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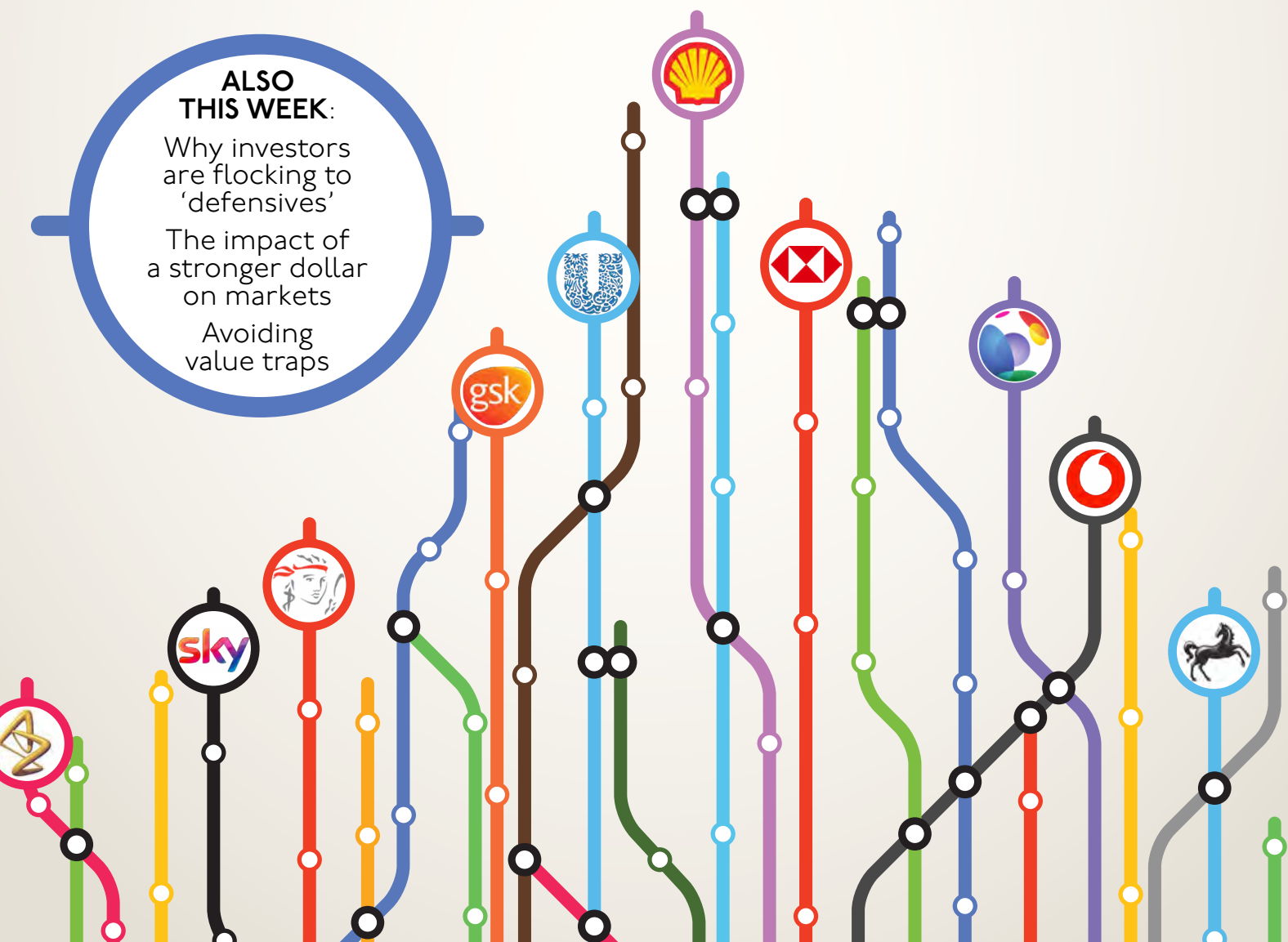
How the index works and the
companies driving the market

ALSO THIS WEEK:

Why investors
are flocking to
'defensives'

The impact of
a stronger dollar
on markets

Avoiding
value traps



WHY DO SO MANY INVESTORS LOVE FUNDSMITH?

Trump puts corporate reporting frequency back in the spotlight

Will the US follow the UK's model and report financial results every six months?

How often should companies report their financial results? In the UK it is every six months and it appears the US could be heading in the same direction after US president Donald Trump used his favourite communication tool, social media network Twitter, to say he has asked the US stock market regulator (the SEC) to consider abandoning quarterly reporting.

In this situation, the UK could become a blueprint for how US companies update shareholders on their fortunes.

This situation does make a lot of sense whether you are a fan of Trump's broader policies or not. Investors cannot judge whether a company is performing to the best of its abilities based on 13 weeks' trading numbers. It is too short a period and encourages individuals to trade stocks on a very short-term view which goes against all the principles of taking a long-term view with investing.

The counter argument suggests that regular reporting is good for transparency and reduces the risks of nasty surprises.

Trump's remarks were triggered by conversations with various company directors who believe less frequent disclosure of accounts would cut costs and be good for business.

WHAT HAPPENS IN THE UK?

In the UK, listed companies have to issue their results twice a year but other trading updates are at their discretion unless they have price-sensitive news to publish. This tends to involve information concerning a change in a company's financial condition, its sphere of activity, its performance and its expectation of performance.

Ultimately the requirement to disclose material changes helps to reduce the number of companies hiding secrets from investors and avoids creating a false market in the shares.

Companies listed on London's Main Market used to be required to produce two interim management statements (another word for a trading update), generally three and nine months into their financial year. In essence, you would get information from the company once a quarter – two of these being normal trading updates and two of them being financial results.

The rules changed in 2014 whereby companies were no longer required to produce an interim management statement, but they are still allowed to publish them on a voluntary basis.

Many companies still publish this information, although there are some examples where boards have decided to amend their reporting schedule. For example, **Britvic (BVIC)** said in 2015 that it would no longer issue a trading statement at the end of its financial year (1 October).

In 2017, engineer **Goodwin (GDWN)** said it would stop issuing quarterly statements in order to make better use of its resources and focus efforts on longer term targets and productivity.

At the time it said two out of every five FTSE 100 companies and three out of five FTSE 350 companies had already decided to go down the same route and not issue such reports.

Even if the SEC does switch to six-monthly reporting, it may take time for company executives to change how they make investment decisions.

Many US firms will have become accustomed to approving capital expenditure plans with three-month reporting front of mind – i.e. potentially making decisions they know could trigger a positive market reaction or in response to investor concerns following monitoring of quarterly reports.

By switching to six-monthly reporting, they may find investors take a different view towards how a company allocates capital and also expectations for producing positive results. (DC)



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Investors shift focus to defensive stocks

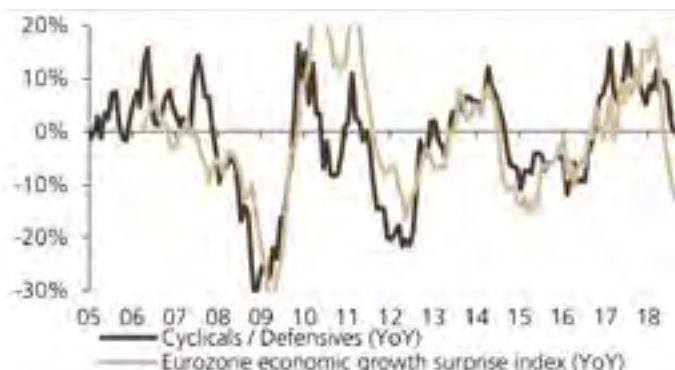
Report from UBS shows investors are moving into safer havens

Although the FTSE 100 is only slightly down year-to-date, it is fair to say that 2018 has been punctuated by some fairly volatile trading days.

On 25 June the index saw its biggest one-day fall since April 2017 as trade war fears escalated and on 15 August a dive in copper prices saw the market hit a four-month low.

It is therefore unsurprising that research conducted by investment bank UBS reveals traditional defensive sectors have started to perform well over the summer.

The sharp deceleration in the data surprise index points to further downside risk for cyclical



Source: Thomson Datastream, UBS European Equity Strategy

The bank's strategy team comment: 'Defensives have bounced back significantly in Europe since June as economic data surprises turned negative, political uncertainty became the focus for many investors and trade war concerns escalated.

'In most of the first half of the year cyclical sectors dominated performance and accounted for the large majority of the outperforming sectors. The major exceptions were Food Retail and Healthcare Equipment as the only outperforming defensives and Banks as the major cyclical underperformer.'

This trend has reversed in the last two-and-a-half months with Tobacco, Food Producers and Pharmaceuticals the top performers and Mining, Autos and Construction the worst.

WHAT ARE DEFENSIVES?

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

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

Different types of stocks tend to perform well at different points in this cycle and at times of economic or market uncertainty 'defensive' stocks come to the fore.

In theory defensives can offer investors a defence against falling markets because they do not fall as far or as fast as other stocks.

They can be found in sectors and industries such as utilities, consumer goods, pharmaceuticals and tobacco. What they have in common are relatively stable revenue streams, with demand for their products and services less affected by the state of the wider economy.



The question posed by UBS is whether this is a temporary blip or a more enduring shift out of cyclical stocks.

Supporting the latter assumption, the bank notes its UBS Eurozone data surprise index, measuring how economic releases compare with forecasts, has recently suffered its sharpest deceleration since 2010 into 2011. (TS)

London hoteliers set to report bumper numbers following July heatwave

Parts of the leisure sector have been in hot demand over the summer

The benefits of the recent heatwave attracting visitors to London could soon be reflected in results from several quoted hotel operators with sites in the Capital.

Revenue per available room (RevPAR) increased by a record 9% to £156.15 in July, according to data from industry specialist STR. That beat levels seen in the 2012 Olympics and was also helped by several popular events bringing people to London including Wimbledon and Pride.

RevPAR is a vital measure of how well hotels can fill their rooms and is calculated by multiplying the average daily room rate by the occupancy rate.

Potential beneficiaries among UK-quoted stocks include Premier Inn owner **Whitbread (WTB)**, **Dalata Hotels (DAL)**, **PPHE Hotel (PPH)** and **InterContinental Hotels (IHG)**.

For Whitbread and InterContinental, the anticipated boost will be welcome as trading in London was disappointing earlier this year.

In the three months to 31 May, like-for-like sales at Whitbread-owned Premier Inn fell 0.9% amid weaker market conditions in London and a strong comparative to last year. For InterContinental, trading in London was also underwhelming in the first half of 2018 with RevPAR down 1.4%.

Dalata and PPHE Hotel are two of *Shares'* running *Great Ideas*. Davy Research analyst Joseph Quinn is confident that Dalata can continue to outperform in the UK and he forecasts 3.5% RevPAR growth for the company's UK operations this year.

'We continue to believe that Dalata should outperform the broader market given its ongoing efforts to improve yield through areas such as revenue management on a decentralise basis,' comments Quinn.

Outside of the UK, Dalata is expected to deliver 5.5% RevPAR growth in Dublin and a 5% increase in regional Ireland. (LMJ)



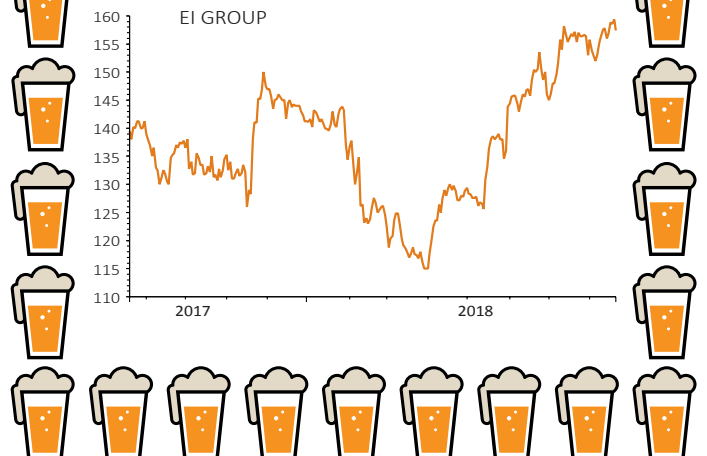
WET-LED PUBS TAKE THE CHARGE

Pubs which predominantly attract drinkers rather than people wanting a meal are best placed to outperform over the next nine months, according to Peel Hunt analyst Douglas Jack who flags **Ei Group (EIG)** as one of the potential winners.

Like-for-like sales in the wet-led pub sector rose by 6.5% in July versus a 4.8% decline for restaurants, according to the latest Coffey Peach Business Tracker.

Interestingly this coincides with 2018 being the first year where the number of wet-led pubs is expected to grow since 2004.

'Pub estates are developing their event-led drink propositions, orientated around premium products,' says Jack. (DC)



Pressure on corporate brokers implies potential wave of M&A

As regulation bites into brokering commissions, how will the sector respond?

Many stock market-listed corporate brokers are under pressure thanks to new regulation called MiFID II which is affecting demand for their equity research.

Before the new regime, brokers could pack their company research into the whole offering they provide to what's called the 'buy side', typically represented by asset managers. Now brokers must 'unbundle' this research and charge clients separately for it.

This may not be a problem for some of the large investment banks as they have multiple revenue streams. For smaller brokerages such as **Arden Partners (ARDN:AIM)**, the impact seems apparent in its results. It suffered a £2.3m pre-tax loss for the six months to 30 April 2018 and its share price has declined by 27% year-to-date.

Not all brokers are struggling. **Numis (NUM:AIM)** grew pre-tax profit by 86% to £19.5m in the six months to 31 March 2018 and its share price has increased by 22% year-to-date.

Data from fintech firm ITG shows commissions paid to brokerages in the first quarter of 2018 fell by 28% on a year-on-year basis.

An article in the *Financial Times* suggested the brokerage industry may consolidate in response to the changing landscape.

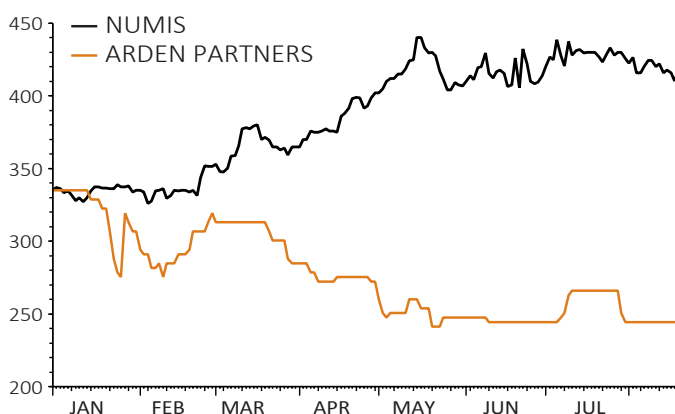
The article flagged that brokers had been struggling prior to the introduction of MiFID II due to falling commissions and a 'tepid initial public offering market' citing Brexit and market volatility as underlying causes.

Another reason that brokers may not be winning as much business is a change of focus by asset managers. This sector is also under pressure due to the growing prevalence of cheaper passive investment funds such as exchange-traded funds.

As pricing pressures eat into the fees that fund managers can charge, it means they are going to be highly selective of the research they buy. (DS)

Corporate broker	Share price year-to-date
Numis	22%
WH Ireland	-4%
Cenkos	-10%
Arden Partners	-27%

Source: SharePad. Data to 21 Aug 2018



Trump attacks the US Federal Reserve

US PRESIDENT Donald Trump, in a further break with convention, is being publicly critical of the pace of rate hikes being driven through by the US Federal Reserve.

This is putting the dollar under some pressure and if Trump's clamour becomes more consistent, weakness in the US currency could provide some respite for emerging market countries like Turkey which have lots of dollar-denominated debt. (TS)

Hill & Smith directors take advantage of profit warning-led share weakness to snap up stock

More than £75,000 of shares have been acquired

Directors of infrastructure engineering business **Hill & Smith (HILS)** have gone on a stock buying spree in an attempt to shore up damaged investor sentiment towards the company following a profit warning on 8 August.

Led by chairman Jock Lennox and chief executive Derek Muir, stock worth just over £75,000 has been bought at prices ranging from £10.22 to £11.79. Senior non-executive director Alan Giddins also added to his personal stake in the business.

Hill & Smith is best known for manufacturing roadside crash barriers placed on bends or the central reservation of motorways. It also makes street lights, bridge-side fencing, pipe network support struts used by water companies and has a galvanising business.

Shares in the FTSE 250 constituent were sent spinning lower earlier this month after confirming a series of project delays, particularly on the UK roads part of the business.

Higher input costs from rising raw material prices also put the squeeze on profits. This led to an 11% decline in reported operating profit for the six months to 30 June as margins came under pressure.

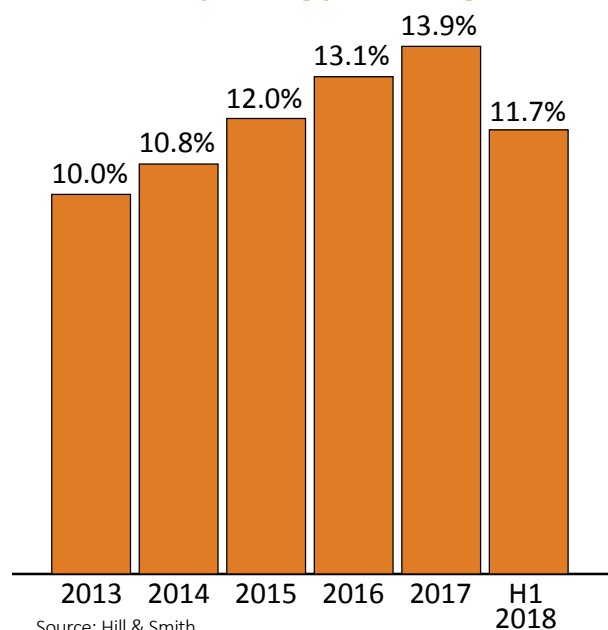
Making matters worse, management were forced to accept that previous optimism about a pick-up in the pace of projects through the rest of 2018 now looks unlikely. That latter news will have particularly peeved investors after management resisted lowering full year guidance as recently as May.

Hill & Smith's shares had enjoyed a firm run lasting for three years or more up until these latest developments, roughly doubling to more than £15 since August 2015. In the wake of the profit

warning the stock is now trading at £11.06.

Optimistic analysts remains hopeful that a Roads Investment Strategy covering the 2020 to 2025 period, set to be unveiled by the UK Government by the end of September, could provide welcome visibility to future project workloads for Hill & Smith. (SF)

Hill & Smith operating profit margins



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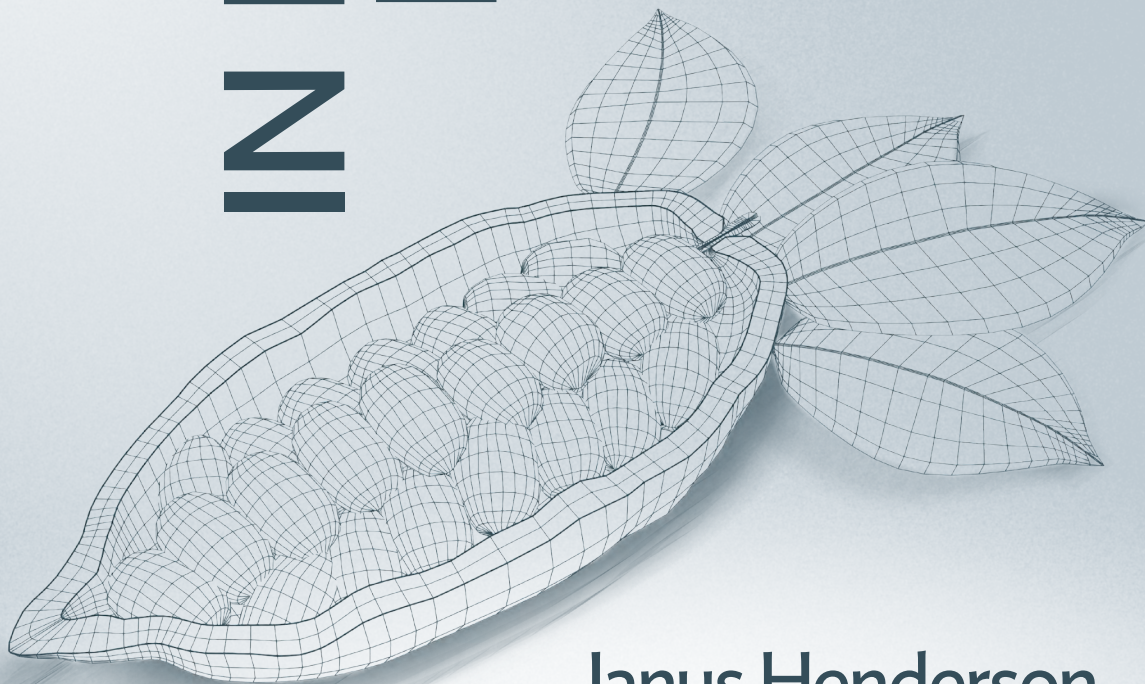
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Act quick and snap up CVS as it looks a prime takeover candidate

The veterinary services group could switch from predator to prey

The veterinary sector is involved in some major M&A at the moment and we wonder if long-term predator **CVS (CVSG:AIM)** could become prey.

Mars Petcare – the brand behind the Pedigree and Whiskas pet food – also has veterinary health interests and in June acquired UK services group Linnaeus which owns 87 veterinary practices.

Private equity group BC Partners earlier in August bought VetPartners, owner of 260 primarily small animal UK vet practices, for £700m.

These transactions highlight the industry's structural attractions. Animal lovers prioritise spending on the wellbeing of their pets, making earnings fairly resilient among veterinary groups.

CVS operates 482 veterinary surgeries across the UK, Netherlands and Republic of Ireland, plus it has an online store selling medicines and pet food, four diagnostic laboratories and seven pet crematoria.

It has been consolidating a fragmented industry, snapping up small animal, equine and farm animal veterinary operations and boasting a strong pipeline of acquisitions in the UK, Netherlands and elsewhere.

CVS  **BUY**
(CVSG:AIM) 926.5p
Stop loss: 741.2p
Market value: **£662m**

So why would someone pounce on CVS now? The answer is simple. Its share price is currently weak, making it a sitting duck for someone interested in the sector and happy to take a long-term view of its prospects.

It trades on approximately 13 times EV/EBITDA (enterprise value to earnings before interest, tax, depreciation and amortisation). Broker N+1 Singer believes BC Partners paid 15.2-times for VetPartners.

CVS has been marked down because of some trading problems caused by bad weather earlier this year and recruitment challenges. The Brexit vote led to a shortage of clinicians coming to the UK, meaning CVS had to pay more money to secure available workers. Furthermore, some of its acquisitions haven't performed to expectations.

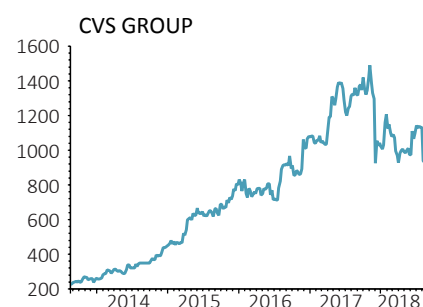
All of these issues aren't a reason to suddenly turn your back on what has historically been a superb investment. For example, CVS' shares increased by 460% in value between

November 2013 and 2017.

The best times to buy a share are often when the market has lost interest, and we certainly think that applies to CVS at the moment.

Results on 27 September may cause a slight wobble in the share price as CVS has already warned that earnings would only be 'broadly in line' with expectations. That word 'broadly' normally implies a slight miss.

For the year to June 2018, stockbroker N+1 Singer forecasts adjusted £36.1m pre-tax profit (2017: £33.5m) and a dividend hike from 4.5p to 5.5p, ahead of £42.9m pre-tax profit and a 6.5p dividend in the current financial year. (JC)





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Yu Group is shaking up the energy supply market and investors could be richly rewarded

It is one of a new breed of independents offering a business energy alternative

Yu Group (YU.:AIM) is one of a new breed of independent specialist energy suppliers to businesses. In an industry still dominated by the so-called big six providers this is a company carving a growth niche based on competitive pricing and better quality service.

Readers should be aware that UK consumers can switch energy providers at the relative drop of a hat. That doesn't apply to businesses which are still tied to typical three year supply agreements.

What Yu Group does well is monitor renewals as they come up and its sales staff swoop in for talks ahead of time. There is a massive market opportunity with thousands of organisations both large and small to chase.

An estimated 40% of small and medium-sized enterprises (SMEs) have stuck it out with their current supplier for more than five years, according to a report from Ofgem last year.

The same study suggests that 90% of SMEs are supplied by one of the big six utilities, and so may well be open to change, especially to a provider more attuned to their specific needs.

Yu Group also has an Ofwat

YU GROUP  **BUY**

(YU.:AIM) 897.5p

Stop loss: 718p

Market value: **£146m**

licence to supply water services.

The AIM-quoted company has only been operating at full speed for about two years yet it has proven itself to be an outstanding growth opportunity on almost every metric.

Last year (to 31 December 2017) saw revenue jump three-fold from £16.3m to £47m, versus an original target of £30m pitched at the start of the year. Yu already has £45m of committed revenue for 2019.

Customer numbers soared 70% to 7,361 from which it earned its first ever reported pre-tax profit of £2.24m, and that's including £840,000 of exceptional losses on derivative contracts.

The company also throws off plenty of cash: £2m of free cash flow in the first six months of 2018 boosting its net cash position to £18.2m. An increasing chunk of this surplus is now going into shareholder pockets via fast-growing dividends.

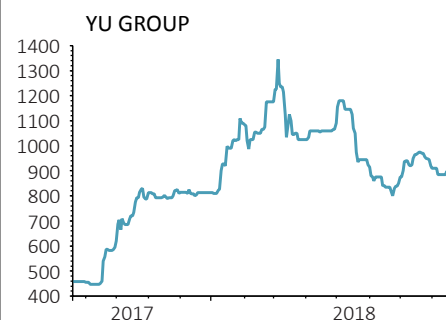
So while the shares look



expensive on a current year basis, trading on a 2018 price to earnings (PE) multiple of 35, that rating drops away rapidly as you look out to 2019 and beyond.

For example, last year's 17p of adjusted earnings per share (which excludes one-off costs) is expected to more than double to 36.5p in 2019, and hit 48.6p in 2020. All else being equal that would see the forward PE fall to 18.5 by the end of next year.

And earnings estimates have been upgraded several times over the past two years which makes outperformance to current estimates well within the realms of plausibility. (SF)



AUTO TRADER

(AUTO) 456.5p

Gain to date: 21.1%

Original entry point:

Buy at 377.1p, 17 May 2018

Online car marketplace **Auto Trader (AUTO)** continues to motor ahead as it enters an interesting-looking new joint venture.

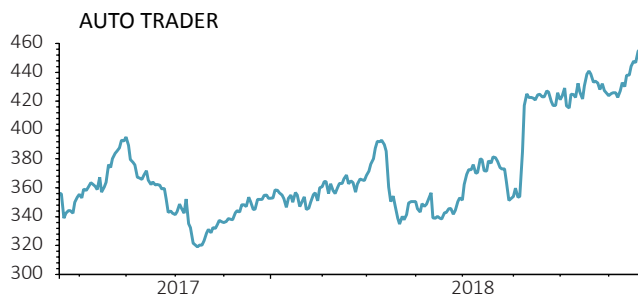
Its agreement with Cox Automotive UK will enable the launch of 'Dealer Auction' providing a digital platform for the purchase and sale of wholesale vehicles.

Essentially the venture, in which Auto Trader will have a 49% stake, opens up a new market for the company and it is expected to be earnings enhancing in the first year.

Chief executive Trevor Maher says: 'The way in which vehicles currently move around the UK automotive ecosystem is overly complex and inefficient, and Auto Trader has the digital and data assets that can make it a quicker, more convenient and cheaper process for all parties.'

'However, we know that we will have an even better chance of disrupting the market by partnering with an established player which knows this particular industry intimately.'

The JV is subject to approval by the Competition and Markets Authority. Investors may have to wait until the first half results on 8 November to get more detail on the implications of the deal.



SHARES SAYS: ↗

We look forward to hearing more about this potential new avenue for Auto Trader and remain positive on the stock. Buy. [TS]

G4S

(GFS) 251p

Loss to date: 2%

Original entry point:

Buy at 256.2p, 16 November 2017

Security services company **G4S (GFS)** has had a torrid time in recent weeks. The Government has assumed control of Birmingham Prison from the company after a report revealing major widespread failings.

Prison inspectors said the prison had fallen into a 'state of crisis', with the chief inspector of prisons, Peter Clark, describing it as the worse prison he had ever seen.

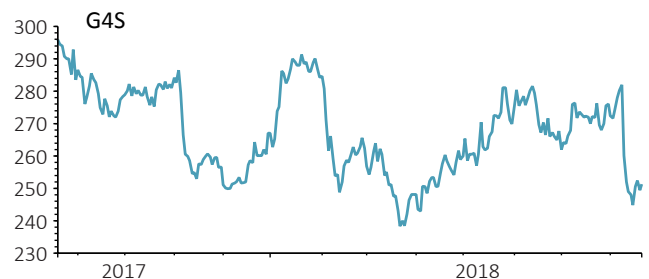
This followed results released on 9 August which showed a company whose pre-tax profit had declined by 3.2% to £212m while operating cash flow fell 2.2% to £179m on a year-on-year basis.

However, we still remain positive on the company as it can sell off its Cash Solutions business which would plug its pension deficit and give the company more options.

Kean Marden, analyst at investment bank Jefferies, says selling the business would lead to around £2bn in surplus capital to 'deploy on technology acquisitions'.

Jefferies is not the only voice that sees the potential for G4S from making disposals; fellow investment bank UBS has been saying this for some time. Back in January it was suggesting that the company could either dispose of its Cash Solutions business or alternatively demerge it and list it separately.

The shares trade on 11.3 times 2019 forecast earnings per share of 22.24p.



SHARES SAYS: ↗

The latest news has been disappointing although we still see merit in owning the stock given potential value creation catalysts. [DS]

Don't get caught in a value trap

We look at examples of stocks that are cheap for a good reason

People are always looking for bargains, whether they are shopping for shoes, a dream holiday or even stocks and shares.

However, some companies trade on cheap valuations for a reason, and even if their discounted rating is unwarranted a catalyst is required to unlock this value. Stocks which are justifiably cheap, or lack catalysts can be called 'value traps'.

DEBENHAMS: CHEAP FOR A VERY GOOD REASON

One of the most high-profile fallers on the stock market this year is embattled **Debenhams (DEB)**. The department store chain recently downgraded annual pre-tax profit guidance from £50.3m to between £35m and £40m following underwhelming trading.

This is not the first warning in recent history. But is all the current bad news priced into the shares? After all, the future earnings trajectory is upwards, according to analysts and so some investors may see good value in buying the shares now.

Pre-tax profit is expected to rise from a forecast £34.7m in the year to 31 August 2018 to £37.1m in 2019 and increase further to £41.1m in 2020.

Debenhams plans to turn its fortunes around by becoming a leader in 'social shopping' and simplify its operations with store



and warehouse closures.

There are certainly reasons to look closer, yet Liberum analyst Adam Tomlinson categorically states that Debenhams is a value trap. His study of the company's situation implies that earnings may not be strong enough to keep paying dividends at the current level.

The shares are currently trading on a prospective 4.6% yield. Looking at forecasts published on Reuters, the company is expected to report £15.6m negative free cash flow for the year to 31 August 2018, so the dividend is uncovered.

Tomlinson says high operating leverage reflects 'very high sensitivity of earnings' to changes in sales, while its new strategy is not feeding into its financial performance.

You also have to consider that it has an average 18 year store lease and £4.5bn of lease commitments.

Debenhams trades on a low 6.1 times forecast earnings per share but its myriad problems and stalling strategy do not suggest the stock is good value. This is definitely one to avoid.

HIGH YIELDS OFTEN TELL YOU SOMETHING IS UP

Trading on an exceptionally low 2.8 times forecast earnings per share for 2018 and offering an 11.5% dividend yield, newspaper publisher **Reach (RCH)** is also a stock to avoid as we rate it as a classic value trap.

The owner of *Daily Mirror* and *Daily Express* has been struggling to drum up sales and profitability over the last decade despite

three major acquisitions and extensive cost cutting.

‘When a stock’s dividend yield is higher than its forward price to earnings ratio, this is usually the market’s way of politely telling analysts their earnings and dividend forecasts are too optimistic – or telling the company it is dying on its feet,’ comments AJ Bell’s Russ Mould.

The investment director warns that Reach’s recent £150m write-down in the value of some of its assets suggests its portfolio of local papers is not worth as much as management previously thought.

Reach, previously called Trinity Mirror, has traded on an ultra-low PE for several years and market perception of its industry being in terminal decline and substantial pension liabilities means it is hard to see this situation changing.

IS PETS AT HOME A VALUE TRAP?

Another potential value trap is pet pampering specialist **Pets at Home (PETS)** as jitters over competition and subdued consumer confidence weigh on its valuation.

Pets at Home trades on 8.9 times forecast earnings per share for the year to 31 March. That’s cheap, but cheap for a good reason.

In a bid to revive the business, Pets at Home is cutting prices and doing more promotions, which generated 6.1% like-for-like sales growth in the 16 weeks to 19 July.

Another key issue is a shortage of veterinary practitioners needed to help run the company’s vet practices.

Liberum speculates free cash flow will decline by 28% in 2019 and a further 22% in 2020 amid a need for greater working capital to support the vet practices.

Unfortunately, the broker is not confident that Pets at Home can hold up against relentless rivals, leading to potential downside risks.

Shore Capital’s Phil Carroll sees Pets at Home’s 45% share price decline since last September to 121.8p as a buying opportunity.

He believes the company’s devaluation has been harsh; flagging the transformation plan appears to be working with some profit growth expected year-on-year.

FRENCH CONNECTION: LOTS OF CASH BUT IS THE BRAND STILL RELEVANT IN TODAY’S WORLD?

While **French Connection (FCCN)** has been losing money for years thanks to a weak retail operation, analysts believe it will make a breakthrough in the year to 31 January 2019 with £0.9m pre-tax profit. That’s despite an anticipated decline in sales from

£154m to £144m.

A big step in the right direction for the fashion retailer was the sale of its Toast mail order business for £23.3m, helping to support its working capital and potentially supporting a resumption of dividends.

Net cash is estimated to be £24m at the end of the current financial year, equal to half its market cap, so there is clearly some interest to value investors.

But is this really a company you’d want to own when the alternatives on the stock market such as many of the online fashion retailers are far more attractive? Yes, the latter trade on high valuations but that is justified by far superior growth and the fact they are sitting in the right part of a structural growth trend (namely the shift online).

Nonetheless, French Connection isn’t a stock to write off completely. While the retail arm is struggling, the wholesale business is much more interesting. This is probably *the* value trap-style stock to watch closely. (LMJ)



We don't believe French Connection should be written off completely

THROGMORTON

10 YEARS ON AND WE ARE AS OPTIMISTIC AS EVER



By Daniel Whitestone,
Fund Manager,
BlackRock
Throgmorton
Trust Plc

As the BlackRock Throgmorton Trust Plc celebrates its 10-year anniversary, Portfolio Manager Dan Whitestone reflects on its evolution and the opportunities that lie ahead.

There really has been very little change to the Trust over the past 10 years, which has always focussed on investing in quality UK Small & Medium-size businesses that we believe have the potential to become much larger over time. We are passionate believers that we are fishing in a very attractive pond. UK small and medium sized companies have outperformed larger companies by around 4% per annum* over time, which compounded over time has led to significant returns from this area of the market. It is important to remember that past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Not only is this an outperforming area of the market, but it is also an area where we believe it pays to be active. Dispersions of returns in UK small and medium companies is high, companies that get it right can see their market values (shares) go up 1, 3, 5 10, even 20 times, and losers can see their share prices collapse and even fall to zero. The bottom line, the rewards for success can be large!

An enhanced toolkit

We believe this trust has a completely unique proposition for exploiting the high dispersion of returns in the UK small and mid-cap universe. As we often highlight, when smaller companies go wrong things can unwind very quickly. Thankfully this trust also has the ability to 'short' shares (i.e. profit if the share price falls), as well as buy shares ("long"). We short shares by using contracts for difference (CFDs), synthetic instruments that track the movement of the underlying shares. This allows us to gain exposure to companies that are under structural or cyclical pressures where we think earnings and balance sheets are under pressure, and profit if the shares fall. Meanwhile the ability to short also allows the Trust to vary our overall net exposure (long holdings – short holdings) to the market over time depending on our view of the overall stock market. This gives us potential to protect against the downside, meaning if the market falls, we can hopefully fall less than the market. We feel that this structure offers us as investors an enhance toolkit to seize the opportunities offered by this area of the market.



Until recently (February 2018) we ran a dual structure with the CFD portfolio operating as a separate portfolio alongside the long only portfolio, previously run by Mike Prentis. While this worked well for us, we recognised the benefits of having a sole manager arrangement and I – now manage the entire Throgmorton Trust – having previously managed the CFD portfolio. I believe this gives greater consistency, clarity and simplicity.

New manager bringing a little something different from the last 10 years

Under my sole management the Trust will focus on two types of investment, which I believe will drive long term value for shareholders. Firstly, will be the same as what has driven performance over the last 10 years, something we call "Quality Differentials", simply put these are differentiated long-term growth investments. These we would characterise as companies that have strong management teams, with a protected market position, a unique and compelling product offering with an attractive route to market, maybe benefitting from structural growth, and that are well financed. These type of companies have been the foundation of the Trust since BlackRock took over management. The second type and where shareholders will see something different from history, is targeting those companies that are leading industry change, "disruptors", and shorting those that are the victims, the "disrupted". Think of the industry change that we have witnessed during the 10-year life of Throgmorton. The smartphone didn't exist when BlackRock took on the Trust, now think of all the apps on our phones which have completely change the way we do things from ordering taxis, getting a takeaway delivered or watching television. These are just a few examples, but there isn't an industry that isn't facing some sort of disruption, and it really is a fascinating and exciting time for an investor. We are currently drawn to distribution and how technology is changing consumer behaviour, creating opportunities for dynamic, disruptive businesses and undermining legacy business models. This is a key battleground that is creating winners and losers, something that the Trust is designed to capitalise on. However, as we have alluded to in the past, industry disruption is not limited by geography and therefore we introduced the ability for the Trust to now invest up to 15% in companies not listed in the UK provides further opportunity to identify exciting growth companies that are driving change and disrupting their end markets.

At the same time, restrictions on the amount we could invest in AIM-listed stocks was lifted, broadening our investment universe still further, and more importantly this means we are no longer forced sellers of some of our top performing AIM shares due to an arbitrary limit on the amount that the trust is able to hold.

Ready for the future

Above all, it is the Trust's (and the BlackRock Team's) dedication to understanding, researching and connecting with the small and medium sized companies' universe that we believe contributes to our performance. We have owned some incredible small companies on their way up, one notably up more than 25x since we purchased IT, but were also able to use short positions to deliver additional performance from businesses on their way down. We have held two shorts where the shares have fallen to zero in the last 12 months!

As we enter the next few years, we are excited by the opportunities that we face. We think the UK is home to many compelling investment opportunities where the revenues and profits are generated outside the UK and the companies have a leading differentiated competitive offering. The outlook for these investments is tied to the global economy notably which we believe remains robust.

It has been a great decade for Throgmorton and, following recent changes, we are excited by the future and feel well prepared for whatever it may bring.

Capital at risk. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested

*BlackRock/DataStream, since the inception of the Numis Smaller Companies Index to 30 June 2018, Numis Smaller Companies against the FTSE All Share Index.

Trust specific risks

The Trust's investments may have low liquidity, which often causes the value of these investments to be less predictable. In extreme cases, the Trust may not be able to realise the investment at the latest market price or at a price considered fair. Derivatives may be used substantially for complex investment strategies. These include the creation of short positions where the Investment Manager artificially sells an investment it does not physically own.

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss. Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.



Important Information:

BlackRock have not considered the suitability of this investment against your individual needs and risk tolerance. To ensure you understand whether our products are suitable, please read the Key Investor Documents (KIDs) and the Annual and Half Yearly Reports available at blackrock.co.uk/its which detail more information about the risk profiles of the investments. We recommend you seek independent professional advice prior to investing.

Non-mainstream pooled investment products status: The Company currently conducts its affairs so that its securities can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the Financial Conduct Authority (FCA) rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The securities are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

The Company is managed by BlackRock Fund Managers Limited (BFM) as the AIFM. BFM has delegated certain investment management and other ancillary services to BlackRock Investment Management (UK) Limited. The Company's shares are traded on the London Stock Exchange and dealing may only be through a member of the Exchange. The Company will not invest more than 15% of its gross assets in other listed investment trusts. SEDOL™ is a trademark of the London Stock Exchange plc and is used under licence.

Annual performance (%) to last quarter end (GBP)	30/06/17-30/06/18-	30/06/16-30/06/17-	30/06/15-30/06/16-	30/06/14-30/06/15-	30/06/13-30/06/14-
Net Asset Value: BlackRock Throgmorton Trust plc	23.90	45.21	-4.95	16.98	19.12
Benchmark: Numis SC Plus AIM Ex Investment Companies TR GBP	7.38	29.11	-6.58	10.35	20.29

THE ULTIMATE FTSE 100 GUIDE

How the index works and the companies driving the market

BY THE SHARES TEAM

The main benchmark for shares listed on the London Stock Exchange is the FTSE 100. Widely quoted in reports on the financial markets, its constituents make up 80% of the UK market by valuation.

But how much do you know about its composition? For example, upwards of 70% of its earnings are derived overseas despite the FTSE 100 being London's flagship stock index. As a result, its relationship with the UK economy is fairly loose.

In this article we will deconstruct the index, examining how it has changed over time, what drives it, the biggest sectors and reveal three of our favourite FTSE 100 companies.

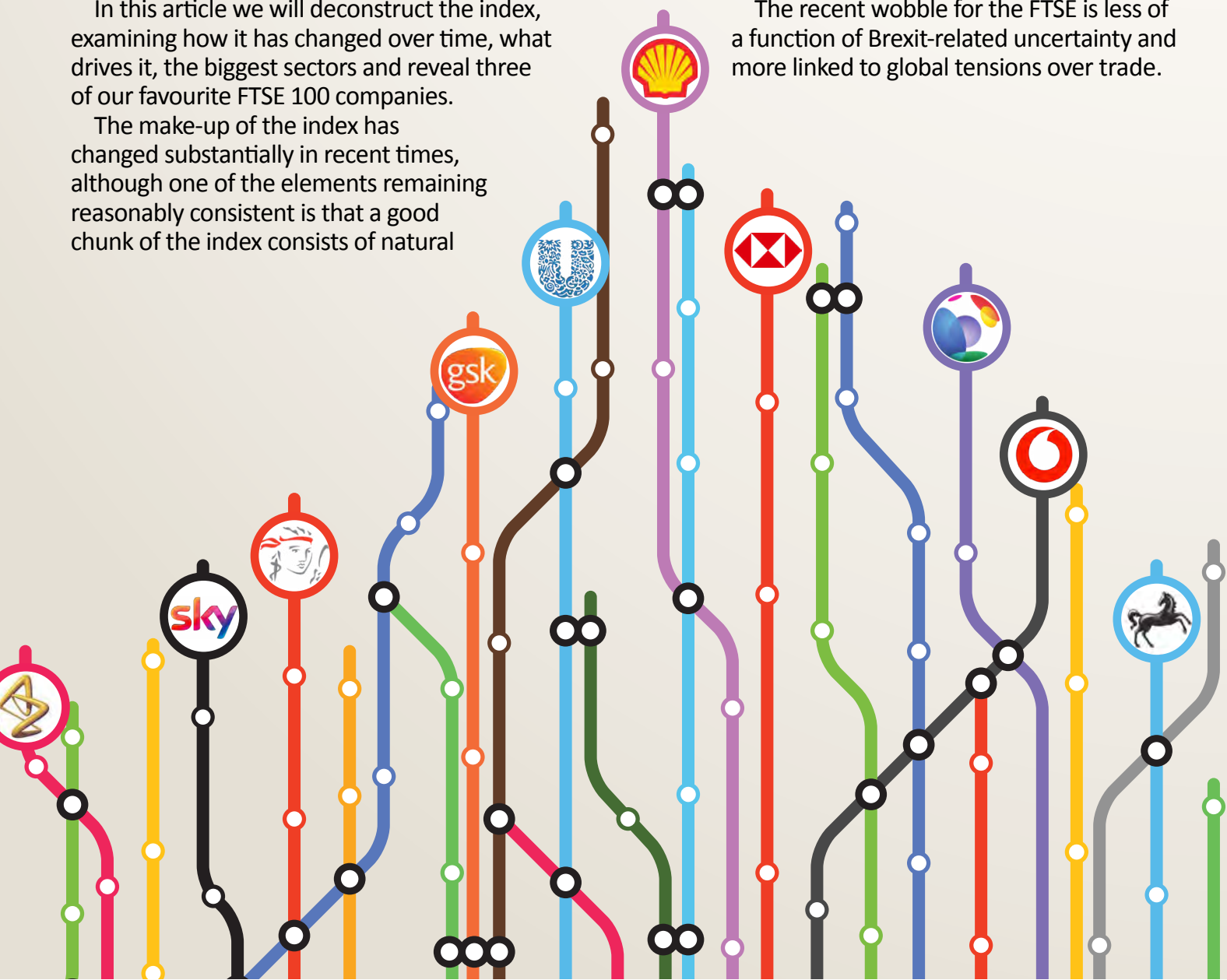
The make-up of the index has changed substantially in recent times, although one of the elements remaining reasonably consistent is that a good chunk of the index consists of natural

resource companies.

All FTSE indices are weighted by market capitalisation, so that the larger companies make more of a difference to each index than smaller companies in terms of index performance.

The dominance of oil companies and miners in the FTSE 100 leads therefore to a close correlation with the fortunes of fast growing developing economies like China which consume a large proportion of the world's natural resources.

The recent wobble for the FTSE is less of a function of Brexit-related uncertainty and more linked to global tensions over trade.

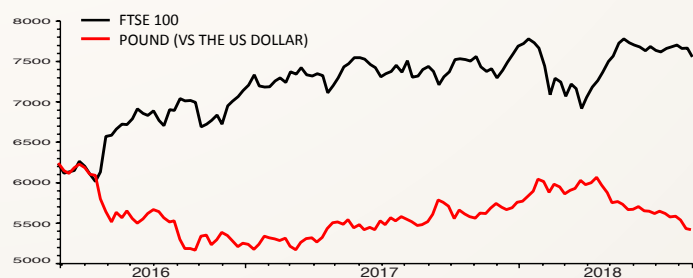


WHAT DRIVES THE INDEX?

CURRENCY

The fact such a large proportion of the earnings from the index are international means currency movements are a big factor. The plunge in the pound in the wake of the Brexit vote and its continued volatility has probably been the main driving force of the FTSE 100 in the last two-and-a-bit years.

Weak sterling lifts the index as earnings in other major currencies are worth more when translated back into sterling.



DIVIDENDS

Many investors invest in equities for the income from dividends. According to AJ Bell's latest *Dividend Dashboard*, constituents of the index are forecast to pay out a record £88.8bn in dividends this year. This adds up to an average FTSE 100 dividend yield of 4%, although a lot of this income is dependent on the fortunes of energy and financial stocks.

ENERGY AND METALS PRICES

Dominance by resource companies means commodity market movements have a material impact. Weakness in the copper price since June 2018 has helped keep a lid on any gains for the index.

RESULTS

Strong or weak results from some of the largest constituents of the FTSE 100 like **HSBC (HSBA)**, **Royal Dutch Shell (RDSB)** and **GlaxoSmithKline (GSK)** can drive the whole index higher or lower. (TS)

WHAT IS THE OUTLOOK FOR THE FTSE 100'S LARGEST SECTORS?

As of 31 July 2018, four super sectors had a weighting of more than 10% in the FTSE 100 index. The outlook for these industries will have a big impact on how the index performs going forward.

OIL AND GAS

Weighting: 16.6%

Source: FTSE Russell, 31 July 2018

Oil and Gas is the largest individual super sector on the FTSE 100 but actually comprises just two companies, **BP (BP.)** and Royal Dutch Shell.

A recovery in oil prices from the 2014 crash has helped these businesses put themselves on a more sustainable footing.

Crucially it has allowed them to reach a point where they can fund their prized dividends from cash flow rather than debt or by issuing dividends in shares (scrip dividends). BP has just increased its dividend for the first time in four years.

Management of both BP and Shell have reached a point where they can balance the books at around the \$50 per barrel mark. This is therefore a key level to watch for investors in the sector.

As we write the Brent crude index, the global benchmark for oil, is trading at around \$70 per

barrel. Earlier in the summer it had been closer to \$80 per barrel on fears over the impact of new sanctions on major oil producer Iran. Trade war fears have taken some of the heat out of the commodity.

The direction oil prices take in the remainder of the year will determine if the current 2018 earnings per share and dividend per share forecasts from BP and Shell can be delivered or even exceeded.

Based on these forecasts, BP trades on a price to earnings (PE) ratio of 12.5 and offers a 5.8% dividend yield compared with Shell's PE of 11.8 and 6% yield. (TS)

BANKS

Weighting: 12.7%

Source: FTSE Russell, 31 July 2018

The FTSE 100 is heavily skewed in terms of profits and dividends into a few sectors, one of these being banks.

Bank bashing had been one of the top national pastimes since the financial crisis, but this is now ebbing away as we finally come to the end of a prolonged period of misconduct charges being brought against these institutions.

The banks passed the Bank of England's stress tests last year and for 2018 are forecast to contribute a large percentage of the profits from the FTSE 100.

The earnings backdrop should be supportive of dividend payments by the banks, especially now **Lloyds (LLOY)** has restored its dividend and **Royal Bank of Scotland (RBS)** recently said it would pay its first dividend in 10 years.

HSBC and Lloyds together account for 12% of forecast dividend payments by the FTSE 100 for 2018.

Banks faced the scrutiny of regulators after the global financial crisis but the introduction of European Basel rules that enforced capital requirements doesn't seem to have fatally impaired these companies' dividend paying capabilities. (DS)

PERSONAL AND HOUSEHOLD GOODS

Weighting: 12.4%

Source: FTSE Russell, 31 July 2018

This is a diverse collection of companies which encompasses the housebuilders alongside luxury goods firm **Burberry (BRBY)**, the tobacco stocks and consumer goods giants **Reckitt Benckiser (RB.)** and **Unilever (ULVR)**.

The importance of this space to the FTSE 100 could diminish in the near future. In June Unilever indicated it would likely exit the index after it completes the relocation of its headquarters from London to the Netherlands – a move which has been linked to the Brexit process.

In July Reckitt surged higher on better-than-expected quarterly sales growth, though this followed a run of more disappointing news.

British American Tobacco (BATS) and **Imperial Brands (IMB)** were once considered defensive plays offering a strong and sustainable source of income. Today the picture is different thanks to concerns over declining cigarette volumes as global governments crack down on the industry.

The tobacco sector is widely transitioning to so-called Next Generation Products or NGPs including e-cigarettes and this could put earnings under pressure for the near-term at least.

Elsewhere, the UK housing market has cooled of late, and this is starting to be reflected in the average selling prices achieved by the listed contingent of housebuilders. If house prices continue to decline, these businesses will have to drive sales through higher volumes to achieve growth. This represents a significant challenge given rising staff and input costs. (TS)

HEALTHCARE

Weighting: 10.2%

Source: FTSE Russell, 31 July 2018

The Healthcare sector in the FTSE 100 comprises five companies: **AstraZeneca (AZN)**, **GlaxoSmithKline**, **NMC Health (NMC)**, **Smith & Nephew (SN.)** and **Shire (SHP)**.

The sector is set to shrink following the acquisition of Shire by Japanese pharmaceutical colossus Takeda, assuming the deal completes.

AstraZeneca is making good progress as it targets a return to sales growth by the end of 2018.

At rival GlaxoSmithKline, speculation about spinning off its consumer division has re-emerged as the company aims to boost spending to support its drugs pipeline.

For these well-known names, pre-tax profit is expected to mainly rise over the next three years, but dividend growth is expected to be subdued.

Private hospital operator NMC Health is forecast to deliver rising profits and dividends over the next three years with pre-tax profit expected to more than double from \$219.4m in 2017 to \$467.6m in 2020.

Smith & Nephew is underperforming compared to its peers after downgrading annual sales growth twice since November amid softer market conditions. Its pre-tax profit is forecast to fall from \$993m in 2017 to \$960m this year before rising to \$1.06bn in 2019, while dividends aren't expected to start growing again until 2019. (LMJ)



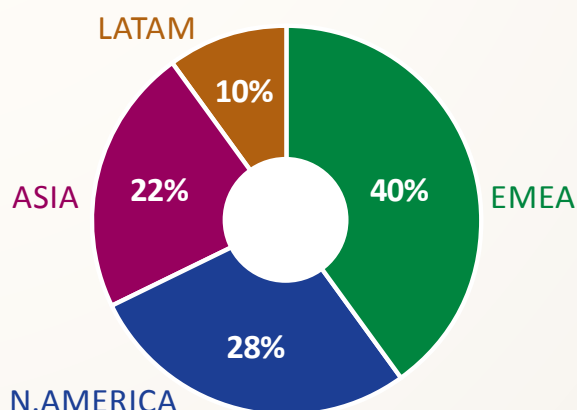
THE DOMINANCE OF SHELL

Anglo-Dutch oil major Royal Dutch Shell accounts for more than 10% of the FTSE 100 index on its own once its two share classes are taken into account. The company's genesis as a combination between the Netherlands company N.V. Koninklijke Nederlandsche Petroleum Maatschappij and the UK's Shell explains the A and B share structure with the A shares subject to 15% Dutch withholding tax on dividends and the B shares exempt from this levy.

THREE OF OUR FAVOURITE FTSE 100 STOCKS

CRODA (CRDA) £51.38

BUY



Source: Liberum

We're big fans of chemicals business **Croda (CRDA)** which creates and sells speciality chemicals for beauty products and ingredients for lubricants, as well as developing products to boost yields for farmers. It is tapping into the growing demand for premium care products.

Under its strategy, the company aims to boost sales growth, generate stronger margins and invest in disruptive technologies, reflected in the recent acquisition of marine biotechnology firm Nautilus which uses microbial biodiversity to develop new actives and ingredients.

We rate Croda as a reliable growth stock, delivering sales and profit growth nearly every year over the past decade, and this is expected to continue.

Sales are forecast to increase from £381.8m last year to £404.3m this year and progress further to £438.9m in 2019 and £468.1m in 2020.

Pre-tax profit is forecast to climb from £320.3m last year to £334.4m in 2018, before jumping to £365.2m in 2019.

Driving growth at Croda is its Personal Care division with sales rising 9.3% in the first half of 2018 and operating profit growth of 6.1% on constant exchange rates.

The personal care market could be lucrative for



some time as consultancy Euromonitor estimates around 4% compound annual growth in these products between 2016 and 2021.

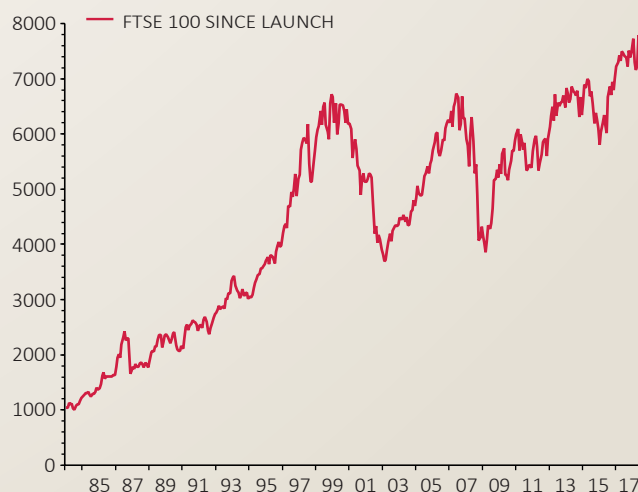
Investors looking for income should note that Croda is forecast to deliver growing dividends over the next few years. According to analyst estimates, the dividend will jump by more than 30% from their current level by the end of 2020. And Croda is expected to reward shareholders with a special dividend later this year.

FTSE 100 – A POTTED HISTORY

Launched at the beginning of 1984 with a base value of 1,000, the FTSE 100 or 'Footsie' as it is sometimes known has endured a rollercoaster ride over its 30-year plus history.

After hitting 6,930.20 on the day before New Year's Eve in 1999, the index then collapsed amid the dotcom crash and suffered another massive sell-off during the financial crisis a decade ago.

The current record high was attained on 22 May 2018 when the index closed at 7,877.45.



NATIONAL GRID (NG.) 822.6P BUY

There is one particularly compelling reason to consider owning shares in **National Grid (NG.)** – inflation-proof income.

With latest figures from the Office for National Statistics (ONS) showing the cost of living in Britain on the rise, investors who rely on growing dividends to help pay their monthly bills might well be lured by the UK's largest utility company's commitment to grow its dividend to match RPI (retail price index) inflation or better 'for the foreseeable future'.

RPI inflation in July came in at 3.2%, according to ONS data, and the Office for Budget Responsibility is forecasting that figure to settle at around 3% out to 2023.

National Grid runs much of the UK's electricity and gas supply infrastructure, with similarly regulated operations in the US. It has a long track record of steadily increasing its annual payout to shareholders dating beyond the 2002 merger with Lattice, which formed an electricity and gas

transmission national champion.

It has missed its dividend growth target just once in the past 10 years (2012), when RPI was coming down from a spell running at 5%-plus.

This sort of inflation-beating track record is matched by other utility stocks (electricity, gas, water suppliers, for example) yet National Grid is the UK operator least threatened by a possible stiffer regulatory climate in the future.

UK energy suppliers, such as British Gas-owner **Centrica (CNA)** for example, are facing the introduction of tariff price caps which could limit dividend growth in the future. UK water companies have also been dogged by political and regulatory issues.

This arguably makes National Grid the UK utility company least likely to give investors sleepless nights. This year's (to 31 March 2019) dividend is forecast at 47.24p, implying a 5.7% yield based on the current share price, with future payouts expected to rise roughly 3% a year out to 2021.

National Grid Dividend profile	
2009	33.00p
2010	35.64p
2011	38.49p
2012	36.37p
2013	40.29p
2014	42.03p
2015	42.87p
2016	43.34p
2017*	44.27p
2018	45.93p
2019f	47.15p
2020f	48.60p
2021f	50.09p

Source: National Grid

f = forecast by analysts

*84.38p special dividend also paid

PRUDENTIAL (PRU) £17.20 BUY

Insurance behemoth **Prudential (PRU)** is growing at a healthy clip and has plans to enhance shareholder value. The company hopes to spin out its UK operations as a separately-listed business called M&G Prudential. In essence, Prudential's shareholders will get free shares in M&G which will focus on savings and retirement needs for individuals in the UK and Europe.

This demerger would leave its faster growth US and Asian businesses as a separate entity. While it may seem that investors may have more interest in the high growth parts of the business, it should be remembered that M&G and the PruFunds arm both had record inflows in 2017.

Investing in companies which have announced a demerger can have upsides generally. A demerged business can allow management to take control of its own destiny and make decisions that best serves its needs rather than those of a larger conglomerate.

They can also be more entrepreneurial when demerged and remuneration for key players can be more closely aligned with business objectives and performance.

Mike Wells, chief executive of Prudential, reinforced the above point saying that following the separation M&G Prudential will have more control over its business strategy and capital allocation.

The existing group released its half year results in August and its growth credentials were on

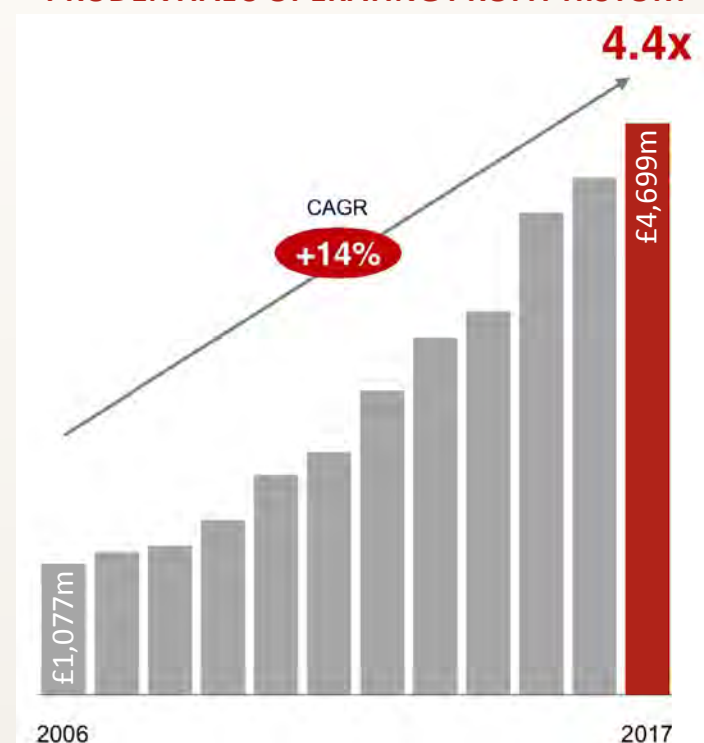
show again. Its operating profit rose 9% to £2.4bn year-on-year with its chief executive saying the performance has been led by Asia again.

We note recent rumours that a Chinese financial services firm was considering a bid for Prudential's Asian business.

Prudential says the working age population in Asia is growing by 1m people every month and they are under-protected, creating a huge opportunity for the business.

In the US, it believes 10,000 people will be retiring every day over the next 20 years, creating a growing need for protection products.

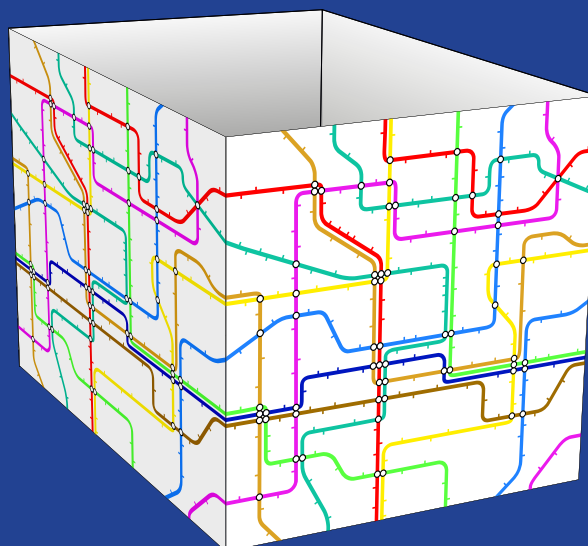
PRUDENTIAL'S OPERATING PROFIT HISTORY



1. Comparatives have been stated on an actual exchange rate basis
2. Comparatives are adjusted for new and amended accounting standards and excludes Japan and Taiwan agency. Comparatives have also been restated to exclude the contribution from the held for sale Korea Life



HOW DOES A COMPANY JOIN THE FTSE 100?



Qualification for entry into the FTSE 100 depends on the value of a company (known as 'market cap'). The constituents of the index are reviewed each quarter, on the Wednesday after the first Friday of the month in March, June, September and December, with a maximum of 10 companies being relegated from the list or promoted to it.

Companies qualify for the FTSE 100 if they rank among the top 90 UK-listed firms by market cap and conversely are eliminated if they fall to position 111 or below on the night before the review takes place.

The most recent shake up in June 2018 saw online groceries play **Ocado (OCDO)** and gambling outfit **GVC (GVC)** move up and private healthcare provider **Mediclinic International (MDC)** and security firm **G4S (GFS)** drop out.

It is important to note the FTSE 100 index has to remain at 100 companies, so any additions or subtractions must balance out. Therefore if, for example, a company leaves the FTSE 100 because it has fallen to the 111th position or below then the highest-ranking FTSE 250 group will replace it.

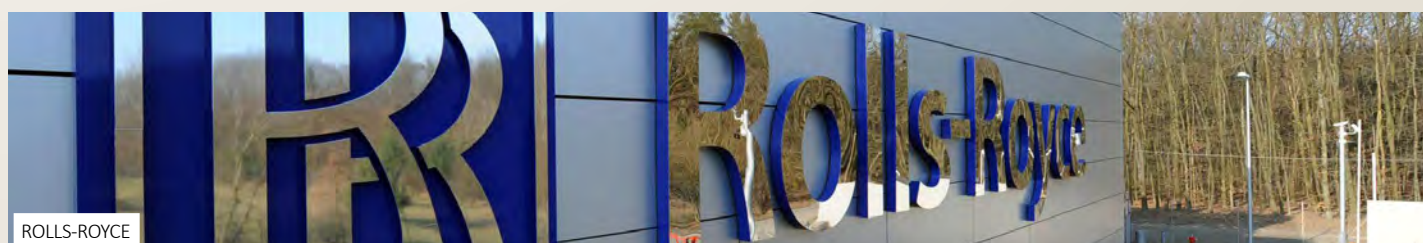
THE COMPLETE FTSE 100: NUMBERS 1 TO 25

Company	EPIC	Supersector	Market cap (£m)	Forecast PE	Forecast yield (%)	12 month share price performance (%)
Royal Dutch Shell	RDSB	Oil & Gas	229634	11.7	6.0	15
HSBC	HSBA	Banks	140349	11.8	5.7	-5
Unilever	ULVR	Personal & Household Goods	119430	21.3	3.1	-2
BP	BP.	Oil & Gas	109818	12.4	5.8	23
British American Tobacco	BATS	Personal & Household Goods	94714	13.9	4.9	-17
BHP Billiton	BLT	Basic Resources	87020	12.1	5.8	20
GlaxoSmithKline	GSK	Healthcare	79390	14.4	5.0	6
AstraZeneca	AZN	Healthcare	75221	22.5	3.7	33
Diageo	DGE	Food & Beverage	68461	21.9	2.5	9
Rio Tinto	RIO	Basic Resources	64589	9.5	6.4	8
Reckitt Benckiser	RB.	Personal & Household Goods	47628	20.5	2.5	-8
Vodafone	VOD	Telecommunications	46794	18.0	7.8	-21
Prudential	PRU	Insurance	44911	11.3	2.9	-6
Glencore	GLEN	Basic Resources	43736	7.5	5.4	-10
Lloyds Banking	LLOY	Banks	43028	8.3	5.6	-8
Shire	SHP	Healthcare	40483	11.1	0.7	15
Carnival	CCL	Travel & Leisure	33538	13.7	3.2	-16
RELX	REL	Media	33533	20.0	2.5	1
Barclays	BARC	Banks	31095	9.1	3.6	-10
Royal Bank of Scotland	RBS	Banks	29078	9.1	2.5	-9
Imperial Brands	IMB	Personal & Household Goods	28433	11.2	6.4	-8
National Grid	NG.	Utilities	28015	14.4	5.7	-15
Compass	CPG	Travel & Leisure	26473	21.4	2.3	0
Sky	SKY	Media	26331	23.4	2.2	59
Tesco	TSCO	Retail	25058	18.0	2.1	44



THE COMPLETE FTSE 100: NUMBERS 26 TO 50

Company	EPIC	Supersector	Market cap (£m)	Forecast PE	Forecast yield (%)	12 month share price performance (%)
BT	BT.A	Telecommunications	22205	8.7	6.9	-25
Anglo American	AAL	Basic Resources	21712	8.2	5.3	24
Standard Chartered	STAN	Banks	21489	11.2	2.7	-17
CRH	CRH	Construction & Materials	20966	14.3	2.6	-9
BAE Systems	BA.	Industrial Goods & Services	20015	14.5	3.6	5
Rolls-Royce	RR.	Industrial Goods & Services	19028	71.8	1.2	10
Aviva	AV.	Insurance	19008	8.4	6.3	-7
Associated British Foods	ABF	Food & Beverage	18327	17.3	1.9	-27
Experian	EXPN	Industrial Goods & Services	17395	23.4	1.9	24
WPP	WPP	Media	16207	10.6	4.9	-22
London Stock Exchange	LSE	Financial Services	15287	25.0	1.4	14
Legal & General	LGEN	Insurance	15219	9.0	6.4	-5
Ferguson	FERG	Industrial Goods & Services	14187	18.1	2.1	31
International Consolidated Airlines	IAG	Travel & Leisure	13896	6.6	4.0	7
SSE	SSE	Utilities	12860	11.0	7.8	-11
Smith & Nephew	SN.	Healthcare	11981	18.4	2.0	-1
Ashtead	AHT	Industrial Goods & Services	11357	14.1	1.6	46
Melrose Industries	MRO	Construction & Materials	10603	19.4	2.1	-8
Hargreaves Lansdown	HL.	Financial Services	10241	36.6	2.2	57
Informa	INF	Media	9665	16.4	2.6	12
Coca-Cola HBC	CCH	Food & Beverage	9638	21.5	2.1	2
Standard Life Aberdeen	SLA	Financial Services	9388	13.6	7.0	-26
Burberry	BRBY	Personal & Household Goods	9345	27.8	1.9	27
InterContinental Hotels	IHG	Travel & Leisure	9018	20.4	2.1	18
3i	III	Financial Services	9013	7.4	3.4	-3



THE COMPLETE FTSE 100: NUMBERS 51 TO 75

Company	EPIC	Supersector	Market cap (£m)	Forecast PE	Forecast yield (%)	12 month share price performance (%)
TUI	TUI	Travel & Leisure	8716	13.5	4.4	10
Intertek	ITRK	Industrial Goods & Services	8531	26.8	1.9	9
NMC Health	NMC	Healthcare	8333	34.3	0.5	70
Antofagasta	ANTO	Basic Resources	8294	14.2	2.8	-9
Centrica	CNA	Utilities	8285	11.4	8.3	-28
Schroders	SDR	Financial Services	8280	13.6	3.7	-10
Scottish Mortgage Investment Trust	SMT	Equity/Nonequity Investment Instruments	7891	n/a	n/a	26
Bunzl	BNZL	Industrial Goods & Services	7794	18.6	2.1	0
Next	NXT	Retail	7727	12.7	2.9	28
Persimmon	PSN	Personal & Household Goods	7683	8.9	9.4	-3
Smurfit Kappa	SKG	Industrial Goods & Services	7632	13.2	2.7	38
Mondi	MNDI	Basic Resources	7620	13.1	3.0	3
Sainsbury (J)	SBRY	Retail	7370	15.8	3.2	36
Whitbread	WTB	Travel & Leisure	7303	14.9	2.7	2
Ocado	OCDO	Retail	7225		n/a	249
Sage	SGE	Technology	7174	20.1	2.5	-2
Pearson	PERSON	Media	7171	18.2	2.0	48
Johnson Matthey	JMAT	Chemicals	6940	15.6	2.4	30
Land Securities	LAND	Real Estate	6809	15.7	5.2	-16
Croda International	CRDA	Chemicals	6786	26.7	1.7	35
Fresnillo	FRES	Basic Resources	6770	17.4	2.9	-40
DS Smith	SMDS	Industrial Goods & Services	6708	12.5	3.4	6
Evrast	EVR	Basic Resources	6688	5.3	9.5	87
ITV	ITV	Media	6684	10.6	4.9	-4
Segro	SGRO	Real Estate	6639	29.4	2.8	21



THE COMPLETE FTSE 100: NUMBERS 76 TO 100

Company	EPIC	Supersector	Market cap (£m)	Forecast PE	Forecast yield (%)	12 month share price performance (%)
RSA Insurance	RSA	Insurance	6457	13.2	4.3	-4
GVC	GVC	Travel & Leisure	6339	13.9	3.1	45
Smiths	SMIN	Industrial Goods & Services	6284	17.3	2.8	2
Morrison (Wm) Supermarkets	MRW	Retail	6255	20.0	2.6	6
EasyJet	EZJ	Travel & Leisure	6245	12.9	3.6	17
British Land Co	BLND	Real Estate	6209	17.4	4.9	1
Rentokil Initial	RTO	Industrial Goods & Services	6202	25.9	1.3	14
DCC	DCC	Industrial Goods & Services	6165	18.6	2.0	1
St James's Place	STJ	Insurance	6000	23.5	4.4	-6
Kingfisher	KGF	Retail	5918	10.6	3.8	-6
Admiral	ADM	Insurance	5840	17.5	5.6	-5
Paddy Power Betfair	PPB	Travel & Leisure	5721	17.5	2.9	-7
Taylor Wimpey	TW.	Personal & Household Goods	5556	7.8	9.3	-12
Micro Focus International	MCRO	Technology	5445	7.8	6.8	-43
Barratt Developments	BDEV	Personal & Household Goods	5405	8.0	8.3	-13
Halma	HLMA	Industrial Goods & Services	5332	28.4	1.1	26
Just Eat	JE.	Retail	5328	43.7	0.1	27
United Utilities	UU.	Utilities	5103	14.3	5.4	-18
Marks & Spencer	MKS	Retail	4907	11.1	6.3	-9
Berkeley	BKG	Personal & Household Goods	4903	9.6	5.5	-1
Randgold Resources	RRS	Basic Resources	4742	21.4	4.4	-30
Severn Trent	SVT	Utilities	4726	15.1	4.7	-12
Royal Mail	RMG	Industrial Goods & Services	4635	11.8	5.5	13
Direct Line Insurance	DLG	Insurance	4610	10.7	8.5	-16
Rightmove	RMV	Media	4475	27.4	1.3	20

Source: SharePad. Please note the published yields in these tables are forecasts and that dividends are not guaranteed to be paid.



JUST EAT

AJ Bell Awards 2018

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 First State Investments, 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.

S P O N S O R E D B Y



Why do so many investors love Fundsmith?

The fund has been a blockbuster hit since launching eight years ago

Every now and then a fund comes along that captures investors' imaginations and Fundsmith's flagship product is arguably one of the few funds to have sprung out of nowhere to become one of the most popular holdings among UK investors in a short period of time.

Terry Smith launched his **Fundsmith Equity (B41YBW7)** fund eight years ago and today investors can't get enough of it.

The veteran investor started his career in the City at Barclays Bank in 1974 where he spent a year before becoming a stockbroker, later moving on to UBS, where he was dismissed after two years following the publication of his book *Accounting for Growth*.

He later gained notoriety for his role in the acquisition and later demerger of Prebon Group, latterly known as Tullett Prebon. And, finally, 36 years after starting his career, he launched his own fund.

SIMPLE PHILOSOPHY

Fundsmith seemed immediately determined to shake up the funds industry. It issued investors with an owner's manual, promising to invest in a select number of high-quality businesses and then do nothing, for a simple 1% annual fee.

It was not – and still isn't – a particularly cheap fee, but it was a simple philosophy that quickly



Fundsmith has a stake in Amadeus, an IT provider for the travel industry

FUNDSMITH: TOP HOLDINGS

Amadeus
Paypal
Microsoft
Idexx
Philip Morris
Facebook
Novo Nordisk
Waters
Pepsico
Becton Dickinson
Source: Fundsmith

proved to work. Within a year, the fund had amassed £208m of assets and had returned 9.5%.

After five years, assets had rocketed to £4.3bn and the fund had more than doubled investors' money, with a return of 125.9%. Today, the fund stands at an incredible £16.2bn. It has returned 296.8% since inception, according to the latest factsheet.

STRONG PERFORMANCE

Fundsmith is a top performer within the global sector over all time periods and consistently tops most-bought and top buy lists. So, what is it about this fund that appeals so strongly to investors?

FUNDSMITH SECTOR SPLIT

Technology	35.0%
Healthcare	25.4%
Consumer Staples	25.0%
Industrials	9.3%
Consumer Discretionary	3.6%
Cash	1.6%
Source: Fundsmith	

Brian Dennehy, director at independent financial adviser Dennehy, Weller & Co, says: 'The key with Fundsmith Equity attracting money is easy enough: performance. Not only is it the second-best performer in a competitive and eclectic sector since launch, but it has been remarkably consistent.'

He points out that in each six months period since launch, the fund has been in the top quintile 73% of the time. Just one fund has delivered a higher return since its inception, and that is **Baillie Gifford Global Discovery (0605933)**, which is up 318%.

Patrick Thomas, investment manager at investment bank Canaccord Genuity, says: 'Fundsmith remains one of the first additions to any new portfolio precisely because of the clear philosophy and behavioural discipline displayed over time. It is not easy to buy and hold good companies and most managers mess it up.'

CONCENTRATION RISK

Based on its track record,

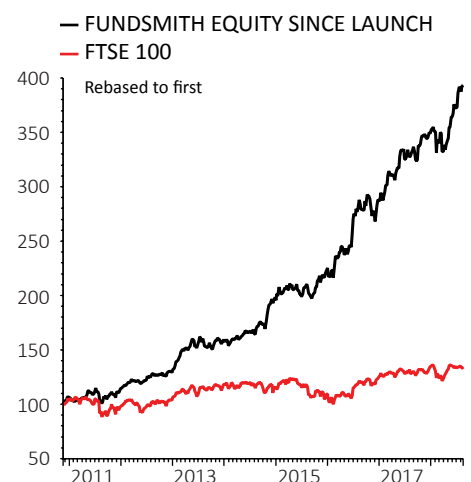


investing in the fund seems like a no-brainer. But it is not without risk.

The portfolio is ultra-concentrated, with just 27 holdings, many of which have been there since launch. The top 10 investments account for more than 50% of its considerable assets.

Almost two thirds of the portfolio is in US firms and 35% is in tech companies. The largest holdings include Paypal, Facebook and PepsiCo. These biases help to explain the strong performance – such growth stocks have led the way in global stock markets for a number of years. But there is no guarantee this trend will continue. If tech stocks fall out of favour, Fundsmith's performance could take a turn for the worse.

Dennehy adds: 'The risks of the fund are obvious: the US exposure, technology exposure and concentration risk. Arguably, the US stock market has never been more expensive in its history and investors should be wary of picking up pennies in front of a steam roller from this point.'



This isn't just an issue for Fundsmith, though. A number of funds in the Global sector have a bias towards the US and technology including offerings from Baillie Gifford, Janus Henderson and Rathbones.

“
I met
one investor
who had his
entire pension
in Fundsmith
”

Pre-emptively selling a fund because you fear its asset allocation may be wrong for the future is a tricky game – investors must reconcile with the risk of missing out on gains before the tide turns.

DON'T MAKE IT YOUR ONLY INVESTMENT

For most investors, diversification is the key. Holding specialist funds, which have a particular style, or regional or sectoral bias, is perfectly fine as long as you have core holdings which are well spread to help balance that exposure.

Alistair Cunningham, director at Wingate Financial Planning, says: 'Some investors seem to be inured to the risk that sits behind this kind of highly focused funds. I met one investor



Another big holding in the fund is tobacco group Philip Morris

FUNDSMITH PERFORMANCE

	FUND	BENCHMARK
3 YEARS ANNUALISED	24.41%	16.71%
5 YEARS ANNUALISED	21.36%	13.82%

Source: Morningstar 16 Aug 2018. Benchmark = MSCI World NR USD

who had his entire pension in Fundsmith. I'm aware the manager is well respected but a 100% investment in such a concentrated fund is unlikely to be appropriate for most people.'

Terry Smith, founder of Fundsmith, says: 'I would like to think it is our simple approach to communicating

with investors allied with our simple investment approach [which has captured investors' attention], but I am sure that delivering 300% growth since we launched the fund has also captured attention.' (HB)

Disclaimer: Editor Daniel Coatsworth has a personal investment in Fundsmith Equity.

Summer flood of capital into investment trusts

We look at the latests IPOs and existing trusts raising new money

It wasn't just the weather that was hot in July 2018 – according to data from Winterflood it was also the strongest month for investment trust fundraising so far in 2018 with nearly £1bn raised across the sector.

More than half of this amount related to new investment trusts joining the stock market with the remainder coming from existing investment trusts raising more money.

The latter includes **Greencoat Renewables (GRP)** which raised €111m at a 4% premium to net asset value through an oversubscribed placing. **The Renewables Infrastructure Group (TRIG)** raised £64m in July and **Foresight Solar Fund (FSFL)** raised £48m, among others.

The three investment trust IPOs (initial public offerings) in July were European logistics play **Tritax Eurobox (EBOX)** which raised £300m, music intellectual property investor **Hipgnosis Songs Fund (SONG)** banking £202m and **Ashoka India Equity (AIE)** which attracted a more modest £46m to invest in a concentrated portfolio of Indian stocks.

In this article we will examine each of these new floats in more detail to help you get acquainted with the newest names in the investment trust space.

TRITAX EUROBOX (EBOX)
104.2p

AT A GLANCE
Premium to net asset value: 3.1%

Assets: £339.1m

Launch date: 9 July 2018

Source: AIC

Tritax already runs the £2.2bn **Tritax Big Box REIT (BBOX)** which has been a big success story since its own launch nearly five years ago. Investing in big warehousing facilities in the UK, it has benefited from increased demand for this type of asset created by the ongoing shift to online shopping.

Web-based retailers need plenty of warehouse space from which to sort and distribute products. This opportunity

is arguably less mature in continental Europe. According to a study by the Centre for Retail Research the average online share of total retail sales in European countries surveyed was 8.8% in 2017, around half the 17.8% share in the UK.

Unsurprisingly, given the previous success of the Big Box vehicle, there was strong demand for the Eurobox offer which was heavily oversubscribed. The money will be invested in a €1.8bn pipeline of logistics properties – with Tritax in active negotiations to purchase assets worth more than €0.6bn.

The trust will target an initial dividend yield of 4.75%, to be paid quarterly in sterling, and a total return in the medium-term of 9% a year. Operating in a similar space, **Aberdeen Standard European Logistics Income (ASLI)** raised £187.5m in an IPO last December.



HIPGNOSIS SONGS FUND (SONG)

105.75p

AT A GLANCE

Premium to net asset
value: 7.9%

Assets: £198.1m

Launch date: 11 July 2018

Source: AIC

We looked at this trust in more detail in the 5 July issue of *Shares*. The company is targeting returns by licensing a catalogue of songs from high profile artists.

Whenever a song from this catalogue is 'made' in physical or digital form, streamed or played on TV or radio the investment trust can book revenue as it will receive a royalty cheque.

The aim is to deliver 10% or more in total net asset value (NAV) returns a year with a 5% yield in time.



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

Among the risks investors need to weigh is the current dominance of the music streaming space by Spotify. This leading position could allow it to exert downward pressure on royalties and undermine the returns Hipgnosis is able to achieve.

For now, the market seems excited about the story with its £200m IPO coming in oversubscribed – although it must be noted that the trust tried and failed many times last year to float with investors unhappy about its fee structure which has since been revised down – so has its dividend target which was previously 6.5%.

ASHOKA INDIA EQUITY (AIE)

103.25P

AT A GLANCE

Premium to net asset
value: 0.1%

Assets: £47.1m

Launch date: 6 July 2018

Source: AIC

The launch of this trust during a period of emerging markets volatility was reflected in a fundraise of just £46m compared with a target of up to £200m.

The funds will be managed by Prashant Khemka, an alumni of investment banking giant Goldman Sachs.

Ashoka joins the existing trio of Indian investment trusts – **Aberdeen New India (ANII)**, **India Capital Growth (IGC)** and **JPMorgan India (JII)** – all of which trade at significant discounts to net asset value.

Khemka and his team will be based in Mumbai and will look to execute on an opportunity created by strong economic growth, an attractive demographic profile and rising domestic consumption. The plan is to run a concentrated portfolio, benefiting from the fact that many firms on the Indian stock market are under-researched.

The trust will have no annual management fee and will instead charge a performance fee if it grows net asset value faster than the MSCI India IMI index in sterling terms over the medium-term. (TS)

NEW JAPANESE VALUE TRUST

Coming soon

Asset Value Investors – the brains behind **British Empire Trust (BTEM)** – wants to raise £100m or more to invest in small to mid-cap Japanese stocks to be held in a new investment trust. AVI Japan Opportunity could appear on the market in October, according to reports.



Why markets may feel queasy when faced by a rising greenback

Three reasons why a strong US dollar could impact investors

While UK-based investors will be well aware of how weak the pound is against the US dollar, languishing at a 14-month low around \$1.28, sterling is not the only currency whose decline against the greenback is gathering pace.

The DXY index, nicknamed ‘Dixie’ by foreign exchange traders, measures the value of the dollar against six major currencies. It stands at its highest level since June 2017 and investors need to keep a close eye on this situation.

Whether it is cause or effect may be a matter of debate. Yet periods of marked dollar strength have in the past seen chaos in emerging markets in particular – something which is relevant today with the Turkish crisis in mind – but also weakness in developed market stocks and commodity prices for good measure.

THE DOLLAR INDEX, OR ‘DIXIE,’ IS MOVING HIGHER



Source: Thomson Reuters Datastream, Bank of England

The big question now is whether the run in the DXY index – and thus the dollar against a basket comprising the euro, the yen, sterling, the Canadian dollar, Swedish krona and Swiss franc – is paving the way for a third major advance in the US currency since the so-called ‘Nixon shock’ and

America’s withdrawal from the gold standard and Bretton Woods in 1971, following bull runs in the buck during 1971-1979 and 1985-1995.

GREENBACK GRINCH

If so, this is something investors would need to ponder for three reasons.

1. Emerging stock markets

These have been particularly sensitive in the past to the greenback, falling when the buck bounces and gaining when it rolls over. Dollar strength preceded the 1982 Mexican debt crisis, 1994’s so-called ‘Tequila crisis’ (also in Mexico), the Asia and Russian debt and currency collapses of 1997-98, and also heralded a period of deep emerging market equity underperformance relative to developed arenas in the first half of this decade.

DOLLAR STRENGTH HAS TRADITIONALLY ACCOMPANIED EMERGING STOCK MARKET WEAKNESS



Source: Thomson Reuters Datastream

Emerging market investors run currency risk, as well as stock-specific risk. The old joke about emerging markets being called that because you cannot emerge from them unscathed when something goes wrong is unlikely to put too many smiles on faces right now.

Weakness in 2018 in the Argentine peso, South African rand, Russian rouble, Indonesia rupiah, the Mexican peso and Indian rupee can be explained away on a case-by-case basis, due to local political or economic developments, and the same applies to Turkey.

But concerns over current account or budget deficits (or both) and a reliance on overseas (dollar-priced) funding to some degree links all of these currencies and Turkey's particular mix of political and trade tensions with America leaves it right in the firing line.

The higher the dollar goes, the harder it is for these countries to fund their imports and pay interest on their dollar-priced debts, hitting growth and denting investor confidence in assets priced in their local currencies.

How serious the situation becomes will largely depend on the country's economic policy response. Argentina is getting little thanks for the orthodoxy of its response, as the Macri administration turns to the International Monetary Fund and the peso continues to plunge, but Turkey's refusal to raise interest rates and cut spending is putting even greater pressure on the lira.

According to data from the Bank of International Settlements, emerging markets represent one third of all non-bank borrowing outside the US that is priced in dollars, with liabilities of nearly \$4 trillion.

It won't take a big fall in their own currencies against the American one to make servicing those debts much more expensive, to the potential detriment of government and corporate cash flow, and thus economic growth, since interest payments will take precedence over investment (unless the borrowers decide to default or devalue or both).



2. Developed stock markets and global risk appetite more generally may be affected

A dash out of emerging markets and into developed ones could also be a harbinger of a shift in risk appetite and this would be a marked change after a near-10 year bull run in almost any asset class you can think of (barring perhaps precious metals).

It is also worth noting that global stocks eventually came a cropper in 2000 after sustained dollar gains, thrived on the weakness of 2002-07 and then plunged again as the buck briefly soared in 2007-09.

All of this makes the broad stock market advances forged this decade appear like an interesting outlier, although a rising dollar did not immediately interfere with the bull market of the late 1990s.

3. Commodities

These also have tended to do better during periods of dollar weakness and less well during periods of greenback gains. This is because most raw materials, with the exception of cocoa, are priced in dollars.

If the dollar goes up then the product becomes more expensive to buy in local currency terms, potentially dampening demand.

COMMODITIES DO NOT SEEM TO LIKE A STRONG DOLLAR EITHER



Source: Thomson Reuters Datastream

In this context, summer's weakness in copper and iron ore is eye-catching, as both can be seen as good proxies for global economic activity, due to copper's use in cars, construction and a whole range of industries and iron ore's importance in the steel-making process.

Russ Mould, Investment Director, AJ Bell

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Geared for growth: how to use 'gearing' as a debt check tool

Learn the advantages of this straightforward metric

When most people think about debt they usually see it as something to avoid. Personal loans, credit cards bills and often hefty interest charges will typically spring to mind.

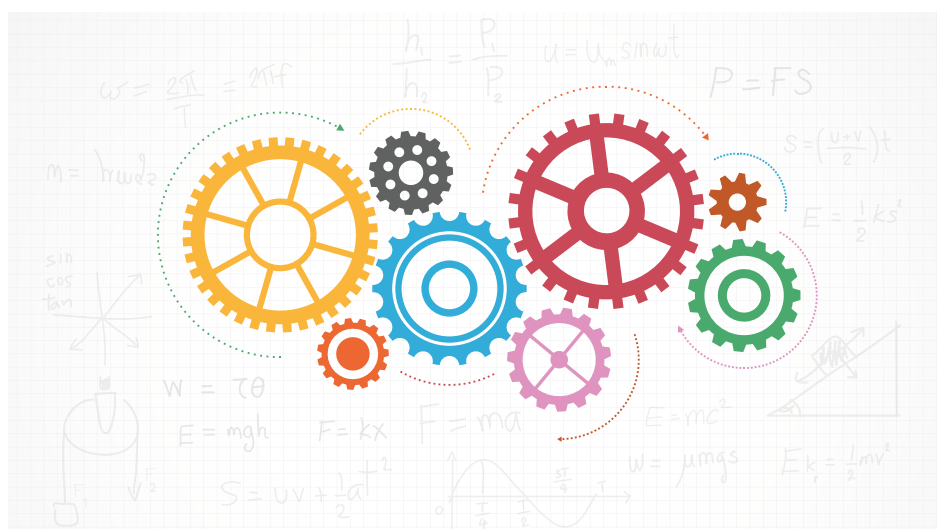
It is often the same with investors. Companies with large debts have a nasty habit of coming a cropper, as Carillion demonstrated earlier this year.

But to grow a business to the benefit of its shareholders debt comes in very handy, and is often absolutely necessary. The trick is for a company to manage its borrowings smartly, and investors can judge this by monitoring 'gearing', or in other words, how much debt it is carrying relative to its equity.

DEBT TO EQUITY RATIO

In simple terms, the debt to equity ratio tells investors how much debt is being used to run the business, or how much debt the company has for every pound of equity shareholders own.

Calculating a company's debt to equity ratio, or gearing, is straightforward enough. Take a company's total liabilities (what it owes third parties) and divide it by equity. Equity is usually referred to as 'Shareholders' funds' on a balance sheet, and it tallies perfectly with the



company's net assets, which is what's left of assets after debts have been taken off.

The formula looks like this:

DEBT TO EQUITY FORMULA

$$\text{Debt to equity ratio} = \frac{\text{total liabilities}}{\text{shareholders' funds}}$$

Before we go on, let's have a quick look at the important bits of a balance sheet. They contain three parts: assets, liabilities and equity.

BOTH SIDES OF THE BALANCE SHEET

Assets and liabilities come in two flavours: short-term, usually to be repaid in less than a year (current assets/liabilities as accountants call them) and longer-term which is money due in more than a year's time (non-current in number crunching jargon).

Current assets include cash and anything else that can be quickly turned into cash, items like stock for sale or financial instruments perhaps used to hedge against currency movements.

Longer-run assets include property and machinery plus goodwill. Goodwill can be virtually anything that is difficult to value, areas like strong customer relationships, well developed supplier networks or the value

of a trading brand.

Current liabilities may include short-term loans, goods and services received but not yet paid for, and sometimes upcoming dividends.

Similarly, non-current liabilities are borrowings that needn't be repaid within the next 12 months plus other future payments, perhaps predicted pension contributions or tax bills.

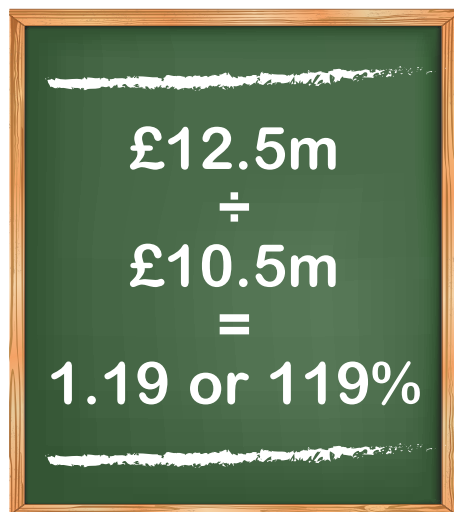
SHAREHOLDER'S FUNDS, OR EQUITY

Shareholder's funds are basically everything else that does not fall into the assets or liabilities buckets. This is effectively what shareholders own.

Typical items include accumulated profits over the years and the money put into the company by investors, shown as issued share capital and the share premium account, although there may also be various reserves as well.

Let's use the previous equation and fill it in with some values.

Say a company in which you own shares has liabilities of £12.5m (in other words owes £12.5m) and has shareholder's



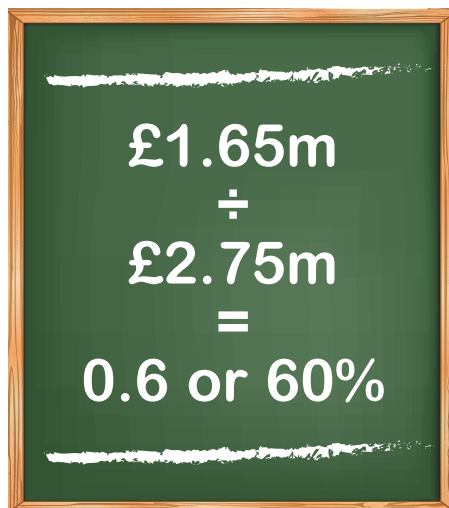
$$\begin{array}{r} £12.5m \\ \div \\ £10.5m \\ = \\ 1.19 \text{ or } 119\% \end{array}$$

funds of £10.5m.

So the debt to equity ratio here would be 1.19. When analysts or investors talk about gearing it is this same equation but expressed as a percentage, or 119% in this example.

Let's use some different values, say £1.65m of debt versus £2.75m of equity.

In this example the debt to equity ratio comes out at 0.6, while gearing stands at 60%.



$$\begin{array}{r} £1.65m \\ \div \\ £2.75m \\ = \\ 0.6 \text{ or } 60\% \end{array}$$

NO CATCH ALL RULE

There is no hard and fast rule about how much debt any single company should carry as it depends on a multitude of factors. More debt might imply expansion, the development of new product lines or a very reliable cash flow stream from customers – energy companies are good examples of the latter.

Lower levels of debt might equally mean that a management team is being too cautious or is becoming increasingly nervous about the future. Zero debt and lots of cash on the balance sheet, while seemingly very conservative, could see a company targeted by

a takeover predator.

While individual company debt needs to be assessed on its own terms there is a rough rule of thumb for gearing. Lower than 50% is widely considered comfortable, more than 50% is aggressive, higher than 75% is excessive.

BUYING A HOUSE

To understand why let's put this into consumer terms – a mortgage. Say you buy a house for £200,000. You put down a £20,000 deposit and borrow £180,000. If house prices rise by 10% your place is now worth £220,000.

But your debt is still £180,000 so your equity is now worth £40,000. On a 10% capital increase your equity has doubled.

Sounds great, but this 'leverage' also works in reverse. Spin that example round by saying house prices drop 10%, it would completely wipe out your equity.

There are other implications too. If you get severely financially stretched to the point of having to sell your house the implications are even worse since you'd be crystallising the loss of equity. And if house price declines were steeper than 10%, such as by 15% – you'd be left still owing £10,000 to the bank even after the house is sold.

The lesson is clear; debt can be a very useful tool in business and creating value for all shareholders. But TNT is useful for demolition and some types of mining, but you wouldn't be flippant with sticks of dynamite. (SF)

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Mark Child, Chairman & CEO

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Bernard Aylward, CEO

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How have Lifetime Isa investors fared in their first year?

We look at some of the most popular products in LISAs and how they've performed

It's a year since AJ Bell launched its version of the Lifetime ISA, a few months after the newest form of the ISA was launched in April 2017.

Since then around 8,000 individuals have signed up to the YouInvest Lifetime ISA, one of the few investment platforms that allows unrestricted investment within the ISA. See the box (overleaf) for the basics of the Lifetime ISA account and how it works.

But how have investors fared in that first year?

FIRST YEAR CHECK

Of the top 100 investments made by AJ Bell Lifetime ISA customers in their first year 48% are passive funds – either tracking one index or multi-asset funds using passives. AJ Bell's in-house passive funds take many of the top spots, as do Vanguard's ever-popular range of LifeStrategy multi-asset funds.

Lifetime ISA investors opting for funds spread their risk by plumping for global stock market funds, rather than placing their bets on one region. Of the top 10 funds, half have a global focus. The only exception to this is Japanese funds, which make up three of the top 10 funds, in addition to **Jupiter Asian Income (BZ2YMTY)** fund, which invests in



Funds	Returns over the past year
Fundsmith Equity Fund	19.9%
Lindsell Train Global Equity	24.4%
Polar Capital Global Technology	30.1%
Legg Mason Japan Equity	26.1%
Baillie Gifford Global Alpha Growth	16.5%
Baillie Gifford Japanese	12.0%
Standard Life Global Smaller Companies	21.9%
Baillie Gifford Japanese Smaller Companies	29.8%
Jupiter Asian Income	2.6%
Old Mutual UK Smaller Companies	9.2%
MSCI All World	12.3%
FTSE 100	6.1%
Source: FE/AJ Bell. Data to 06/08/18	

Asian companies excluding Japan.

Investment trusts make up just 12% of the top 100 list, with investors preferring to use funds over trusts. Where Lifetime ISA investors have picked trusts, they have broadly opted for trusts with proven track records that have been running for decades, as popular trusts include **Scottish Mortgage (SMT)**, **Finsbury Growth & Income (FGT)** and **City of London (CTY)**.

The only anomaly is **Woodford Patient Capital (WPCT)**, which only launched in 2015 and made the list of most bought trusts, despite its share price plummeting by 20% in the past year.

A portfolio evenly split between the top 10 investments would have returned £793 in the past year, on the maximum £4,000 annual Lifetime ISA contribution plus the £1,000 Government bonus. That's significantly ahead of the £305 return you'd have got from investing in the FTSE 100



over the past year and also ahead of the £615 return from the MSCI All World index.

THE FUNDS

Lifetime ISA customers have been savvy when it comes to picking funds, with all but one exceeding the returns from the FTSE 100 over the past year.

Perennially popular names such as Terry Smith's **Fundsmith Equity (B41YBW7)** and Nick Train's **Lindsell Train Global Equity (B3NS4D2)** made the top 10 list, as investors look for managers who have proven their worth over decades.



Investors' focus on Japan as a region has paid off over the past year, with **Baillie Gifford Japanese Smaller Companies (0601492)** returning almost 30% and **Legg Mason Japan Equity (3350746)** returning 26%, while Baillie Gifford Japanese handed investors a 12% return.

Jason Pidcock's Jupiter Asian Income fund has fared less well, and is the worst performer of the top 10 funds, delivering just 2.6% over the year. However, one year is not a long time period to invest nor judge the performance of a fund.

THE PASSIVES

Lifetime ISA investors will often be investing for the first time, so it makes sense that the Vanguard LifeStrategy range of low-cost multi-asset funds feature heavily in the top 10 list.

These funds are intended as a one-stop-shop and take the decisions about how much money to allocate to different regions and sectors out of investors' hands. They invest in a range of underlying passive funds, spreading the investments across different asset classes. The funds differ in how much they have allocated to the stock market, with the funds with the higher allocations proving most popular for Lifetime ISA customers.

Passives	Returns over the past year
Vanguard LifeStrategy 80%	8.5%
Vanguard LifeStrategy 100%	10.6%
Fidelity Index World	13.2%
Vanguard LifeStrategy 60%	6.4%
Vanguard FTSE All World Ucits ETF	11.4%
Vanguard LifeStrategy 40%	4.2%
iShares UK Equity Index	6.3%
Vanguard S&P 500 Ucits ETF	18.0%
iShares S&P 500 Ucits ETF	17.9%
Vanguard FTSE 250 Ucits ETF	6.0%
MSCI All World	12.3%
FTSE 100	6.1%
Source: FE/AJ Bell. Excluding AJ Bell's own funds. Data to 06/08/18	

HOW DOES THE LIFETIME ISA WORK?

Investors can use the Lifetime ISA to either save for a house deposit or for retirement. The money can only be used to buy your first home or at the age of 60 to help fund your retirement. Any withdrawals for any other reason, other than if you're terminally ill, will incur a 25% exit charge.

Savers can put up to £4,000 into the Lifetime ISA each year, which is topped up by a 25% Government bonus - to a maximum of £1,000 each year. If you are using it to buy a property, you must be a first-time buyer, the home must cost £450,000 or less and it must be for you to live in (so not a buy-to-let property).

To open a Lifetime ISA you must be between the ages of

18 and 40, and you can carry on paying into the ISA (and getting the Government bonus) until you reach 50. This means if you started at 18 and put the maximum away each year, you could amass around £400,000 by age 50, assuming 5% investment growth after fees. This would rise to almost £660,000 by the age of 60, assuming the same annual growth and no further contributions.

The popularity of these funds, as well as AJ Bell's similar in-house funds, is also likely a result of the fact that Lifetime ISA investors will not have large wealth amassed in these accounts yet.

Elsewhere, investors focused on developed markets, opting for trackers of the main UK and US indices, or of global markets. For those getting into investing for the first time, tracker funds can be an easy-to-understand entry point to help them build

confidence with markets. They also present a low-cost option for investors conscious of the amount fees will eat into their ultimate returns.

THE INVESTMENT TRUSTS

Investment trusts only represent a small proportion of Lifetime ISA's portfolios. This is a trend we see across many investors, who plump for funds over trusts, but is also understandable as first-time investors may find investment

trusts harder to understand.

Among the 12 trust selections two have failed to match the returns of the FTSE 100 index over the past year. Neil Woodford's Woodford Patient Capital Trust woes have been well documented, with shares in the trust falling in value by more than 20% over the past year, thanks to several underperforming investments in this early-stage investing fund.

City of London trust, run by Job Curtis at Janus Henderson, also disappointed over the past 12 months, delivering a 4% return in a year where the FTSE 100 returned 6.1%.

However, stellar performance has been delivered by the trusts focusing more on technology companies, such as **Allianz Technology (ATT)** and Baillie Gifford-run **Scottish Mortgage**, delivering 48.9% and 30% respectively. Meanwhile, **Edinburgh Worldwide (EWI)**, which is also run by Baillie Gifford and invests in early-stage companies, including a number of technology firms, has returned 44% in the year.

Laura Suter, personal finance analyst, AJ Bell

Investment trusts	Returns over the past year
Scottish Mortgage	30.0%
Finsbury Growth & Income	14.4%
City of London	4.0%
Woodford Patient Capital	-20.4%
Edinburgh Worldwide	44.3%
Source: AJ Bell	



Investing in the future needn't be rocket science

But it could be. From space travel, to property, to Emerging Markets, the **AJ Bell Global Growth fund** makes investing for growth easy.

With a 0.5% capped annual charge and no custody charge until January 2019, the costs aren't out of this world either.

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How to avoid becoming the next pension fraud victim

Three ways to spot fraudsters and avoid falling into their trap

Fans of *Emmerdale* might have recently noticed a slightly different advert during the break.

Sandwiched between the usual messages about state-of-the art 4x4s and life-changing coffee granules was a minute-long clip from The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) on pension scams.

The advert splices footage of a fraudster jet skiing with his victim, who struggles to hold back tears as he explains how his entire pension was stolen by this slick, seemingly professional 'adviser'.

You should expect to see more publicity around scams over the coming months as policymakers recognise the ban on pensions cold-calling – due to be in place in the Autumn – will only go part of the way to stemming the flow of money out of retirement pots and into the hands of unscrupulous fraudsters.

Indeed, while unsolicited calls are a big part of the problem, the internet and social media provide fertile ground for scammers to market their bogus schemes.

The statistics associated with pension fraud are striking. According to the FCA, retirement scam victims lose a staggering £91,000 on average each, while City of London Police have recorded almost £400m in investment



fraud losses since April 2016.

The pension freedoms have essentially placed a big fat target on the backs of those close to or over 55. And with scammers' tactics becoming ever-more sophisticated, it's more important than ever you do your due diligence before investing your hard-earned retirement fund.

WAYS TO PROTECT YOURSELF

Here are some simple tips you can follow to protect yourself from becoming a pension scam victim.

Firstly, be extremely wary of any investment 'opportunities' that come out of the blue – for example through a cold-call – or people claiming to be 'advisers' offering a 'free pension review'. Professional advice is never free and so following the old maxim 'if it sounds too good to be true, it probably is' is a sensible approach.

Secondly, make sure you know who you are dealing with. After all, your pension could be the most valuable asset you own, so don't hand it over to someone unless you know their credentials check out.

Slick fraudsters will sometimes pretend to be a bona fide company when in fact they are nothing of the sort, so have a look at the FCA register to see if the firm you are dealing with actually exists.

Thirdly, don't be rushed or pressured – such tactics should set off a big red warning light in your mind and are often indicative of a scam.

And finally, if you're at all unsure speak to a qualified, regulated financial adviser. You will need to pay for this but usually the benefit far outweighs the cost.

Tom Selby, senior analyst, AJ Bell

KEY

• Main Market

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

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KEY ANNOUNCEMENTS OVER THE NEXT SEVEN DAYS

Final results

30 Aug: Hays.

Half year results

24 Aug: Henry Boot, Computacenter. 28 Aug: Bunzl, James Fisher & Sons, The Gym Group. 30 Aug: Amigo, Eddie Stobart Logistics.

Trading statements

30 Aug: WH Smith.

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