular strategy for many longer-term investors and Scottish Mortgage's record stands up to pretty much any other similarly focused fund. That explains the 3.75% premium to net assets at which the stock currently trades. (SF)

Scottish Mortgage Investment Trust:
\$32m Tesla paper profit earned since Elon Musk dropped take-private bombshell (7 Aug)

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Three reasons why the FTSE 100 can make a fresh high before year-end (and three why it may not)

What would it take for the blue chip index to break through the 8,000 mark?

Before concerns about Turkey and emerging market contagion burst onto the scene last week the FTSE 100's summer surge had taken the index back toward its May closing all-time high of 7,877.

This seemed to be a classic case of share prices 'climbing the wall of worry' as they cast aside fears over Brexit, a wobbly Government, modest economic growth and higher interest rates to press higher.

However, the latest failed attempt at a new peak (and indeed the 8,000 mark) raises the issue of whether UK equities are instead poised to 'slide down the slope of hope' if expectations for economic, profit and dividend growth are not met, for whatever (unexpected) reason.

Three factors look quite capable of providing support to the FTSE 100 or even taking it higher although three others suggest that gravity could start to take its toll after a nine-year bull run.

THE CASE FOR FURTHER GAINS

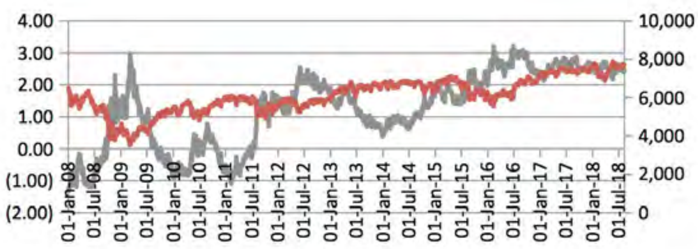
1. Dividend yield

According to consensus forecasts the FTSE 100 offers a 4% dividend yield for 2018, with total payments to shareholders expected to rise by 9% this year to a record £88.7bn.

That 4% easily beats cash in the bank and inflation. It also exceeds the yield available on the 10-year Government bond (also known as gilts).

At the time of writing gilts yield 1.35%, so the FTSE 100 dividend yield tops that by 265 basis points, or 2.65 percentage points. A yield premium of around 200 basis points, or two percentage points, has tended to provide support to the FTSE 100 index in the post-crisis era.

DIVIDEND YIELD COULD STILL SUPPORT FTSE 100



Source: Thomson Reuters Datastream

2. Sterling

The glacial pace of interest rate rises, patchy economic data and concerns over Brexit all mean the pound is on the back foot once more, especially against the dollar, but this is also providing support for UK-quoted stocks.

Around two-thirds of the FTSE 100 index's earnings come from overseas, so the lower the pound goes, the more those foreign earnings are worth when they are translated into sterling. This helps to explain the clear recent trend of 'pound down, FTSE 100 up'.

POUND DOWN, FTSE 100 UP HAS BEEN A STRONG TREND SINCE SUMMER 2016

Source: Thomson Reuters Datastream

A weak pound also makes British assets cheaper for overseas buyers – it may be no coincidence that FTSE 100 members **Sky (SKY)**, **Smurfit Kappa (SKG)** and **Shire (SHP)** have all received bids from overseas firms in 2018 and any further slide in sterling could perhaps tempt more predators to pounce.

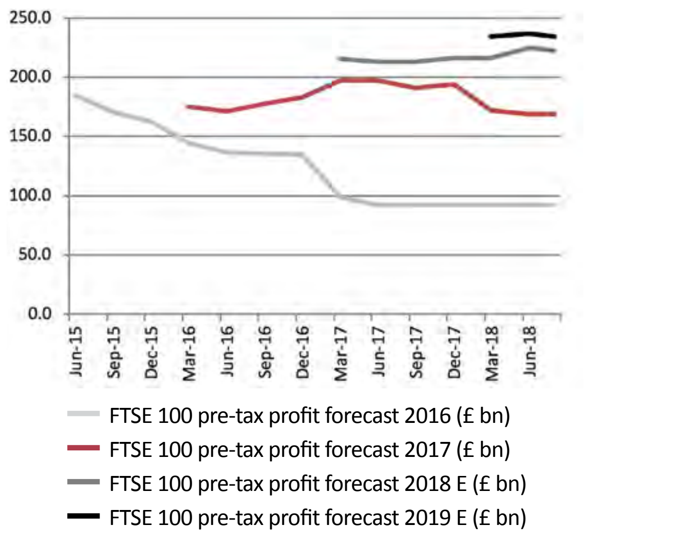
3. Positive earnings momentum

Sterling's latest slide fits in here, too. In a marked contrast to the past four years, earnings forecasts for the FTSE 100 are rising, not falling, helped by the weaker pound, a higher oil price and the absence of new major restructuring costs, legal bills and asset write-downs at the banks.

The next chart shows how aggregate profit forecasts for the FTSE 100 have developed on a quarterly basis over time.

History suggests that market tops occur when interest rates are rising, stocks are expensive and earnings estimates are falling. For the moment it seems that only the first of those pre-conditions is in place.

EARNINGS ESTIMATES HAVE GONE HIGHER OVER THE PAST 12 MONTHS



Source: Digital Look, company accounts, consensus analysts' forecasts

THE CASE FOR CAUTION

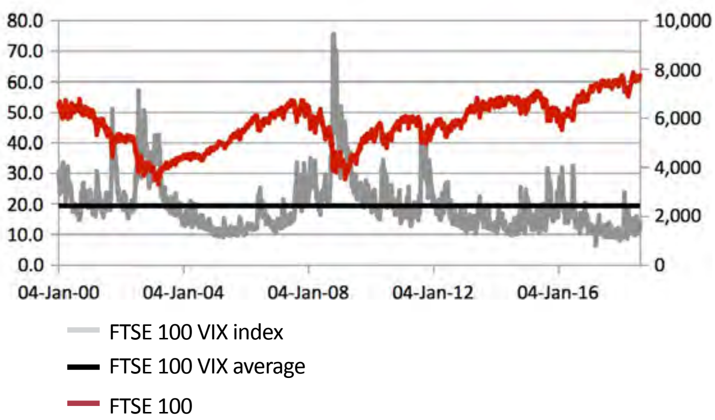
However, this is not to say that investors can be complacent. Earnings forecast momentum has begun to ease and there are three reasons for possibly approaching UK stocks with a degree of caution.

1. No fear

A low reading on the FTSE VIX index, which measures future volatility expectations, suggests complacency levels are relatively high.

It may not take much to frighten everyone and usher in a more difficult period and the chart makes the inverse relationship between the FTSE VIX and the FTSE 100 pretty clear. It could be argued that we are overdue a storm of some kind.

LOW READINGS ON THE FTSE VIX INDEX WARN OF HIGH LEVELS OF COMPLACENCY



Source: Thomson Reuters Datastream

2. The dominance of banks, oils and miners

The FTSE 100 is heavily skewed in terms of its market cap, income and dividends to just a dozen or so stocks and three or four sectors: financials (banks in particular), oil producers and miners.

Investors with exposure to UK stocks, especially those who put their money to work via a passive tracker, must therefore be comfortable with these firms and sectors' prospects.

For the moment, banks (as the economy chugs along and regulatory pressure and conduct fines start to fade away), miners (cost cuts and greater capital discipline) and oils (juicy dividends, cost cuts and greater capital rigour) all look set fair.

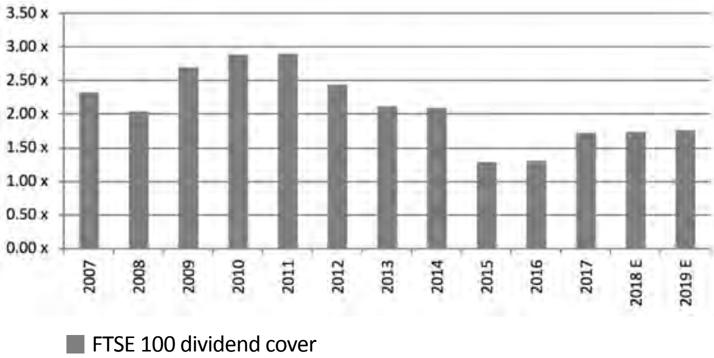
However, they are all volatile, unpredictable industries and nothing can be taken for granted. In addition, oil, copper and iron ore prices have all started to soften again.

THREE SECTORS WILL LARGELY DETERMINE THE FTSE 100'S FORTUNES

PERCENTAGE CONTRIBUTION TO AGGREGATE FTSE 100			
	2018E profits		2018E profits growth
Financials	23%	Oil & Gas	32%
Oil & Gas	17%	Financials	21%
Mining	16%	Healthcare	14%
Consumer Staples	13%	Consumer Staples	11%
Consumer Discretionary	10%	Consumer Discretionary	9%
Industrial goods & services	8%	Mining	7%
Healthcare	7%	Industrial goods & services	3%
Telecoms	3%	Utilities	2%
Utilities	3%	Technology	1%
Technology	0%	Telecoms	1%
Real estate	0%	Real estate	0%

Source: Digital Look, consensus analysts' forecasts

FTSE 100 DIVIDEND COVER IS STILL LESS ROBUST THAN IDEAL



Source: Company accounts, aggregate consensus analysts' forecasts

3. Dividend cover

Although the FTSE 100's dividend yield is attractive, it may not be entirely safe. Forecast earnings only cover forecast dividend payments by 1.7 times – although that is higher than of late, it is still below the 2.0 times cover ratio that provides some comfort should anything suddenly go wrong.

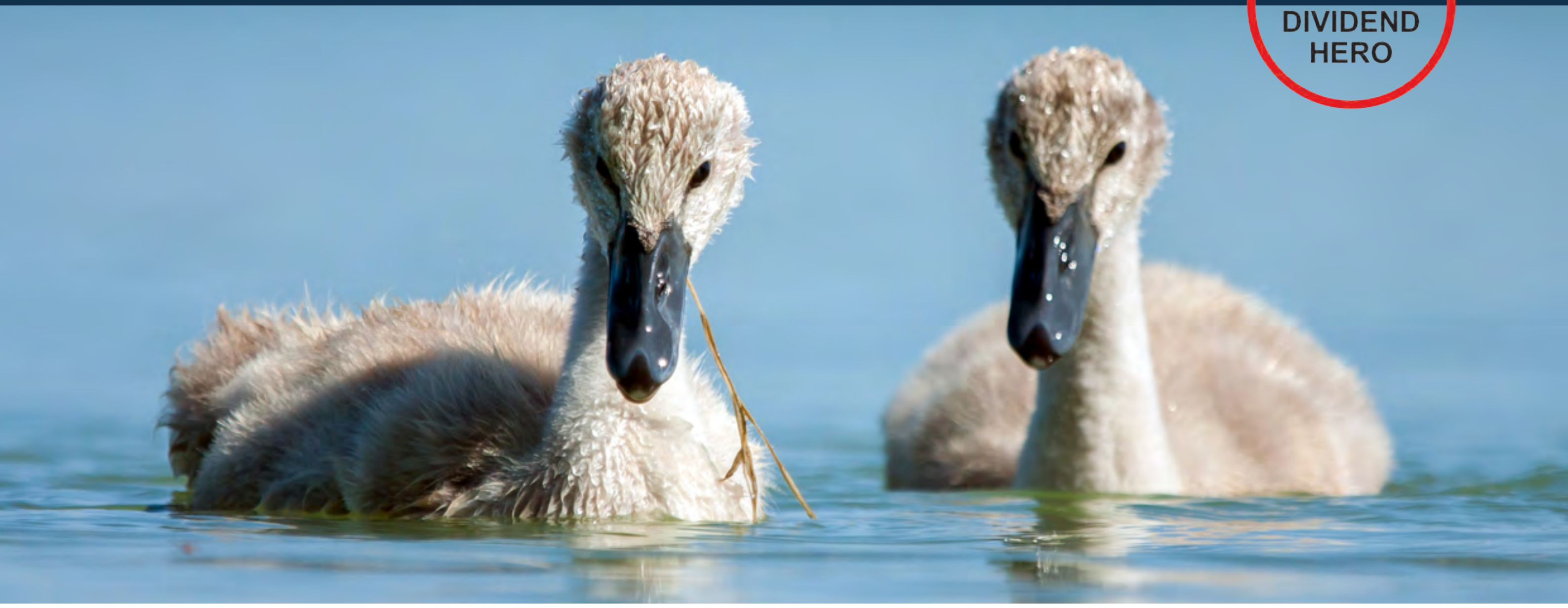
The yield premium relative to bonds may look attractive but if dividends are cut (say in the event of a sudden economic downturn), or bond yields go up (because the Bank of England raises interest rates more quickly than expected) then that relationship could change.

The good news is that dividend cuts have become much rarer after a bad run of reductions in 2015-2016 but any unforeseen economic stumble could leave pay-out growth forecasts exposed – and profit and growth disappointment could then lead to a trip down the slope of hope.

Russ Mould, investment director, AJ Bell

THE SCOTTISH
Investment Trust

aic DIVIDEND HERO



We're investing in ugly ducklings...

At the Scottish, we take a contrarian approach to global stock markets.

Our philosophy is simple. We recognise that popular stocks become overvalued while unfashionable stocks are often too cheap. We favour the out-of-favour and look for the signs of change that others overlook - and we aim to exploit this inefficiency to deliver long-term gains for our investors.

Exploiting irrational markets

By the time everyone realises that a great company is great it may no longer be the best investment. It becomes difficult to see the storm on the horizon when everyone is toasting past success.

Similarly, when a company has hit rock bottom, it can be hard to see that there will ever be good times again.

Investment markets are driven by cycles of emotion, rather than dispassionate calculation, and this leads stocks to be priced too highly in the good times and undervalued when times are bad.

This inefficiency is driven by human nature - people feel comfortable sticking with the crowd. But the herding instinct that ensured human survival in the past may not serve our best interests in financial markets. We believe it pays to ignore these instincts when it comes to making investment decisions.

By looking for positive signs of change in the out-of-favour areas of the market, and avoiding the unsustainable bubbles, we see a better balance of risk and reward.

We have the conviction to back our ideas

We are patient investors. When we see that positive change is afoot we have the conviction to back our ideas. But we know it can take time for the changes we see to be recognised by investment markets. That's why we take a long-term view.

Our high conviction contrarian approach means that when the market reassesses the out-of-favour investments we prefer, our best ideas really count.

Stand out from the crowd

Our investment approach is truly differentiated in a world awash with index trackers. We don't want to own the overpriced areas of the market so the investment portfolio is constructed without the constraints of a benchmark. This means we expect our performance to be differentiated too.

Built for uncertain times

When the market mood turns, we believe it is important to have a keen eye on risk and reward. That's particularly pertinent when markets have soared through successive highs. The recent wobbles in equity markets hint at a reassessment of the more speculative areas of the market.

In contrast, the out-of-favour areas we prefer are ripe for recognition. That's why we believe it pays to invest in ugly ducklings that can turn into beautiful swans.

For more information visit www.thescottish.co.uk or follow @ScotInvTrust The Scottish Investment Trust PLC

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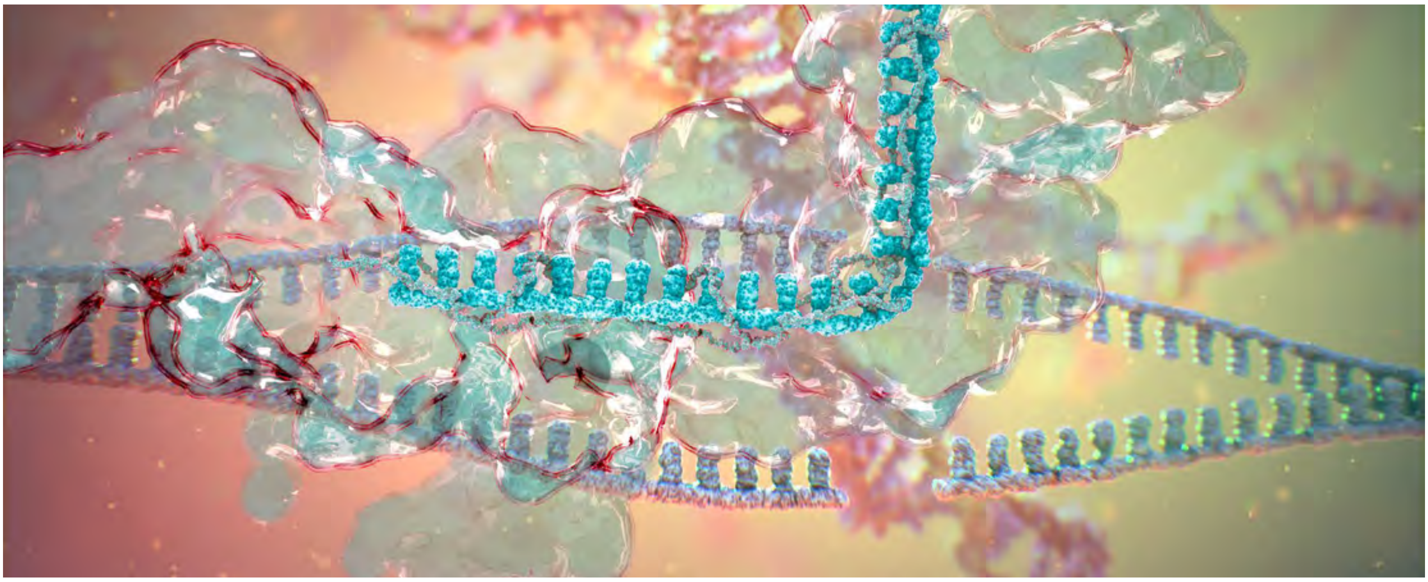
AstraZeneca sets sights on return to sales growth despite potential Brexit troubles

We explore the pharma giant's growth strategy and the potential risks and rewards



As the UK plans to leave the European Union, jitters over a no-deal Brexit have sparked a swathe of warnings about potential shortages of food, staff and crucially healthcare products.

One of the most concerning reports is that patients in the EU may not be able to receive medicines from the UK if **AstraZeneca (AZN)** and other major suppliers are not fully prepared for a no-deal Brexit.

WHAT DOES IT DO?

AstraZeneca is a global biopharmaceutical business that develops drugs for a range of diseases, including oncology, cardiovascular and metabolic diseases, as well as respiratory conditions.

The company also invests significantly in research and development, focusing on immuno-oncology, oncology and cardiometabolic diseases.

BLOCKBUSTER TREATMENTS

In 2017, cardiovascular and metabolic disease treatments contributed 36% of overall sales at $7.26bn.

Preventative heart attack drug *Brilinta* and cholesterol medicine *Crestor* dominated the top performers with sales of more than $3bn combined.

The second biggest area for AstraZeneca is respiratory, which raked in a combined $4.7bn, driven by asthma treatments *Symbicort* and *Pulmicort*.

Treatments for cancer and other diseases such as serious lung conditions generate the remaining 41% of sales.

Despite boasting a wide range of treatments, AstraZeneca is struggling to achieve any sales growth. As a group it failed on this measure in 2017.

Only the pharmaceutical giant's oncology drugs portfolio enjoyed sales growth last year.

POTENTIAL ROADBLOCKS TO SALES GROWTH

A potential blockade to sales growth is plummeting sales of AstraZeneca's cholesterol treatment *Crestor* after losing exclusivity in Europe and Japan.

In the first half of 2018, sales of *Crestor* dropped 42% to $727m.

A raft of new drugs and cancer treatments are struggling to offset a sharp decline of *Crestor* sales. New drug sales generated over $1bn in additional sales and oncology medicines enjoyed 42% revenue growth over the same period.

The impact of *Crestor* contributed to a 34% fall in operating profit to $2.16bn and a 5% drop in revenue.

WHY HAS ASTRAZENECA STRUGGLED IN THE PAST?

In April 2012, then-CEO David Brennan quit following criticism from shareholders over his focus on smaller acquisitions and licencing deals.

A key point of contention was the acquisition of MedImmune in 2007 for $15.6bn as investors believed Brennan overpaid.

Brennan's replacement, former Roche chief operating officer Pascal Soriot, has been working hard to fix these mistakes and rebuffed a Pfizer takeover bid at £55 per share in 2014.

Soriot decided to focus on cardiology, cancer and neuroscience and wants to deliver $45bn in group sales by 2023.

It is questionable if this is possible as sales are forecast to rise at AstraZeneca to $22.2bn at the end of this year before rising to $24bn in 2019 and $26.5bn in 2020 according to Reuters estimates.

Over the following three years, the company would need to deliver $18.5bn in new sales, effectively tripling its sales growth rate from 2019 to 2022.

Pre-tax profit is expected to increase from $4.64bn to $4.73bn in 2018 and is anticipated to jump to $5.46bn in 2019 and $7.11bn the year after.

WHAT ARE THE RISKS?

If someone invested in AstraZeneca when it first floated on the stock market in 1995, they would have benefitted from an advance in the share price of more than 600%.

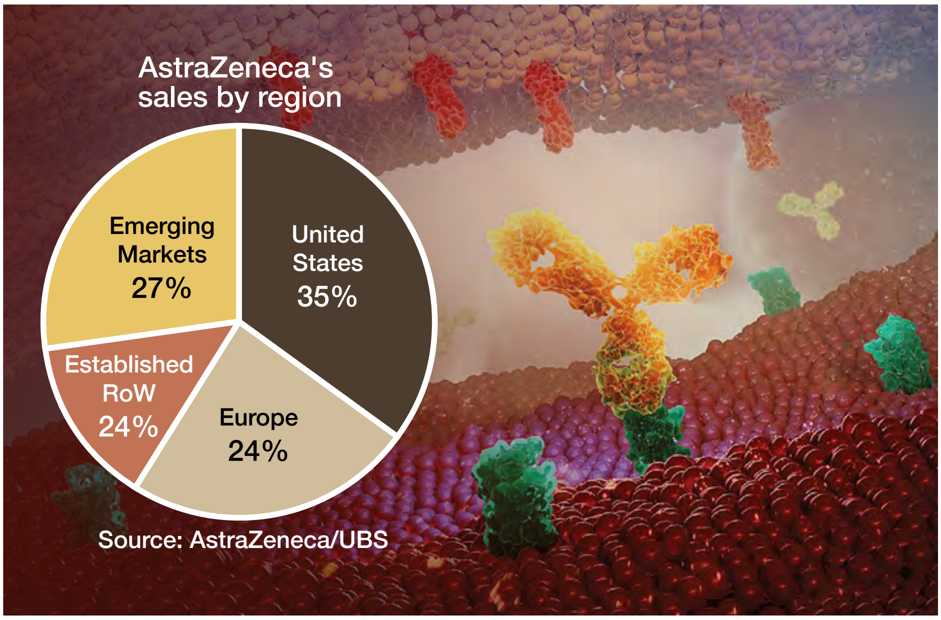
These gains sounds impressive, but past performance is not a guide to the future and investors should remain cautious on the risks surrounding AstraZeneca.

UBS analyst Jack Scannell notes the pharmaceutical industry is undergoing significant change. In the US, for example, there is an increasing focus on affordability.

The 'aggressive' cost control means even if products demonstrate promising results in clinical trials they may still be effectively blocked if they are significantly more expensive than drugs which simply replace like-for-like.

'We expect to see further M&A as companies aim to achieve greater focus in therapeutic areas (or decide to exit) or substantially enhance non-pharma activities,' comments Scannell.

Other risks for AstraZeneca include the threat of healthcare reform to tackle exorbitant pricing of non-generic medicines.



TAGRISSO SET TO HIT $6BN IN 2023

In the second half of 2018, the company hopes to receive regulatory decisions for the likes of lung cancer drug *Tagrisso* and non-small-cell lung cancer treatment *Imfinzi*.

Tagrisso could be lucrative for AstraZeneca based on UBS forecasts. The investment bank estimates US sales of $2.8bn and global sales of $6.1bn in 2023.

This is a huge rise from expected US sales for *Tagrisso* of $238m in the third quarter of 2018.

Upcoming regulatory submissions are expected for several medicines, including ovarian cancer drug *Lynparza* and chronic obstructive pulmonary disease treatment *Duaklir*.

Other key news investors should look out for are Phase III data readouts for *Imfinzi* surrounding lung, head and neck cancers, as well as *Farxiga* for Type-2 diabetes. (LMJ)

The ultimate income investment trusts

We look at an elite group of trusts that have delivered highly attractive returns for investors

Income-seeking investors should consider investment trusts to boost their income and capital returns, as new research shows an elite group of trusts yield up to 10% on a 10-year basis.

A select group of investment trusts have been given 'Dividend Hero' status, denoting those that have generated dividend increases every year for 10 consecutive years or more.

However, looking at the trusts' current dividend yield as a snapshot based on the current price is not a true reflection of the actual yield an individual investor is receiving. For that you have to look at the current yield compared to the price when the investor purchased the investment trust.

In this analysis we have compared the current yield to the share price of each trust 10 years ago to look at the yield investors would now be getting, in addition to the total return they would have received over that time.

WHO COMES TOP?

British & American Investment Trust (BAF), which was launched in 1996, has raised its dividend

TOP TEN BY INCOME

Company	AIC sector	Years of dividend increases	Yield on 2008 price (%)	Current yield (%)	Total return	Growth of £10,000 pot	Income today on £10,000
British & American	UK Equity Income	22	10.4	11.2	139.3%	£23,926	£1,037.04
Henderson Far East Income	Asia Pacific ex-Japan	10	8.8	5.6	172.9%	£27,293	£878.46
Schroder Oriental Income	Asia Pacific ex-Japan	11	8.6	3.4	290.5%	£39,051	£862.75
Caledonia Investments	Global	50	8.5	5.5	82.2%	£18,221	£854.30
MedicX	Property Specialist	10	7.8	7.4	107.7%	£20,772	£777.66
Value & Income	UK Equity Income	30	7.1	4.1	161.9%	£26,192	£711.54
Establishment Investment Trust	Global	14	7.0	5.2	99.4%	£19,941	£704.23
City of London Investment Trust	UK Equity Income	51	7.0	3.9	173.7%	£27,365	£700.94
Murray International	Global Equity Income	13	7.0	4.1	157.6%	£25,760	£700.73
Henderson Smaller Companies	UK Smaller Companies	14	7.0	1.7	416.9%	£51,693	£700.22

Source: AJ Bell & AIC. Data to 30th June 2008 and 29th June 2018. Dividend data based on 2017 full year payout.
*Northern Investors Company not included as it is currently winding up.

TOP TEN BY TOTAL RETURN							
Company	**AIC sector**	**Years of dividend increases**	**Yield on 2008 price (%)**	**Current yield (%)**	**Total return**	**Growth of £10,000 pot**	**Income today on £10,000**
BlackRock Smaller Companies	UK Smaller Companies	14	6.8	1.5	480.8%	£58,078	£682.49
BlackRock Throgmorton Trust	UK Smaller Companies	14	5.9	1.5	478.5%	£57,848	£585.11
Scottish Mortgage Investment Trust	Global	35	2.4	0.6	438.3%	£53,829	£240.77
Standard Life UK Smaller Companies	UK Smaller Companies	10	5.6	1.3	431.7%	£53,171	£560.67
Henderson Smaller Companies	UK Smaller Companies	14	7.9	2.0	416.9%	£51,693	£787.75
F&C Global Smaller Companies	Global	47	3.4	0.9	335.9%	£43,590	£343.14
Schroder Oriental Income	Asia Pacific ex-Japan	11	9.0	3.6	290.5%	£39,051	£901.96
Witan Investment Trust	Global	43	4.9	1.8	248.0%	£34,800	£490.43
Foreign & Colonial Investment Trust	Global	47	3.6	1.4	221.8%	£32,181	£356.45
Alliance Trust	Global	51	4.2	1.7	218.6%	£31,858	£420.27

Source: AJ Bell & AIC. Data to 30th June 2008 and 29th June 2018. Dividend data based on 2017 full year payout.
*Northern Investors Company not included as it is currently winding up.

every year for the past 22 years. It tops the table for current yield based on the price investors could buy it at 10 years ago – yielding 10.4%.

This trust is the only one whose share price has actually fallen during that 10-year period, which will have enhanced the 10-year yield figure. Even with this share price fall, the effect of dividends over the past decade means investors selling today who had reinvested dividends would still be up more than 139% over that period on a total return basis.

Of the list of 42 Dividend Hero trusts, 21 are yielding 6% or more, based on buying the trust 10 years ago, while 12 are yielding 7% or more.

Some of the examples paint a compelling picture for investors. For example, **Schroder Oriental Income (SOI)** would have turned £10,000 into £39,000 over the past 10 years with dividends reinvested and today would be generating a growing annual income of £900.

Henderson Smaller Companies (HSL) has delivered one of the highest total returns, turning £10,000 into £51,700 and would be generating an annual income today of £790.

DIVIDEND REINVESTMENT ANGLE

The total return figures also highlight the benefit of reinvesting dividends for

Geron Corporation is British & American Investment Trust's largest holding buy-and-hold investors who are not reliant on the income now. These figures look at the return you'd have seen over 10 years if you'd reinvested your dividends back into the investment trust, and so benefited from the power of compounding.

Investment trusts focused on smaller companies delivered the largest total returns, led by **BlackRock Smaller Companies (BRSC)**, at 481% return over the 10 years; followed by **BlackRock Throgmorton (THRG)** at 479%, **Standard Life UK Smaller Companies (SLS)** at 431% and Henderson Smaller Companies at 417%.

Perennial favourites among investment trust fans also get a high showing, with Baillie Gifford's **Scottish Mortgage Investment Trust (SMT)** returning 438% over the 10 years on a total return basis, while **Witan (WTAN)** has returned 248%. **Caledonia Investments (CLDN)** is one of the highest yielding based on the 2008 price, at 8.6%, while **City of London (CTY)** is yielding 7.1% on the same basis.

What makes the trusts more compelling is their proven ability to increase these payouts each year. For example, City of London is yielding 7.1% based on 2008's price, coupled with a 51-year track record of increasing its payout, or Caledonia's 8.6% 10-year yield, with 50 years of increased dividends.

STEADY INCOME BENEFITS

Investment trusts are particularly suited to providing steady income for investors, as their structure enables them to withhold up to 15% of the income they receive each year in order to be used in future years to bolster dividends when income generated from their portfolio may be lower.

F&C Global Smaller Companies has a stake in Waste Connections

The longer-term nature of the closed-end structure of investment trusts means that managers can also invest for the long-term and ride out market volatility, without being forced to sell by investor redemptions.

However, the figures show that investors often have to decide between jam today and jam tomorrow, with income often coming at the price of lower capital growth, or vice versa. With the example of British & American, investors would be seeing a solid dividend yield today, but would have sacrificed capital growth over that period.

Conversely, some of the lower yielding trusts based on the investor buying in 2008 have delivered some of the highest total returns. Examples include Scottish Mortgage, which is only yielding 2.4% but has delivered one of the highest total returns at 438% and **F&C Global Smaller Companies (FCS)**, which is yielding 3.4% but has a 10-year total return of 336%.

That said, even the lowest yielding trusts have proven their ability to hand investors a reliable and growing income each year for at least 10 years, making them particularly attractive for those using the pension freedoms in retirement relying on the income to fund their lifestyle.

If savvy investors had put their money in the top 10 trusts by total return, over the past 10 years would have grown £100,000 into more than £456,000 and would be generating £5,370 income currently.

Meanwhile, a portfolio evenly split between the top 10 trusts based on current yield would have turned £100,000 into just over £280,000 but would be paying out current income of £8,130.

Laura Suter, personal finance analyst, AJ Bell

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COMPANIES PRESENTING

ANGLO ASIAN MINING (AAZ)
Bill Morgan, CFO
Anglo Asian is a gold, copper and silver producer in Central Asia with a broad portfolio of production and exploration assets in Azerbaijan. The Company has a 1,962 square kilometre portfolio, assembled from analysis of historic Soviet geological data and held under a Production Sharing Agreement modelled on the Azeri oil industry.

KODAL MINERALS (KOD)
Bernard Aylward, CEO
Kodal Minerals primary focus is the development of its Bougouni Lithium Project in Southern Mali – an emerging lithium province which has already attracted the attention of investors and off-take partners seeking to secure long-term supply of strategic commodities including lithium.

More to be announced

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BlackRock Throgmorton adopts the Whitestone way

Investment trust's now sole manager makes money by backing truly special companies

With a new sole portfolio manager in charge of the investment decisions and a discount that has narrowed from 15.7% at as 30 November to 6.3% at the time of writing, *Shares* believes this is an exciting time for shareholders in the **BlackRock Throgmorton Trust (THRG)**.

Often overlooked, despite boasting the best ten-year share price total return performance record in the Association of Investment Companies' UK Smaller Companies sector, Throgmorton offers investors exposure to a compelling combination of differentiated long-term growth investments and companies that are leading industry change.

BlackRock Throgmorton has long-lived in the shadow of the **BlackRock Smaller Companies Trust (BRSC)**, but the fund is now getting the oxygen it deserves following the adoption of a revised investment objective and policy in March this year.

Dan Whitestone assumed sole responsibility for the portfolio in February, allowing the seasoned Mike Prentis to focus on other funds including BRSC.

Key changes to the objective and policy included the removal of the previous 35% restriction on AIM market exposure, a change of the benchmark to one which includes AIM and a new power to permit the energetic Whitestone to hold up to 15% of the company's gross assets in non-UK listed shares.


Dan Whitestone

FAST FUND FACTS
BlackRock Throgmorton Trust

Ticker: THRG
AIC Sector: UK Smaller Companies
Launch date: 01/12/1962
Manager: Dan Whitestone
Latest share price: 568p
NAV: 606.41p
Discount: 6.3%

Source: The AIC/Morningstar

THE LONG & THE SHORT OF 'THROGS'

Throgmorton provides shareholders with long term capital growth and attractive total return through investment in UK-listed small and mid caps in the main.

As well as holding long positions, the trust can employ leverage up to 30% of net assets, which Whitestone does primarily through the use of contracts for difference (CFDs) and/or comparable equity derivatives, rather than bank borrowings.

This can be deployed into either long or short CFDs and/or comparable equity derivatives, therefore enabling the company to have a maximum net market exposure of 130%.

Growth-focused Throgmorton is performing strongly too. Half year results (26 Jul) showed net asset value per share for the six months to end-May up 11.6% with dividends reinvested versus a 2.4% return from the benchmark Numis Smaller Companies plus AIM (ex Inv Co's) index.

TWO STRUCTURAL CHANGES

Changes to the structure of the fund have given Whitestone more tools to generate compelling long-term returns for his shareholders.

Having been forced to sell AIM investments in the past even if the fundamentals still stacked up Whitestone is pleased the board has now removed the AIM limit.

'This is not about going out and buying some mining company in Namibia. It is about owning things like **Fevertree Drinks (FEVR:AIM)** and **ASOS (ASC:AIM)**, phenomenally high quality companies growing very fast with truly differentiated business models and/or doing something disruptive that want to stay on the AIM market.'

'The second thing I asked for the ability to invest in international shares,' he adds. 'We can now put up to 15% of our gross exposure in shares not listed in the UK.'

Two new international purchases are companies where distribution within their respective industries has been driven by the advent of cloud computing.

Xero is a high-growth Australian listed software company specialising in accounting for small businesses, while French-listed video games developer Ubisoft is benefitting not only from strong content releases, but also from how that content is distributed, i.e. a shift to direct distribution to the consumer via the cloud rather than a CD in a box sold in the shops.

THE WHITESTONE WAY

Avoiding cyclical and capital intensive industries or those with much regulatory interference, Whitestone looks for well-funded firms that have built an economic moat around their business and boast pricing power.

Whitestone says: 'I don't believe in mean reversion. I believe that winners, when they win, can win big. And they can go up three, five, ten, fifteen, twenty, fifty times and the losers can go bust. Fevertree has gone up 28 times since we've owned it.

'We've had two shorts this year that have gone to zero. What this demonstrates is the dispersion of returns that's

TOP TEN INVESTMENTS (As at 30/06/2018)

Company	% of total gross assets
Ascential	2.9%
Dechra Pharmaceuticals	2.6%
Workspace	2.3%
Fevertree Drinks	2.3%
CVS	2.2%
Robert Walters	2.2%
Integrafin	2.2%
YouGov	2.1%
SSP	2%
Restore	2%

I don't believe in mean reversion. I believe that winners, when they win, can win big. And they can go up three, five, ten, fifteen, twenty, fifty times and the losers can go bust. Fevertree has gone up 28 times since we've owned it

available in the universe of small and mid sized companies.'

BOOSTING THE BOOK

During the half to May, the long book's largest positive contributor was financial advisor's savings platform **Integrafin (IHP)**, Fevertree performed strongly and veterinary pharma manufacturer **Dechra Pharmaceuticals (DPH)** also delivered.

The short book's biggest contributor was from a position in Conviviality, the disgraced UK alcoholic drinks wholesaler which went into administration earlier this year.

'Some great shorts are companies who continually have a big difference between what their cash flows telling you and what their profit and loss statement is telling you,' says Whitestone later in our discussion, not naming any names.

Significantly, unlike many peers, he doesn't start with valuation. 'The first thing I start with is management teams – the most important driver of value creation or destruction. I fundamentally do not believe Amazon would have been what it is today if it wasn't for Jeff Bezos.'

Two 'quality differentials' with best-in-class management held in the trust are the aforementioned Fevertree and **Renishaw (RSW)**, the precision engineer Whitestone dubs 'one of the world's greatest companies of all time'. Management's 'vision, ability to execute and long term thinking has seen Renishaw grow from a real small cap to a plus £4bn company, all organically, over many, many years,' he enthuses. (JC)

Will Turkey-led emerging markets sell-off hurt Mobius' plan for new trust?

Most trusts in this space are already trading at discounts to net asset value

Veteran emerging markets investor Mark Mobius is planning to launch Mobius Investment Trust, the first closed-end fund from his new Mobius Capital Markets venture, in September.

Mobius sees opportunities in this space after a big sell-off linked to tensions over trade, an increase in US interest rates and a strong US dollar.

Emerging markets suffer from higher US rates and strength in this currency as it causes capital to flow out of these markets and into the world's largest economy, plus many of these countries have significant dollar-denominated debt.

But is Mobius being too brave given how concerns about Turkey's economic situation have caused a new sell-off in emerging markets assets?

Sentiment will have to radically improve over the coming weeks if Mobius is to stand a chance of getting the investment trust's launch off the ground.

That said, emerging markets are still appealing if you take a long-term view. Over the past decade, four emerging markets trusts have chalked up more than 100% total return.

Topping the list is **JPMorgan Emerging Markets (JMG)** which is steered by Austin Forey.

BEST PERFORMING EM INVESTMENT TRUSTS

Trust	10-yr share price total return	Discount to NAV
JPMorgan Emerging Markets	130%	-13.2%
Templeton Emerging Markets	115%	-13.5%
Genesis Emerging Markets	112%	-10.4%
Utilico Emerging Markets	108%	-14.2%

EM INVESTMENT TRUSTS TRADING AT A PREMIUM

Trust	Premium to NAV
BlackRock Frontiers	4.9%
Fundsmith Emerging Equities	2.5%
Jupiter Emerging & Frontier Income	0.8%

Source: AIC, 13 August 2018

Although not of the same vintage as Mobius, Forey is also a long-standing investor in developing economies with more than two decades worth of experience.

He is bullish on India and his investment process involves finding companies on which he has a high conviction, underpinned by their sustained competitive advantages.

Templeton Emerging Markets (TEM) has returned 115% and was previously managed by Mobius up until 2015.

Interestingly, despite the strong performance of these trusts, all four trade at material discounts to net asset value (NAV).

Only three emerging market trusts trade at a premium to NAV. Not one of the three has been around long enough to chalk up a decade's worth of returns. **Fundsmith Emerging Equities (FEET)**, launched in 2014, is popular with investors thanks to star fund manager Terry Smith.

The other two have at least some exposure to frontier markets, which although arguably even higher up the risk spectrum than emerging markets, have different sensitivities. (TS)

AJBell FIT Awards2018

VOTE FOR THE BEST COLLECTIVES

After a successful first year, the second iteration of AJ Bell's Fund and Investment Trust (FIT) awards opens up to voting this month. In 2018 there is a twist, as there will be active and passive winning funds for all but one of the categories.

VOTE NOW

How you can vote

To have your say on the funds which you want to win head to **fitawards.ajbell.co.uk**. You have until 31 August to make your voice heard.

By voting you are entered into a prize draw for a seven-course meal for two at the three Michelin starred Restaurant Gordon Ramsay.

The FIT awards, sponsored by Invesco, Invesco Perpetual, Pictet Asset Management and UBS, cover 15 categories. To make the voting process accessible to investors an expert panel puts forward their nominations in each category.
The panel can nominate any investment fund (including OEICs, unit trusts, investment trusts and exchange-traded funds). The panel is asked to look beyond simply investment performance, but also consider how well the fund/trust delivers what it sets out to achieve and how well positioned it is for the future.

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What is free cash flow and why is it so important?

Is the amount of cash a company has at hand really that important? Yes it is and this is why

Free cash flow is important to investors because it shows how much actual cash a company has at its disposal. This may sound like a simple point, but it is one which should rank extremely highly on an investor's 'need to know' list.

When a company needs to service its debts, pay dividends or invest in equipment, it needs cash to do so. If a company has a large amount of excess cash, depending on the industry, it might be able to ramp up production, fuel acquisitions or return money to shareholders.

Free cash flow is the money left over after a company has met its operating and capital expenditure requirements and it can be the best way to differentiate between a good investment and a bad one.

> Free cash flow is the money left over after a company has met its operating and capital expenditure requirements

HARD TO FUDGE

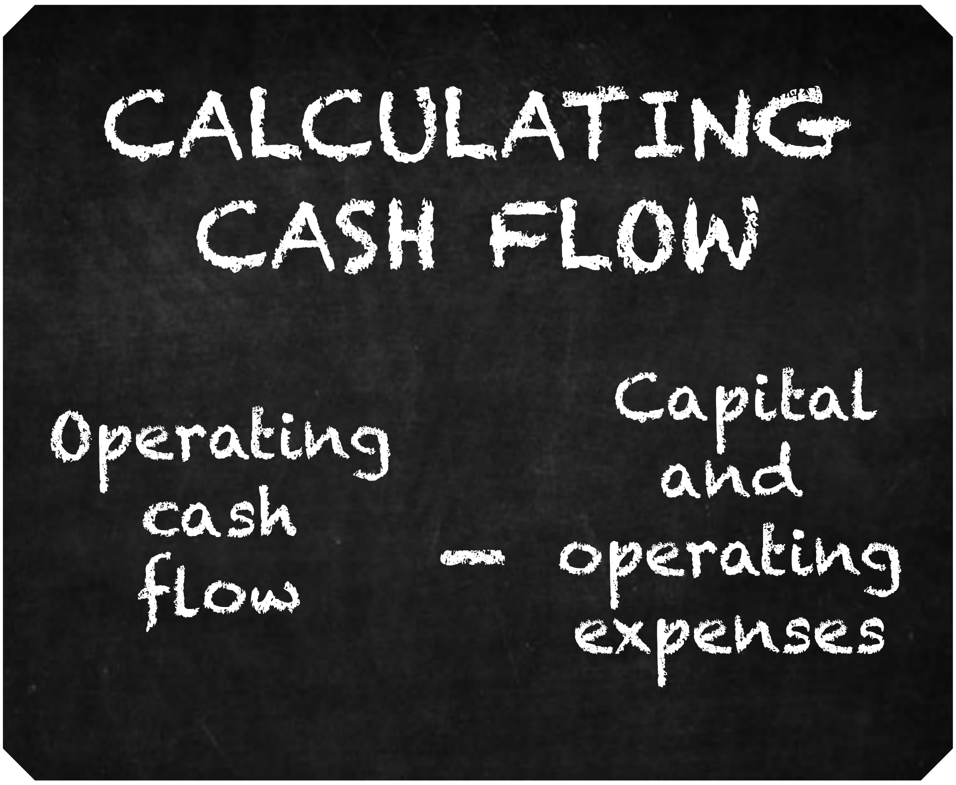
One of the best characteristics of free cash flow is that it is difficult to fudge using 'creative' accounting. This cannot be said for other important metrics such as earnings per share which can be manipulated.

Earnings per share (EPS) is simply the net income divided by the number of shares outstanding. One way that earnings can be manipulated is what management treats as a recurring cost and a one-off. Can a cost be a one-off if it happens every year?

Also, companies might start booking revenue before the cash has even been paid by its customers. Carillion was doing this and given that it was putting in low bids to win government contracts on paper thin margins, if customers delayed paying it could cause serious issues.

The shortfall in cash caused by the company not getting paid on time or in contractual disputes meant there was an increasing shortfall of the cash needed to meet its day-to-day obligations.

In hindsight, the demise of Carillion is not that surprising as without cash the company was forced to rely on its lenders who had grown concerned with the ballooning debt levels. They cut the lines of credit to the company which led to its demise.



CALCULATING FREE CASH FLOW

While there's no 'catch all' way of determining a company's amount of free cash, there are some widely accepted and easy to understand ways of working it out.

The easiest way is to simply subtract the firm's capital and operating expenses from its operating cash flow. This latter information can be found in financial statements under Statement of Cash Flow under the section Cash from Operating Activities.

Once the free cash flow figure has been calculated, some fund managers like to use the free cash flow yield. This is the free cash flow divided by the market cap, expressed as a percentage.

This metric will show how much cash a company generates and compares it with the market value of the company. It is often used by private equity firms when sizing up an acquisition. These outfits, which typically borrow heavily to fund deals, may, for example, look at a business on a free cash flow yield of 7% and compare it very favourably with borrowing costs of 3%.

For equity income investors it may be best to look at this metric before dividend yield as it could be seen as a better way of predicting a company's ability to maintain its dividend or even increase its payout.

Free cash flow is also important for growth-oriented investors as those companies with bags of spare cash can reinvest the money back into the business.

CASH IS KING

Just as earnings and profit can be inflated by one-off items, these measures can also be hit by adjustments which have no impact on cash flow.

On 2 August first half results from aircraft engine maker **Rolls-Royce (RR.)** revealed that on a statutory basis it had lost £1.3bn.

This included a £554m allocation for spending to fix problems on its Trent 1000 class of engines.

However, much of the remainder was accounted for by non-cash items including currency-related write downs and restructuring charges.

Negative sentiment towards the company in recent years has been linked to its disappointing cash flow performance.

A £211m improvement in the free cash flow performance year-on-year and reaffirmed pledge to deliver at least £450m for 2018 as a whole was therefore more relevant for investors and helped account for the positive response to the numbers, proving once again that cash is king. (DS)

The lowdown on thematic ETFs

Why there's more to tracker funds than just following the FTSE

Investors may think of tracker funds as simply a cheap way to track the stock market but they offer many other opportunities too.

Exchange-traded funds, or ETFs, can also tap into specific themes. It can be a useful way to gain exposure to trends such as renewable energy or robotics.

While there are active funds with a manager at the helm which specialise in particular areas such as these, an ETF can allow you to be more targeted, and is often cheaper too.

Chris Mellor, head of ETFs at Invesco, says: 'ETFs can let you focus your investments in a much more specific way, whether that's singling out a sector or focusing on a particular theme that you find interesting. It can be a good way to get the exposure you want at a very reasonable price.'

RISE OF THE ROBOTS

One trend capturing the imaginations of many technology investors, for example, is the use of robotics and automation. This can be in environments from car manufacturing lines or warehouses and logistics centres to use in surgery.

Investors may well be able to access the trend through a regular technology fund, which may have a small proportion of its portfolio in robotics companies, but a specific focus on the theme is harder to come by. Traditional fund **Pictet Robotics (BDB6DB9)** specialises in these investments but has a relatively high ongoing charge of 1.22%. Meanwhile, the **iShares Automation and Robotics (ROBO)** ETF charges just 0.4%.

The tracker, which has £1.8bn of assets under management, invests in 104 different companies across the globe, with 31% of its investments in the US and 27% in Japan. Largest holdings include big names such as Apple and engineering firm **Renishaw (RSW)** and it also backs lesser-known outfits such as big data group Splunk. It returned an impressive 22.3% in the year to 30 June.

> You should ask yourself: does this theme make sense to me, are the valuations sensible, and does the story add up?

But it's important to understand the risks involved in these investments too. Those considering a thematic ETF need to be sure they fully believe that the trend is a long-term investment proposition and not a short-term fad.

IS IT JUST A FAD?

Mellor adds: 'You should ask yourself: does this theme make sense to me, are the valuations sensible, and does the story add up?'

Investors should also consider how the tracker fits in with the rest of their portfolio and their investment objectives. It's important to look under the bonnet at how many stocks the tracker invests in and what they are.

Other ETFs focus on specific technology trends such as cyber security, batteries and e-commerce.

Meanwhile, **iShares Clean Energy (ICLN)** invests in companies such as Verbund, an Austrian firm which is the largest producer of hydropower in Europe, and US-based Covanta, which specialises in waste management and reducing the amount sent to landfill. The ETF is up 2.2% over the past year.

You can also find more specific options within this theme, such as **Lyxor World Water (WATL)**. The World Water Index comprises the largest 20 water companies, including those involved in utilities, infrastructure and water treatment. With so few firms in the index, it's a niche area, which should not account for more than a small proportion of your investment portfolio. It has returned just 1.1% over the past year.

> I think mainstream passive investments are great as they allow you invest relatively small amounts in a widely diversified portfolio of stocks.
>
> I am less enthused about thematic ETFs as they are very narrow and almost by definition, not very well diversified, so can be quite risky

DIVERSIFIED EXPOSURE TO DIVERSITY

Another interesting theme is gender diversity and there are ETFs which back companies with good gender balance policies, such as those where at least 30% of the company's board is made up of women and those with equal pay policies. **SPDR SGGA Gender Diversity Index (SHE)**, for example, invests in businesses including Johnson & Johnson, Coca-Cola and Mastercard. It has returned 16.8% over the past year.

But Peter Sleep, fund manager at Seven Investment Management, is concerned that the narrow themes these ETFs tap into makes them a risky investment proposition. He says: 'I think mainstream passive investments, such as a FTSE tracker, are great as they allow you invest relatively small amounts in a widely diversified portfolio of stocks.

'I am less enthused about thematic ETFs as they are very narrow and almost by definition, not very well diversified, so can be quite risky. The robotics ones are even more risky and the tech sector tends to be more volatile anyway.'

INVESTOR WARNING

He says investors interested in particular themes may be better off choosing an active fund that can offer a lower level of exposure. The benefit with this is that the manager will decide where the best opportunities are and has the freedom to avoid areas which look too risky or don't seem to be good value.

Sleep adds: 'Thematic ETFs tend to be faddish. When commodities were hot 10 years ago we got coal mining, nuclear and even shipbuilding ETFs. But these all no longer exist since commodity prices fell and I fear the same could happen again.' (HB)

What rising interest rates could mean for your pension

In the wake of the Bank of England's latest decision we consider the impact on annuities and drawdown

Mark Carney has finally done it. After months of speculation, the man dubbed an 'unreliable boyfriend' by commentators for his habit of leading the market up the garden path finally pulled the trigger and raised the Bank of England base interest rate from 0.5% to 0.75%.

The rise – supported by all nine members of the Bank's Monetary Policy Committee (MPC) – means interest rates are at their highest level since March 2009.

The dramatic headlines that followed the decision perhaps reflects the symbolic nature of the increase rather than the impact it will have on people's everyday lives.

Students of interest rate history and those who lived through double-digit base rates in the 1970s and 1980s will chuckle at the excitement created by a 25 basis points interest rate rise.

But for many younger savers 0.75% will be the highest rate they have ever known. And with the Bank suggesting over the longer term people should expect interest rates to rise to 2-3%, it's worth considering the implications this could have for your retirement income choices.

ANNUITIES

Before the pension freedoms were introduced in April 2015, most people turned their defined contribution (DC) pension pot into a guaranteed income for life by purchasing an annuity when they retired.

Since then the dial has firmly shifted in favour of flexibility, with two people now entering drawdown in the UK for every annuity purchased.

This reflects the fact people like being able to increase and decrease withdrawals depending on their needs and circumstances, while also potentially benefiting from stock market growth by keeping their fund invested.

It is also testament to the fact that, with interest rates stuck at record low levels, the rates offered by annuity providers have been stuck at paltry levels since the Financial Crisis.

This can partly be explained by the fact insurers have to buy gilts to pay out guaranteed streams of income. Because gilt yields have been at record lows, annuity rates have also been poor by historic standards. If interest rates rise and gilts follow suit, annuity rates should also creep north.

DRAWDOWN

Rising interest rates could also have implications for those who decide to keep their retirement fund invested through drawdown.

As interest rates increase, investors might consider re-evaluating their portfolios and risk/return appetite. At a basic level, as the Bank's risk-free rate rises investors might be less inclined to buy shares if the risk-free return on cash (at least in pre-inflation terms) keeps rising.

Rising interest rates could also spell trouble for bond investors. Again, this is because higher interest rates could lure investors back to cash, or at least force bond issuers to offer higher coupons on new bonds to compete, making their current issues (with lower coupons) look less relatively attractive.

Of course your drawdown investment strategy isn't just based on interest rate expectations. Ultimately the UK base rate environment remains fairly benign by historic standards, so while it is sensible to be vigilant and review your retirement strategy regularly, knee-jerk reactions should be avoided.

Tom Selby, senior analyst, AJ Bell

KEY

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

Accesso (ACSO:AIM)	18
ASOS (ASC:AIM)	36
AstraZeneca (AZN)	30
Aviva (AV.)	17
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KEY ANNOUNCEMENTS OVER THE NEXT SEVEN DAYS

Full year results

21 Aug: BHP Billiton

Half year results

20 Aug: NMC Health, TBC Bank. **21 Aug**: Persimmon, Wood Group. **22 Aug:** Sportech. **23 Aug:** Premier Oil.

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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