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SHARES

WE MAKE INVESTING EASIER

LEARNING TO INVEST

EVERYTHING YOU NEED TO KNOW ABOUT MAKING MONEY FROM THE MARKETS

ACTIVIST INVESTORS WHO COULD BE TARGETED NEXT AS WHITBREAD SELLS COSTA?

GOLD: *WHY IT IS FAILING TO SHINE*

What does an unchanged FTSE 100 tell us about the market

Review likely to leave flagship index unchanged for first time since 2006

As we went to press it was looking increasingly likely that the latest FTSE reshuffle would see no changes to the FTSE 100 for the first time in more than a decade.

These reshuffles can be significant and not just for the prestige associated with membership of the UK's flagship index. It can also affect the flow of money into a stock, as, when it enters the FTSE 100, funds which track the index are compelled to buy.

We discussed in our 23 August issue, which focused on the FTSE 100, how these quarterly reviews of index membership work. As a brief reminder, companies qualify if they rank among the top 90 UK listed firms by market value and are eliminated if they fall to position 111 or below on the night before the review takes place – in this case close on 4 September.

At the time of writing, the lowest ranked FTSE 100 company was property listings site **Rightmove (RMV)** but it was still materially above the cut-off point for automatic demotion.

STABILITY OR STERILITY

Whether the fact the FTSE 100 will remain the same for two consecutive quarters for the first time since 2006 is a sign of welcome stability or sterility is open to question.

Since the last reshuffle was determined at the end of May, the FTSE 100 has drifted, trading close to the 7,800 mark in early August but now just barely above 7,500.

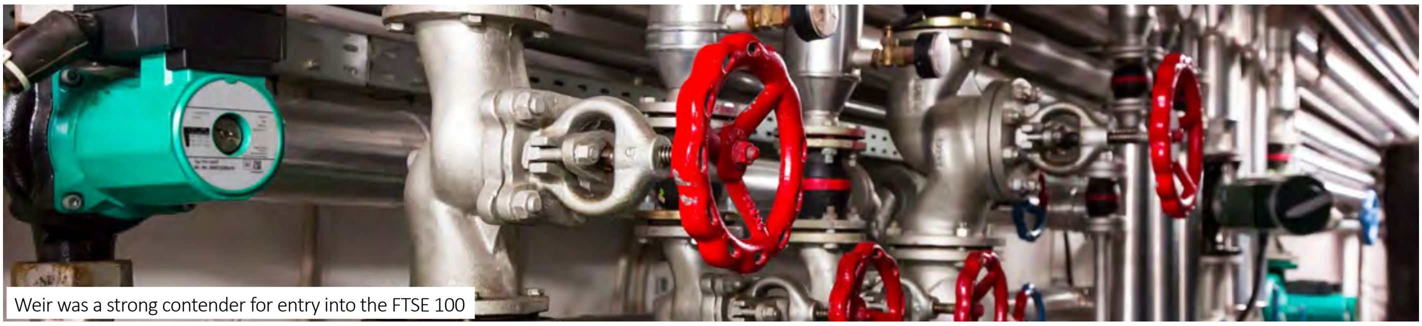
It also implies mid caps are lacking the momentum to break into the top echelons of the market. This would fit neatly into a narrative of the FTSE 250, the pool from which future FTSE 100 firms are drawn, being negatively impacted by Brexit uncertainty due to a domestic bias.

In the last ten years the FTSE 250 is up 121% vs the FTSE 100 up 36.4%

However, as we discussed in our follow-up to the FTSE 100 feature last week, which looked at the FTSE 250 in detail, many of its constituents have international horizons.

The two companies which were knocking hardest on the door of the blue chip index, oil services firm **Wood Group (WG.)** and industrial pumps specialist **Weir (WEIR)** are both truly global businesses.

In the long-term there are still reasons to believe the FTSE 250 can continue its historically strong performance. Mid caps occupy a very healthy position. They are neither too small, and thereby lacking the scale required for a successful business, or too big and mature to generate meaningful growth.



Weir was a strong contender for entry into the FTSE 100

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Who could be the next to buckle under the influence of activists?

The swift sale of Whitbread's Costa Coffee highlights the impact these investors can have

The surprise sale of **Whitbread's (WTB)** Costa Coffee business to Coca-Cola for £3.9bn on 31 August is sparking a debate over who could be next to buckle under the influence of activist investors.

For the activist funds with stakes in Whitbread, Sachem Head and Elliott, the deal is a victory, helping to achieve their aim of generating more value by splitting up the Costa Coffee business from Premier Inn.

A planned demerger was expected to take up until April 2020, but the process has effectively been accelerated by a generous offer from Coca-Cola for Costa.

Whitbread is not the only company that has been targeted as **Barclays (BARC)**, **Smith & Nephew (SN.)**, **Premier Foods (PFD)** and **De La Rue (DLAR)** also have activists on their share register.

'Firms where share price performance has been weak, operational performance sub-optimal relative to peers or the business structure is complex could come under greater scrutiny,' comments AJ Bell investment director Russ Mould.

DE LA RUE UNDER PRESSURE

Banknote manufacturer De La Rue is under significant pressure from investment trust Crystal Amber, which believes the company is vulnerable to a takeover.

Over the last year, shares in De La Rue have drifted 26% lower to 472p following a profit warning and its failure to win the UK's post-Brexit passport contract.

It has been a difficult year for Premier Foods and chief executive Gavin Darby narrowly managed to keep his job following pressure from hedge fund Oasis Management to speed up turnaround plans.

One of the solutions being touted is to sell the Batchelors noodles brand.

Despite a volatile ride, shares in Premier Foods have barely moved at 41.8p since September 2017.

WHO COULD BE NEXT?

Mould believes other well-known names could be in activist's cross hairs, flagging shopping centres owner **Intu Properties (INTU)** and pet products retailer **Pets at Home (PETS)**.

Both companies have struggled with sharp share price declines.

Intu's merger with rival **Hammerson (HMSO)** was abandoned earlier this year amid investor unrest from the latter, while a challenging retailer property market has weighed on performance.

Pets at Home is working to fix its business after competition concerns and weak consumer confidence have dragged its share price close to an all-time low at 115.2p (3 Sep).

B&Q owner **Kingfisher (KGF)** is another possible target as its turnaround plan has yet to make its mark half way into its five year duration. (LMJ)

P2P platform Funding Circle prepares to float

Upcoming IPO will hope to do better than their US counterparts

Peer-to-peer lender **Funding Circle** intends to list on the London Stock Exchange. It is hoping to raise £300m as it targets a £1.7bn valuation, but how safe are these platforms as investments?

Neil Faulkner, managing director of peer-to-peer lender 4thWay, notes some fund managers have already got burned from investing in these type of companies. One fund manager says he stays away from these assets as they are hit quickly at the first hint of weakness in the economy.

A glance across the pond to previous IPOs in this space should sound a cautionary tone. Both LendingClub and On Deck are both now trading well below their IPO prices and there are already some warning signs with Funding Circle.

Free cash flow is negative £24.2m although this reflects the fact the company is ploughing lots of cash into marketing. Also given the company's revenue for 2017 was almost £100m, the market cap suggests a multiple of 17-times trailing revenue which is high and assumes great growth.

As Faulkner, says rather ominously, 'most peer-to-peer lending platforms themselves have not yet been tested in a downturn'.

Funding Circle revenue	Year
£32m	2015
£50.9m	2016
£94.5m	2017
£126m	2018*

*2018 revenue based on first half revenue

Shock CEO departure leaves questions lingering for Sage investors

Stephen Kelly's exit suggests software firm in need of a shake-up

THE UK'S LARGEST listed software business **Sage (SGE)** has surprisingly parted company with its chief executive Stephen Kelly (3 Sep) in a move that left investors shocked.

Kelly joined Sage four years ago and has overseen a major overhaul at the FTSE 100 accounting and enterprise software company, including building a far more substantial cloud business.

George O'Connor, an analyst at broker Stifel, estimates Sage to be the 12th largest listed cloud vendor in the world with close on £400m of cloud revenue last year.

But ambitions to accelerate organic growth this year have gone off the rails. A slow start to 2018 culminated in a revenue warning in April sending the share price spinning lower. The stock is currently trading at 596.2p, the lowest it has been in more than two years, compared to levels above 800p in January.

Sage software is believed to be used by half of the small or medium-sized businesses in Britain, for things like payroll and human resources. It also has a substantial international business but the company has come under intense pressure from emerging rivals, cloud specialists like Xero, MYOB and Kashflow.

Sage was one of *Shares* picks for 2018 on the basis that it would be able to accelerate organic growth. That has evidently proved harder to execute than either the company or we envisaged. The company is now on the hunt for a new chief executive with the skill set to drive grow forward.

Bye bye big six as SSE gets competition watchdog go-ahead for Npower deal

Merger given regulatory backing thanks to independent supplier surge

UK energy supplier **SSE (SSE)** has been given the provisional go-ahead for its proposed tie-up with Npower by the Competition and Markets Authority (CMA), the UK's competition watchdog.

Analysts speculate that the tie-up could be a big plus for the SSE investment story at a tricky time for the energy provider establishment. Shares in SSE have spent the most part of three years in decline as regulator Ofgem has turned the screw and independent operators have emerged to eat into market share.

The industry is facing the introduction of tariff price caps in December in a UK government bid to cut bills for millions of households. A 2016 report by the CMA found consumers were paying around £1.4bn a year in excessive fees charged by the six largest energy firms on their standard variable tariffs (SVTs).

SSE shares, now trading at £12.70, were changing hands for close on £17.00 in May 2015.

The proposed SSE/Npower merger is a complex agreement that would involve splitting out SSE's household energy division from the bit of the company that supplies businesses, plus other operating assets.

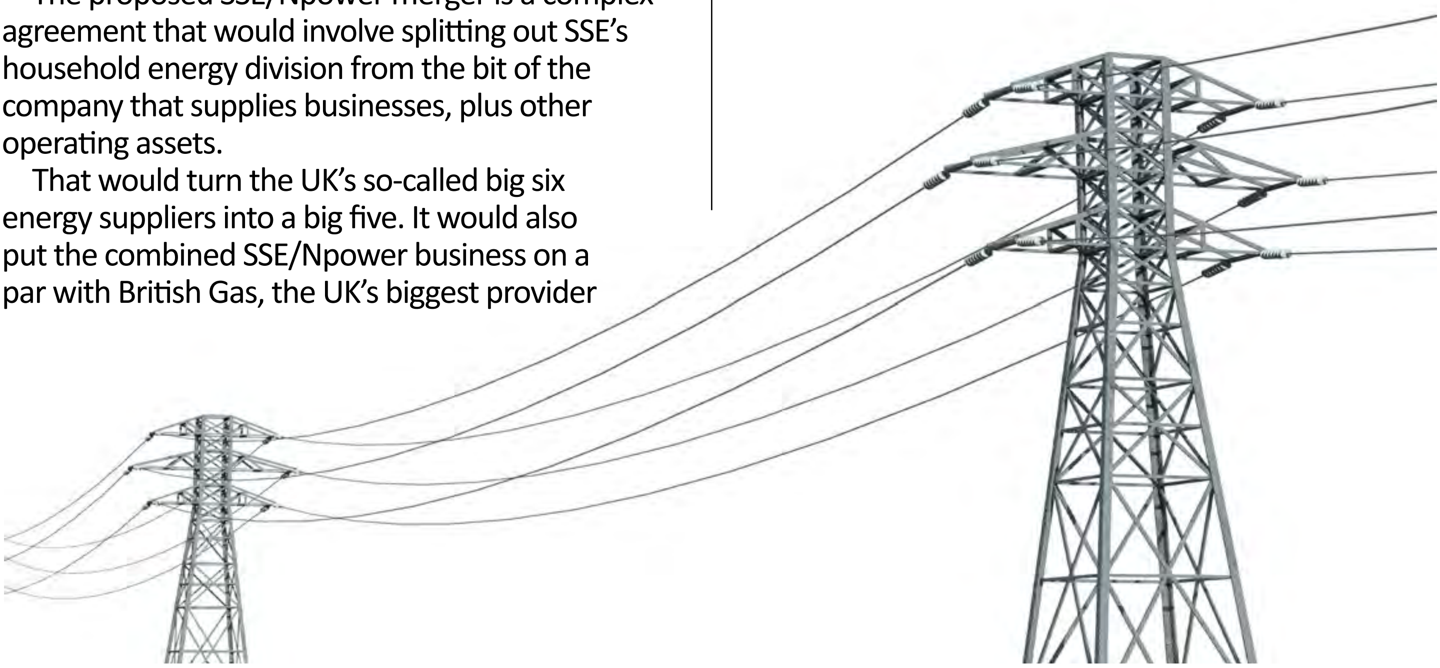
That would turn the UK's so-called big six energy suppliers into a big five. It would also put the combined SSE/Npower business on a par with British Gas, the UK's biggest provider of gas and electricity by customer numbers, owned by **Centrica (CNA)**.

SSE is the second largest of the big six by customer numbers, with Npower currently the smallest of the big six with around 4.7m customers. Combined the joint company would have close to 11.5m customers, about the same as market leader British Gas.

Cutting combined operating costs and overlap is the main reason why the pair want to merge, with 'plenty of synergies to unlock in getting Npower up to the same level of profitability as SSE,' according to Berenberg analysts.

SSE itself has estimated 'greater than £100m' of cost synergies, although some investment number crunchers think these savings could be much bigger.

'This is good news for SSE as we think the retail merger and spin-off of a new independent retail business is a plus for the investment case,' say Berenberg investment experts. (SF)



AIM dividends come of age

Dividends paid by AIM businesses are far outstripping the pace set by their Main Market brethren

Dividends paid by AIM-quoted companies are set to burst through the £1bn mark for the first time in 2018 according to Link Asset Services' inaugural annual *AIM Dividend Monitor*.

Launched in 1995 as a growth market for small and medium-sized companies, AIM market-derived dividends are growing rapidly and far outstripping the pace set by their main market counterparts.

Indeed, Link expects growth of 19.6% to a record £1.16bn in 2018, almost three times larger than the modest £417m distributed by AIM companies to shareholders in 2012, with growth of at least 14% anticipated in 2019.

Conventional wisdom has it that small companies go for growth and only consider paying dividends as their businesses mature. But AIM companies are increasingly paying an income to their shareholders.

The increasing maturity of many AIM companies, the larger size of new listings and a speedier path to dividend payment are behind the trend, says Link Asset Services.

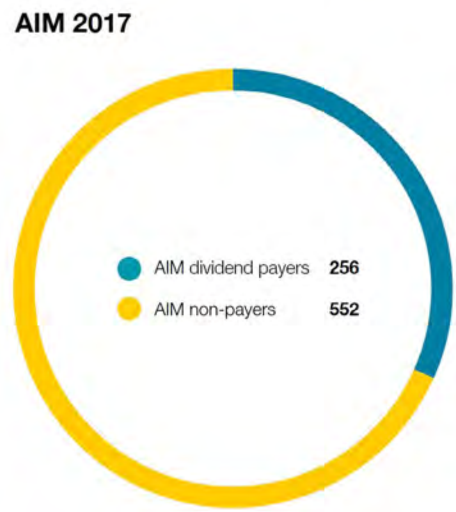
The report reveals that over the last six years, AIM dividends have surged at an average annual rate of 18.6%. This is almost four times faster than the 4.9% growth rate achieved on the Main Market, although special dividends from AIM firms were much lower in 2017 than in 2016, which saw some very large one-off specials, and look set for a modest out-turn for 2018 too, Link looking for 'around £17m this year'.

A great example of the way in which AIM is maturing and the path to dividend distributions is speeding up is premium tonic mixer maker **Fevertree Drinks (FEVR:AIM)**, a go-go- growth stock which debuted on AIM in 2014 and is already serving up progressive payouts.

An AIM dividend stalwart of note is flooring specialist **James Halstead (JHD:AIM)**, which has the best record of any UK- company for its steady increases in dividends every year.

However, AIM's largest company by market cap is **ASOS (ASC:AIM)**, which has still not paid its first dividend. And despite the current trend showing rapidly growing payouts, earlier-stage businesses are still much less prone to paying dividends.

Link expects 257 AIM companies to pay a dividend this year, just under one third of all those listed on the exchange, yet on the Main Market, almost four fifths of companies will distribute cash to shareholders this year. And as a whole, the yield on the AIM market is roughly two-thirds lower than on the big board.



Source: Link Asset Services

Tasty turnaround on the menu at Devro

Productivity gains and China pricing progress to boost sausage skins maker

Seeking a tasty re-rating and dividend growth story? Then tuck into sausage skin manufacturer **Devro (DVO)** at 191.5p, where there's almost 40% upside towards Investec Securities' 265p price target.

Lately unloved, the Moodiesburn-headquartered food producer is emerging from a challenging few years of hefty investment, muted top line growth and margin pressure.

A better second half is in prospect which should support a return to full year profit growth, while Devro also offers a 4.7% dividend yield for investors prepared to stick with the business through near-term challenges.

A SMALL CAP SNACK WITH SIZZLE

Devro supplies edible collagen casings for sausages, salamis and hams and has a demonstrable ability to differentiate products in a global collagen casing market growing at 2-4%.

The company's sales should at least be able to keep pace with that growth and on a longer term view the £322.2m cap is geared into burgeoning demand for collagen casings linked to higher protein consumption in emerging markets.

Challenges include geopolitical factors, currency headwinds, cost inflation and retailers putting the squeeze on meat suppliers.

DEVRO BUY
(DVO) 191.5p
Stop loss: 153.2p

Market value: £322.2m

Operating margin performance has been volatile in recent years and there's work to do to close the margin gap to Spanish peer Viscofan.

COOKING UP STRATEGIC PROGRESS

Half year results (1 Aug) were encouraging, revealing strong growth in Continental Europe, Russia and Latin America and improved profit margins, thanks to a stronger performance on manufacturing yields and savings from the *Devro 100* programme, designed to accelerate growth while improving manufacturing efficiencies.

CEO Rutger Helbing also reported positive progress with Devro's strategic priorities; the performance of Devro's North American plant continued to improve and the average selling price in China increased markedly, Devro having ceased legacy imports into China from other group sites while concentrating on serving customers that value its differentiated products. While edible collagen casings volumes were flat in the half, growth is expected in the second half driven by the Americas and Asia, with the latter expected to benefit from the full commercial launch of Devro's new *Fine Ultra* product.

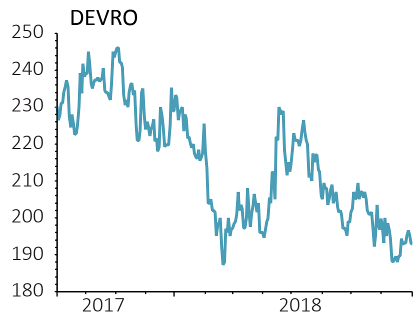
Fine Ultra casings were introduced to key customers in the second half of 2017 and commercial launch in Asia and Europe is planned for the second half now underway.

Given the operational gearing in the business, volume growth should drive significantly improved profits and Devro has also identified additional savings to help rebuild margins.

For calendar year 2018, Investec forecasts growth in normalised pre-tax profits to £34m (2017: £29.5m), ahead of £39m and £42.4m in 2019 and 2020 respectively.

Based on forecast 2018 earnings of 15.4p and a dividend hike from 8.8p to 9p, Devro appears inexpensive on a prospective price to earnings ratio of 12.4 times.

Should share price weakness persist, the company could even draw a bid, with Viscofan one name potentially in the frame. (JC)



Sunnier outlook to light up Savannah

AIM-quoted oil firm should be able to close valuation gap on its rivals

We believe that issues which have clouded the outlook for African oil play **Savannah Petroleum (SAVP:AIM)** are starting to clear and reckon the market will switch its attention to the company's cash generation potential.

Though this is high-risk story, which could be influenced by movements in a volatile oil price, we reckon there could be significant upside on offer.

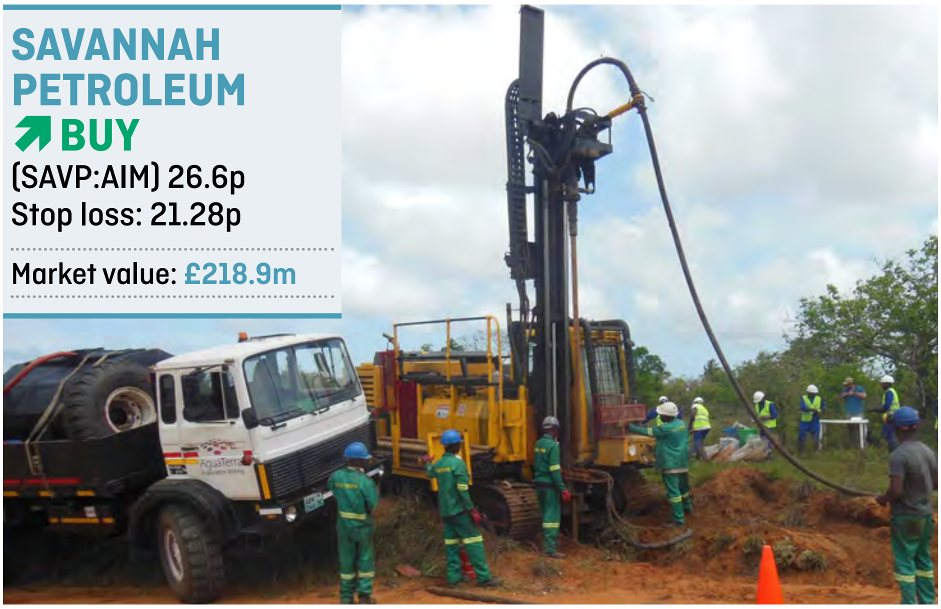
Savannah re-listed on AIM in January 2018 following a $125m fundraise and the $280m reverse takeover of distressed peer Seven Energy. That deal provides access to significant Nigerian natural gas production alongside its existing oil assets in Niger.

Writing in mid-August analysts at boutique investment bank Hannam & Partners noted the shares had, since re-listing, underperformed Nigerian-focused peers by 30% and the wider London-listed oil universe by some 10%.

It attributed this to the protracted completion of the Seven deal, however chief executive Andrew Knott tells *Shares* the company was also faced with a significant shareholder forced to sell to meet redemptions on its fund. Knott confirms the completion of the Seven Energy transaction should take place before the end of September.

SAVANNAH PETROLEUM
BUY
(SAVP:AIM) 26.6p
Stop loss: 21.28p

Market value: £218.9m



ACTIVE DRILLING EFFORT

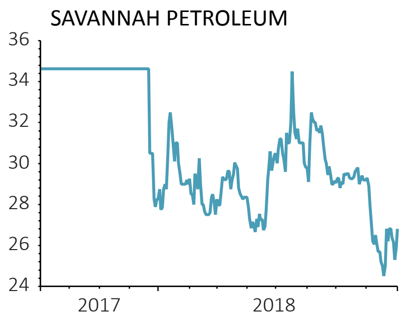
Savannah has not been sitting on its hands while it waits for this deal to go through. It has enjoyed an extremely successful drilling effort in Niger which Hannam & Partners reckons has taken the total discovered resources on the group's Niger assets to between 50 million and 70 million barrels of oil.

The bank reckons these resources could be worth up to 29p per share on their own. Having maintained a 100% success rate with its fourth well in the campaign on the Eridal prospect, the company has triggered an option on the contracted rig to drill the Zomo prospect.

The company is looking to set up an early production system in Niger to monetise around 5,000 barrels of oil per day of production, bringing some cash into the company coffers.

The Seven Energy assets consist of the Uquo and Stubb Creek fields and a 20% interest in the Accugas pipeline business in south east Nigeria – with leading African private equity infrastructure investor Africa Infrastructure Investment Managers taking the other 80%.

An earlier independent audit suggested the Seven Energy portfolio could generate free cash flow of $88m per year between 2018 and 2022. (TS)



MICHELMERSH BRICK
(MBH:AIM) 92.3p

Gain to date: 9.9%

Original entry point:

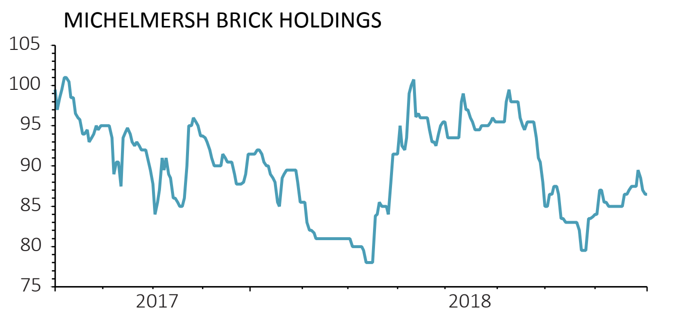
Buy at 84p, 29 March 2018

AN EXTREMELY POSITIVE set of first half results from brick maker **Michelmersh Brick (MBH:AIM)** helps build some momentum behind our positive call on the shares.

As we expected the acquisition of Barnsley's Carlton Main Brickworks has resulted in a substantial increase in earnings and cash flow. This helps underpin a very healthy 51% increase in the interim dividend to 1.06p. A similar increase in the full year dividend would imply a yield pushing 4%.

Though our other favoured brick maker **Ibstock (IBST)** has been struggling this appears to be linked to company-specific issues with the fundamentals behind the UK brick market remaining positive. As Michelmersh observes, brick demand remains strong with imports required to meet shortfalls and stocks near to historically low levels.

The improved cash generation of the business is enabling it to pay down the borrowings associated with the purchase of Carlton with the company guiding for net debt to be below one times earnings by 2019 and the company is on track to meet full year expectations.



SHARES SAYS: ↗

A reassuring set of results, keep buying. (TS)

GAMMA COMMUNICATIONS
(GAMA:AIM) 900p

Gain to date: 38.9%

Original entry point:

Buy at 648p, 18 January 2018

We knew half year results from **Gamma Communications (GAMA:AIM)** would be positive after July's update, and so they proved.

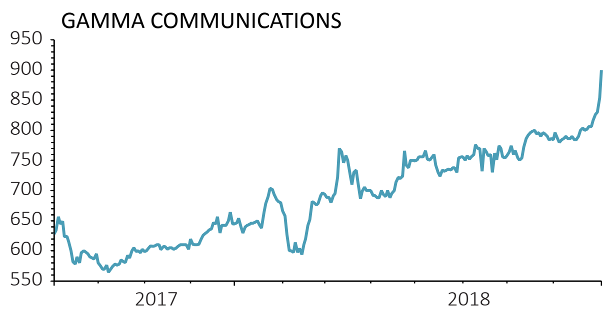
The headline numbers show earnings before interest, tax, depreciation and amortisation (EBITDA) up 31% to £21.8m on revenues 18% ahead at £137.6m, albeit partly obscured by new accounting rules.

In short, the new rules affect the treatment of share based payments and depreciation, which now must be counted as part of the cost of doing business.

While this led to 2017 figures being restated there is no cash cost to the company, nor does it change Gamma's fantastic positioning in the future of communications, especially as organisations increasingly adopt cloud-based solutions.

These are the first results under new chief executive Andrew Taylor and investors can take confidence from his plans to largely stick to the knitting that has worked so well for years.

But there is the hint that acquisitions and international growth may become more meaningful to the growth story down the line.



SHARES SAYS: ↗

A top quality business means long-haul investors should stick with the stock, yet on a 2019 price to earnings multiple in excess of 30, taking some of the well-earned profit off the table may prove judicious. (SF)

Do you need an investment insurance policy?

Looking at the assets which perform well when markets are falling

It's more than likely that you insure your home, car and even your health – so why not your investment portfolio?

While, unfortunately, there's no such thing as an insurance policy that will pay out if your investment portfolio takes a hit, there are measures you can take to build some protection into your portfolio.

Any decent mix of investments should contain some holdings which are designed to kick in should the stock market take a turn for the worse, and having such investments becomes increasingly important at times of uncertainty.

Between Brexit negotiations, trade war talk and the latest tweets from president Donald Trump, there is much to be nervous about at the moment and volatility is creeping back in to global stock markets.

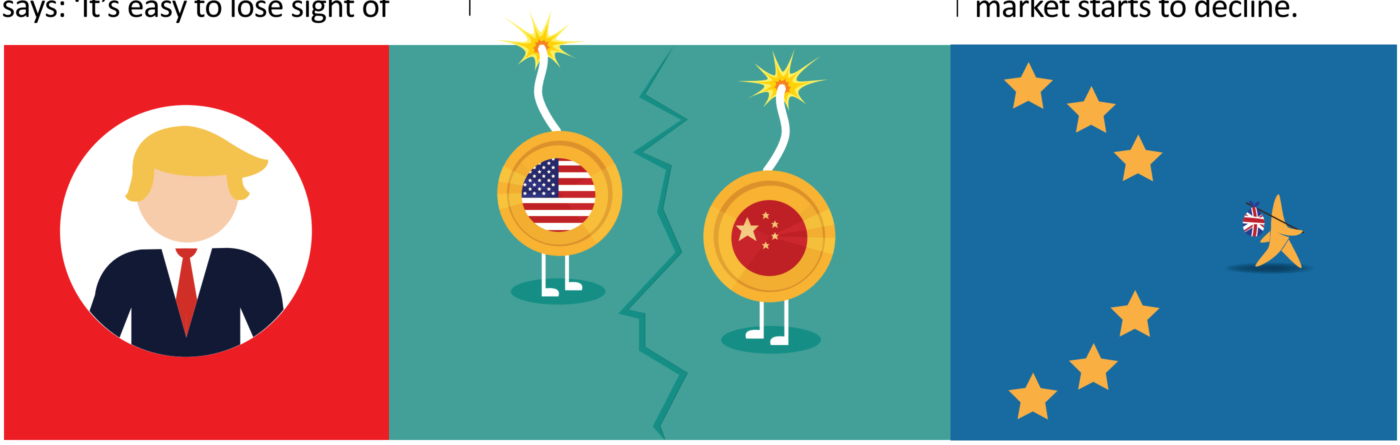
INSURANCE PLAYS

David Coombs, head of multi-asset investments at Rathbones, says: 'It's easy to lose sight of the need for insurance in your investment portfolio when there has been a raging bull market for almost a decade and everything has been going up all the time, but investors should have been considering insurance plays for at least the past year or so.'

Identifying how you can insure your investments means determining which are the areas you think are most likely to go wrong and working out how to counterbalance them. Just as you wouldn't buy car insurance and expect it to pay out if your house caught fire, you have to choose the right holdings to offset the risks in your portfolio.

Neil Birrell, manager of the **Premier Diversified fund (B8BJV42)**, has been placing bets against the US stock market. He uses so-called put options, a type of derivative, which will pay out if the S&P 500 falls. After incredible gains on the US stock market in recent years, he has made the investment to provide protection in the event the market starts to decline.

“Between Brexit negotiations, trade war talk and the latest tweets from president Donald Trump, there is much to be nervous about at the moment and volatility is creeping back in to global stock markets”



How many startups should you invest in?

Early-stage investing has a reputation for being highly risky, and for good reason: the majority of startups fail in their first five years. But industry data shows that investing in startups can also be highly profitable – if you're smart about it.

According to **The Alternative Investment Report** by NESTA and Intelligent Partnership, an early-stage portfolio should contain at least 28 investments in order to have a 95% chance of securing at least one 10x investment. But that's not all you can do to maximise your chances of bagging a successful exit.

THE ONLY FREE LUNCH IN FINANCE

A broad portfolio of investments spanning different stages, levels of liquidity, sectors, sizes and types has a reduced chance of containing highly correlated investments, where macro factors such as housing market changes, unemployment or general market performance can affect all investments in one fell swoop.

By building a portfolio of uncorrelated investments across multiple sectors, you reduce your chances of a single sector experiencing a negative change and it bringing down your entire portfolio; think, for example, of how a shift in oil prices can affect a vast number of investments within that sector.

We combined this diversification principle with NESTA's magic number to bring you a brand new kind of investment fund.

FUND TWENTY8®

Fund Twenty8® is the first and only fund to automatically build you a diversified portfolio of at least 28 EIS-eligible early-stage investments, across a broad range of sectors, targeting a return of over 20% IRR including **up to 30% EIS tax relief**.

- 28+ EIS-eligible investments per fund
- Up to 30% EIS tax relief
- Unparalleled cross-sector diversification
- Targeted IRR of 20%+

Nested within SyndicateRoom, the UK's premier equity investment platform, Fund Twenty8®'s algorithmic approach draws on data from the investment decisions of thousands of sophisticated and high-net-worth investors to determine which companies to back. The fund has raised a total of £7.9m from 377 investors to date.

Last year's Fund Twenty8® built a portfolio of 32 EIS investments spanning 10 sectors.

Fund Twenty8® will open for 2 weeks on Tuesday 11th September 2018. Get the ultimate in startup diversification: **www.syndicateroom.com/fund-twenty8**

SYNDICATE ROOM

Invest with the professionals

Risk warning: Investing in early-stage businesses involves risks, including illiquidity, lack of dividends, loss of investment and dilution, and it should be done only as part of a diversified portfolio. SyndicateRoom is targeted exclusively at sophisticated investors who understand these risks and make their own investment decisions. Tax relief depends on an individual's circumstances and may change in the future. In addition, the availability of tax relief depends on the company invested in maintaining its qualifying status. Past performance is not a reliable indicator of future performance. You should not rely on any past performance as a guarantee of future investment performance. Please click here to read the full risk warning. This advertorial has been approved as a financial promotion by Syndicate Room Ltd, which is authorised and regulated by the Financial Conduct Authority (No. 613021).

While the strategy is currently making a loss, it reaped rewards during a bout of volatility in February when the market briefly dropped more than 10% amid concerns about inflation.

Birrell says: 'It's impossible to predict when markets are going to change but stock valuations are high and there are a number of geopolitical risks. We are betting against the market as a whole but still investing in specific stock opportunities.'

Similarly, he has some put options on the FTSE 250 index as this index of smaller UK businesses is the one most likely to struggle in the event of a bad Brexit deal or further weakness in the pound.

Coombs is feeling cautious about currency and the outlook for sterling in the run-up to Brexit, so he has been investing in Japanese Government Bonds. While these yield a measly 0.1%, he can make gains as the Japanese Yen strengthens. He says: 'The Japanese and US currencies tend to do well when there is a market event – both rallied in 2008.'

He has also been adding to his gold holdings while the value of the precious metal has been falling. The yellow metal tends to move in the opposite direction to the dollar, so has been declining while the greenback has strengthened. That means it could recover if the trade war between the US and China ramps up. The easiest way to invest in gold is through an exchange-traded fund (ETF) which simply tracks the price of the commodity.

The Japanese and US currencies tend to do well when there is a market event - both rallied in 2008

SIMPLER STEPS

While some of these methods can be quite complex, and are often best left to the experts, there are simpler steps investors can take to shore up their portfolio. Diversification is a key element of protecting your investments; if you have your money spread across a range of different assets – including bonds, equities and alternatives such as infrastructure and property – in different regions of the world then the likelihood that they all tumble at once is much smaller than if you only invest in UK equities, for example.

And, of course, if you are extremely concerned about the outlook you can keep your money in cash. Money in the bank won't earn you a decent return but it's also highly unlikely you'll lose the lot. Fund managers often increase their cash holdings if they are feeling cautious and this also means they have money ready to put to work if an attractive investment opportunity arises.

The downside to building this insurance into your portfolio, of course, is that it is a drag on returns. An investment which is designed to thrive when times get tough will, naturally, struggle while stock markets soar. However, insurance investments should only represent a small part of your portfolio so should not eat into returns in a significant way.

Coombs adds: 'Insuring your investments is the same as insuring your home; you buy it and sort of hope you lose, because if you win then it means something bad has happened.' (HB)

LEARNING TO INVEST

EVERYTHING YOU NEED TO KNOW ABOUT MAKING MONEY FROM THE MARKETS

GETTING STARTED

Many investors fall into one of two camps. They recognise the need to save for a better future and want to start investing in hope of generating better returns than cash. Or they have already amassed some wealth and want to put the money into the markets to generate an income in later life. Both types can be united by a lack of experience with investing.

One of the most popular questions we're asked at *Shares* is: 'How do I start investing?' These individuals have a desire to succeed but need a helping hand to begin their investment journey.

Fear not, as this article is here to help anyone who feels they are in this situation. Remember that even the most experienced investor was once sat where you are now – everybody has to start somewhere.

And if you're already experienced with investing, you may find it helpful to show any friends and family this article if they are looking for some guidance with how to approach the markets.

PUTTING THE MARKETS TO WORK

At their heart the markets are simply a tool with two main uses: to protect and augment your wealth. If you can train yourself to think in these terms then any fears you have about investing should begin to dissipate.

Why should you go to the trouble? If you are prepared to accept the dismal returns offered by keeping your savings in the bank then you don't have to explore the world of investing.

But low interest rates mean that cash on deposit is not generating a sufficient return to outpace inflation. If you want to protect the real value of your money, then doing nothing is not an option.

Over the long-term stocks and shares have delivered returns over and above the average rate of inflation.

And the good news is they do not just offer the potential for capital gains – many also offer a steady stream of income from dividends.

By reinvesting these payouts investors can tap the full potential of the stock market and not just guard their wealth but also boost it significantly.

THE BIG QUESTIONS

Before you actually start investing there are some important questions you need to ask yourself. The first is: what are you investing for?

You may be looking to top up a pension pot in order to make suitable provision for your retirement.

It would be naive not to give this serious thought, given the cancellation of many companies' final salary pension schemes and the fact that state-backed universal pension provision is looking increasingly unsustainable. Prudent investment could be your route to a decent standard of living in your seventies, eighties and beyond.

Or you may be looking to build up a nest egg to pay for your children's education, purchase a dream home or finance a round-the-world-trip.

This question of what return you should expect from your portfolio is also dependent on the yardstick you measure its performance against.

First of all, it almost goes without saying that you will want to beat the miserly returns available from most savings accounts. A more realistic benchmark could be yield on the 10-year UK government bond, also known as gilts.

An investor holding gilts to the point at which they mature will receive regular interest payments which – unless the UK itself goes bust – are

guaranteed. This makes gilts an almost risk-free investment against which to compare alternatives.

In our view, you should be aiming for an investment return of at least 7% a year to compensate you for putting your capital at risk in the markets.

This is an important point to remember. Premium returns are not possible without taking on a degree of risk – investing your cash means risking it.

The key is to ensure that you can generate your required return at an acceptable level of risk. The good news is there are plenty of different investment options with different risk profiles to suit different types of investor.

Overall, it is important to set your expectations at a realistic level. Successful investors often enjoy small but steady returns. We would suggest that 7% to 8% return per year from a mixture of capital gains and income is much more realistic than making 20%+ returns by gambling your fortunes on a small number of individual company stocks.

Only once you've mastered the art of investing should you expect to make these kind of returns.

CHOOSING A PLATFORM

BEFORE YOU CONSIDER what to invest in, you need to consider how you will invest. This means opening an account with a stockbroker or investment platform.

Most people will look to invest through an ISA in order to keep the bulk of their returns out of the taxman's grasp. You can invest up to £20,000 a year in an ISA and you don't have to pay any tax on capital gains and dividend income for investments kept inside this wrapper.

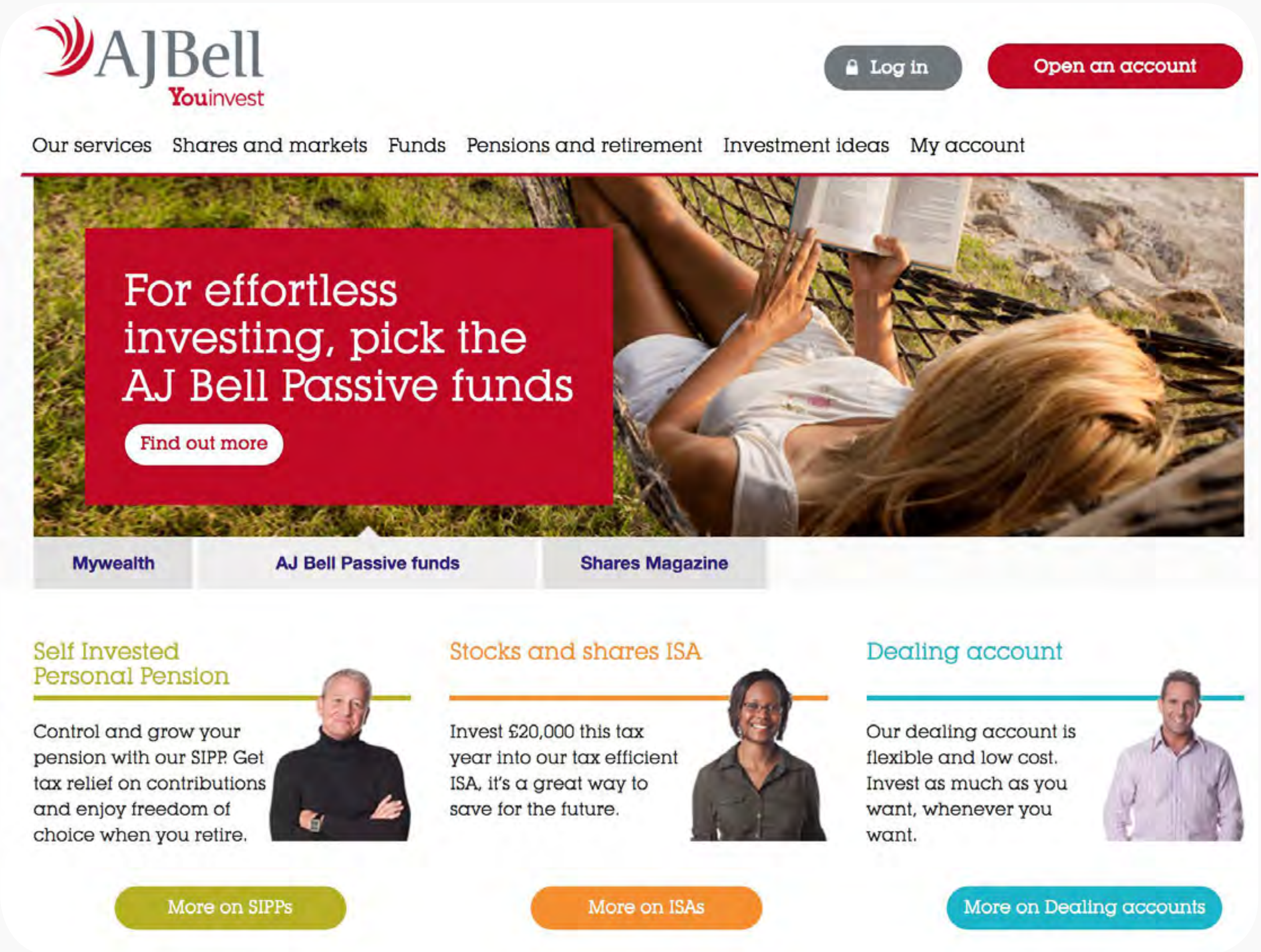
It's also worth considering paying as much as you can into a pension, assuming you don't need the money until age 55. You can pay the equivalent of your earnings into a pension each year, up to a maximum of £40,000. If you're a basic or higher rate taxpayer, you'll get 20% income tax relief and if you're an additional rate taxpayer you'll get 25% tax relief.

Helpfully, most brokers or investment platforms offer execution-only share dealing accounts, SIPPs or ISA wrappers. Under an execution-only remit a stockbroker will buy or sell according to your instructions without providing any form of advice.

However, a lack of advice should not mean a lack of support and it is important to pick a broker which is transparent, user-friendly and efficient. Have a read of reviews on the internet to see what other customers are saying about the level of service, for example.

After all a stockbroker is there to help you build and maintain your portfolio. Given this vital role it is really important to make the right choice.

If you do not shop around for a good broker you could end up facing prohibitive charges when you buy and sell assets such as shares, investment trusts, funds, exchange-traded fund (ETFs) or corporate bonds.



Benefits of regular investing

How much you invest will be down to your personal circumstances. You may have a lump sum already sitting in cash, but don't worry if this is not the case as you have the option of drip feeding money into the markets at regular intervals.

The latter approach even has some advantages. Stock markets can be volatile and there is always the fear of a market correction, with significant falls in share prices over a relatively short period.

Precious few investors have the skill to buy and sell shares at exactly the right time. For this reason, it is often said that it is 'time in' the market not 'timing' the market which delivers the best returns.

Regular investment means you remain invested over the long-term and it could also see you benefit from an effect known as 'pound cost averaging'.

If, for example, you are investing a set amount, say £100 per month, you will end up buying more shares when prices are lower and fewer shares when prices are higher.

WHAT TO INVEST IN?

WITH LITERALLY thousands of investment options it can be hard to know where to start.

We will now look at some ideas for a starter portfolio to help get you thinking about how to achieve broad-based market exposure, looking at funds which can beat the returns from the wider market, as well as getting exposure to bonds, alternative assets and commodities.

To come up with our model portfolio we have drawn on the expertise of the *Shares* team and made use of AJ Bell's Favourite funds list – a collection of collectives which have been curated by its experts.

For the most part we have concentrated on traditional funds for this exercise. But we've also included a separate article in this week's issue of *Shares* which is packed full of low-cost exchange-traded fund (ETF) ideas for inexperienced investors.

BROAD-BASED MARKET EXPOSURE

Fidelity Index World Fund (BLT1YP3)

This tracker fund charges just 0.12% a year to track the MSCI World Index. This mirrors the performance of companies from 23 developed countries, boasting 1,643 constituents and covering roughly 85% of the investable equity universe in each of these countries. It therefore enables you to create a diversified portfolio in a single trade.

The dominance of the US market is reflected in a 60.9% weighting and the fund has heavy exposure to technology with Apple, Microsoft and Google's parent Alphabet among the largest constituents.

TRYING TO BEAT THE MARKET

Franklin UK Mid Cap (B7BXT54)

While using a tracker fund to achieve broad market exposure can offer a useful foundation stone for your investment portfolio, you may also want to see if you can find a fund manager who can consistently beat the market.

Managed by the experienced Paul Spencer alongside Mark Hall and Richard Bullas, Franklin UK Mid Cap has achieved a decent long-term performance by investing in high quality, sustainable businesses. This is underpinned by the strong historical performance of mid cap stocks in general.

Unlike large caps, mid-caps typically have more significant growth potential and could increase their profit at a rapid rate if things are going well.

Companies on the FTSE 250 are not as widely followed as those on the FTSE 100 so there can be more opportunities to spot companies whose earnings potential has been underestimated.

Top holdings in the Franklin fund include property investor **Derwent London (DLN)** and film, TV and music rights business **Entertainment One (ETO)**.

Alternative suggestion: ***TB Saracen Global Income & Growth (B3XPLG5)****. This fund offers genuine global exposure to firms with sustainable growth potential and avoids risky business models in an attempt to limit losses.*

FOCUS ON FIXED INCOME

TwentyFour Corporate Bond Fund (BSMTGJ1)

Debt securities like bonds and gilts, also known as fixed income investments, offer the attraction of greater security than stocks and shares alongside regular income and can be a good option as part of a balanced portfolio.

TwentyFour is a specialist asset manager which is entirely focused on bonds. Headed by experienced lead manager Chris Bowie, the team behind this fund use a proprietary 'Observatory' screening tool to help select bonds. This results in a concentrated fund which typically includes fewer than 100 individual bonds. For the most part the focus is on the UK which accounts for just more than 70% of the portfolio. The ongoing charge is a competitive 0.39%.

Alternative: ***Vanguard UK Inflation-Linked Gilt Index Fund (B45Q903)****. This low-cost passive fund might suit cautious investors who want exposure to typically lower yielding but also lower risk government bonds.*

KEEP UP WITH COMMODITIES

BlackRock Gold and General (B5ZNJ89)

For an ongoing charge of 1.17% this long-standing fund invests your cash in a grouping made up principally of gold miners. Gold's position as a traditional store of value means it can often deliver returns which uncorrelated to equity markets. The team behind the BlackRock fund hope to outperform the gold price through benefiting from the operational excellence of the individual miners it invests in.

It is worth noting that a commodities fund should only be considered once you have a solid backbone to a portfolio, such as through the aforementioned equity market and bond funds. Commodities are high risk and unpredictable, so you should consider putting less money in these types of funds. They provide ballast to a portfolio but shouldn't be a large component of your overall investments.

Alternative: ***Guinness Global Energy (B3CCJC9)*** *Launched in 2008, this specialist energy fund has around half of its assets in the US, 15% in Canada and a little over 10% in the UK, providing genuinely global exposure to a recovering industry.*

ALTERNATIVE ASSETS

First State Global Listed Infrastructure (B24HJL4)

This fund invests in a diversified portfolio of global listed infrastructure and infrastructure-related stocks.

Infrastructure assets can be attractive to investors as they involve the provision of essential services, enjoy significant barriers to entry with a generally dominant market position. They often have lives of 30-plus years, have low ongoing operational costs to compensate for the high upfront costs and deliver long-term stable cash flows which are often linked to inflation.

First State's holdings include East Japan Railway and leading North American energy infrastructure business TransCanada. The team behind the fund have a big focus on capital preservation.

Alternative: ***Janus Henderson UK Property PAIF (BP46GF5)****. This fund looks to deliver over the long-term by investing in a portfolio of UK commercial property built around quality properties with reliable tenants.*

Witan investment trust

The power of compounding

In 2015, Parliament passed the new Pension Schemes Act which allowed greater freedom to withdraw lump sums from personal pensions, albeit with a deduction for tax. The concern of some pundits was that ill-informed pensioners would cash-in their pension pots and blow the lot on a Lamborghini. Assuming that the vast majority of pensioners were not suffering from a collective "mid"-life crisis, there are some more 'sensible' options available. Let's roll the clock back a few years to back-test various options. Assuming the same freedoms were available 20 years ago, one could have purchased a Lamborghini Diablo for £165,000. The same car (assuming it was well looked after) would be worth c. £200,000 today. Alternatively, for the price of the Diablo, a 65 year-old retiree could have purchased an annuity in 1997 which, due to elevated rates at the time, would have paid c. £16,500 per annum for life (or £330,000 assuming our investor survived for twenty years). Current annuity rates would provide approximately half that level of income for the same capital outlay today. Bonds are another option but, with interest rates at historic lows (and with many government bonds yielding less than inflation), retirees risk becoming poorer in income terms during retirement. What about equities? Here, we use the track record of Witan Investment Trust (a global equity investment trust) as an example. The calculations include stamp-duty but not other transaction costs (which may vary). In 1997, the same £165,000 could be used to purchase 51,386 Witan shares. First year income of £3,751 equated to a yield of 2.3% but this rose to £10,534 (or a 6.4% yield on the initial outlay) in 2017. In total, over the twenty year period, our fictional investor would have enjoyed an income of £115,310. In capital terms this investment would have grown to £554,457. But please bear in mind that investments in equities are inherently riskier than government bonds and it is possible that you may not get back the amount originally invested.

Dividend re-investment over the long-term helps produce even better future cash flows (please note the risk warning below). For example, if our future retiree accumulated a "Lamborghini" fund at age 55, and reinvested the dividends the numbers are quite different. Let's wind the clock back again, this time to 1987, when many schoolboys had a poster of the Lamborghini Countach on their bedroom walls. The real thing cost £80,000 (£220,000 in today's money). Let's assume that our fictional 55 year-old investor purchased 78,813 Witan shares instead of that Lamborghini Countach. Reinvesting, rather than spending, the dividends for the first 10 years until retirement in 1997, would result in a holding of 104,111 Witan shares. Upon retirement, our fictional investor chooses to stop re-investing

DISCRETE PERFORMANCE %*

	Q2 2013 Q2 2014	Q2 2014 Q2 2015	Q2 2015 Q2 2016	Q2 2016 Q2 2017	Q2 2017 Q2 2018
Share Price (Total Return)	22.6	13.9	-2.5	36.2	10.9
Net Asset Value** (Total Return)	12.1	11.2	7.3	28.0	8.7
Benchmark*** (Total Return)	10.9	6.8	7.6	22.7	8.3
Relative NAV Performance	1.2	4.4	-0.3	5.3	0.4

Witan investment trust

so that the income received from these shares over the subsequent 20 years is £233,626. The initial income was £7,636 per annum (a yield of over 9% on the £80,000 1987 investment) and grew to £21,342 per annum in 2017 (an average income of £11,681 per annum over 20 years) while the capital value now surpasses £1,123,000. It should be emphasised that these capital values and dividend growth are historic and certainly not guaranteed. Witan has managed to increase its dividend for 43 consecutive years at an annualised rate of 9.8%, in addition to capital growth over the long-term but future returns are subject to many long term caveats and risks. Our retiree in this illustration could have accumulated a very significant asset provided they were comfortable with the risk involved in equity investment and adopted a long term investment view.

Clearly, a pension fund the size of a supercar (today's flagship model costs c. £275,000) is out of reach for many but is not far short of the £300,000 postulated as necessary by recent research for the average retiree to maintain their current lifestyles, based on current annuity and state pension rates. After some prudent investing, our fictional 1987 investor could buy that 1987 Lamborghini Countach after all, while retaining a significant pension pot. These 30 year-old classics change hands for c. £350,000 today, which is comfortably ahead of inflation over the period and perhaps a little more fun than owning Witan shares. However even an iconic Lamborghini has not matched the power of growing dividends in compounding investment returns over a long period.

JAMES HART, INVESTMENT DIRECTOR OF WITAN INVESTMENT SERVICES.

Please remember that past performance is not a guide to future performance. Witan Investment Trust is an equity investment. The value of an investment and the income from it can fall as well as rise as a result of currency and market fluctuations and you may not get back the amount originally invested. Further, dividend payments and dividend growth are not guaranteed.

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*Source: Morningstar / Witan, total return includes the notional reinvestment of dividends. Annualised figures updated each calendar quarter.
**The Net Asset Value figures value debt at fair value and include the notional reinvestment of dividends.
***Since 01.01.2017, Witan's benchmark is a composite of 30% FTSE All-Share, 25% FTSE All-World North America, 20% FTSE All-World Asia Pacific, 20% FTSE All-World Europe (ex UK), 5% FTSE All-World Emerging Markets. From 01.10.2007 to 31.12.2016 the benchmark was 40% FTSE All-Share, 20% FTSE All-World North America, 20% FTSE All-World Europe (ex UK) and 20% FTSE All-World Asia Pacific. Source: FTSE International Limited ("FTSE"). FTSE is a trade mark of the London Stock Exchange Group companies and is used by FTSE under license. For more information go to **www.witan.com/legal-information.**

ETFs to help new investors

If you have limited experience with the markets these products could be the answer

With more than 2,500 open-ended funds available to UK investors, building an investment portfolio from scratch can often seem incredibly daunting. For newbie investors, many experts suggest using tracker funds as the starting point for your portfolio.

Adam Laird, head of ETF strategy at Lyxor, says: 'If you're an inexperienced investor, you want to focus on simple products, mainstream stock markets and low costs. There is no need to overcomplicate things, and that's why I think ETFs often appeal to beginners.'

ACTIVE MANAGEMENT FAILING TO DELIVER

Research has shown time and again that the majority of active fund managers fail to beat their benchmark over the long-term, so it's no wonder that a growing number of investors are turning to tracker funds instead.

Exchange-traded funds, or ETFs, are low-cost investment products which aim to mirror the performance of a chosen stock market or asset. Because they are traded on the stock market, investors are able to buy and sell these investments immediately at any given time just as with company shares, and unlike funds which take at least a day to process a trade.

Transparency is another benefit of tracker funds and it can be a lot easier to monitor your progress when investing in a tracker rather than an active alternative. If you hold a FTSE 100 tracker then you only need to check how the UK stock market has performed to judge how your investments are faring. Conversely, an active fund may be a complex basket of hundreds of different company shares, which may only be revealed to investors once a year.

KEEPING COSTS DOWN

Using ETFs at the core of your portfolio can be a great way to keep costs down and ensure your investments are well-diversified, before choosing specific active funds in areas of interest if you wish.

Peter Sleep, senior portfolio manager at 7IM, explains: 'Most people have heard of the S&P 500 and the FTSE 100 and are able to follow these markets on the TV or radio, so trackers that follow these indices make a good starting point for new investors, as well as a strong core for those who are building more sophisticated portfolios.'

As a starting point, he suggests the **iShares Core FTSE 100 ETF (ISF)**, which tracks the largest 100 stocks on the London Stock Exchange, including insurance group Aviva, Barclays bank and pharma giant GlaxoSmithKline. The tracker costs just 0.07% a year to invest in – equivalent to around 70p per £1,000 invested. Over the past five years the tracker has delivered a return of 40.3% and also yields around 3.9%.

Tracking the UK stock market is often a sensible place for new investors to start. Beginners will often feel more comfortable putting their money into a stock market they can easily track and one which holds a number of companies they have heard of. But sticking to a single stock market is risky as it means your investments are tied to the fortunes of that sole index, so it makes sense to broaden out to other areas too.

BROADEN YOUR HORIZONS

Sleep also suggests investing in the **iShares S&P 500 ETF (IUSA)**, which tracks the largest 500 shares in the US including Facebook, Amazon and JPMorgan. It has the same annual fee of 0.07% and a lower yield of 1.43%.

Over the past five years, as the US stock market has set a string of record highs, it has delivered a hefty return of 79.8%. But while the US has delivered stellar performance in recent years, it has its own risks: the index has a high weight to technology stocks – around 25% – a cyclical sector which is prone to sharp falls up and down.

> It brings home just what a great invention trackers are

To offset this risk, Laird suggests that investors go even further afield. He likes the **Lyxor Core MSCI World Ucits ETF (LCUW)**, which tracks an index of 1,600 companies across the world for an annual charge of 0.12%.

This index offers access to stocks in the US, UK, Japan, France and Canada among other countries with investments in the tech, financials and healthcare sectors to name just a few. Over five years the index has delivered a return of 60%. Laird adds: 'UK investors tend to have a home-bias and often invest heavily in UK shares, but this index is broad and diversified.'

KEEPING IT SIMPLE

Simplicity and cost are the two main advantages that are often discussed when assessing the benefits of trackers but they also offer another great perk: diversification. Trackers, many of which you can invest in for just £25 a month, allow investors to tap into an entire stock market or asset class in one fell swoop. Sleep says: 'When you think of it like that, it brings home just what a great invention trackers are.' (HB)

Surveying the ISA landscape

We look at what the latest figures reveal about the versatile tax wrapper

Fewer people are using ISA accounts, but those that do are stashing away more cash – that's the conclusion of the latest annual release of figures on ISA usage from the Government.

The figures from the Government show the total number of ISA accounts in the 2017-18 tax year, the amounts of money put into ISAs and the split between cash and investment ISAs. They also give the first insight into the take-up of the newest ISA – the Lifetime ISA – with the first year of figures unveiled.

The figures, released last week, show that almost 260,000 fewer ISA accounts were opened in the 2017-18 tax year – with the total number of accounts falling to 10.8m. This marks the lowest number of accounts in almost two decades. However, the biggest hit was to cash ISA accounts, with an 8% drop in the number of accounts, while the number of stocks and shares ISAs rose in the year.

CASH ISAS OUT OF FASHION

The fall in cash ISAs comes as the interest rates offered on cash accounts remain stubbornly low – even despite the Bank of England raising interest rates this month, from 0.5% to 0.75%. At the same time inflation, which is the measure of the rising price of goods, has been above the Government's 2% target for some time. This means much of the money left in cash ISA accounts is seeing its spending power eroded – putting off savers.

The introduction of the personal savings allowance has also dented the popularity of ISAs – both cash and investment accounts. Launched in 2016, this allowance gives an annual tax-free amount for any interest earned on savings: £1,000 tax-free for basic-rate taxpayers or £500 for higher-rate taxpayers (top-rate taxpayers get no allowance). This tax break covers interest on bank and building society accounts, most investments, peer-to-peer lending and corporate and Government bond interest.

This means that the appeal of ISAs, particularly for basic-rate taxpayers, has reduced. However, for those individuals who are likely to move into the next income tax bracket soon, or those fearful of Government change to the personal savings allowance, it could be prudent to start stashing cash away within the ISA wrapper.

WHAT'S HAPPENING WITH JUNIOR ISAS

Junior ISAs continue to be largely invested in cash, which makes little sense for many savers as the money is locked up until the child reaches the age of 18 – making it the ideal long-term investment in many cases.

A total of 57% of Junior ISA money is in cash, a slight improvement on last year, when more than 60% of money was in cash. There has actually been a decrease in the amount held in cash Junior ISA accounts, of £8m, while more than £50m was invested through Junior ISAs.

Take-up of the accounts has risen for another year, with more than 900,000 children having an account. However, despite the maximum amount you can put in a Junior ISA each year being £4,128, the average subscription for 2017-18 is far below that, at £994. This is the lowest figure recorded since the Junior ISA was launched in 2011.

LIFETIME ISA

The first figures have been released for the Lifetime ISA, giving the initial look at how popular the market has been since the newest ISA was launched in April 2017. A total of 166,000 accounts have been opened and £517m saved – averaging £3,114 per account.

The Lifetime ISA can be used to save to buy your first property or to provide a retirement fund, and you can put away £4,000 into the fund each year. It is available in cash and investment options, and the Government adds a 25% bonus to anything you pay in (up to that £4,000 limit).

HOW ARE OTHER PEOPLE INVESTING THEIR ISA?

The Government figures also give an insight into how other people are investing their ISA money, with a breakdown in the types of investments that people have picked.

In the past year there has been a dramatic increase in the number of investors using investment trusts. The total amount people have invested via investment trusts has risen almost 20%, from £14.5bn in 2017 to £17.3bn in 2018.

Alongside this there has also been a slight increase in the amount ISA investors are putting into shares – of 4% over the year - and a 6% increase in the use of funds.

However, investors have become more cautious in the year, as the amount of money left in cash within stocks and shares ISA accounts has risen – by 17%, from £11.4bn to £13.3bn.

Laura Suter, personal finance analyst, AJ Bell

TOTAL NUMBER OF ISA ACCOUNTS (THOUSANDS)

	Cash	Stocks and Shares	Total
2008-09	12,234	2,960	15,194
2009-10	11,426	3,011	14,437
2010-11	11,859	3,387	15,246
2011-12	11,187	2,863	14,049
2012-13	11,682	2,924	14,606
2013-14	10,481	2,992	13,473
2014-15	10,288	2,711	12,999
2015-16	10,118	2,539	12,657
2016-17	8,480	2,589	11,074*
2017-18	7,783	2,835	10,815**

Source: HMRC. *includes 5,000 Innovative Finance ISA accounts.
** includes 31,000 Innovative Finance ISA accounts and 166,000 Lifetime Isa accounts.

TOTAL AMOUNT SAVED IN ISAS (£MILLION)

	Cash	Stocks and Shares	Total
2008-09	30,383	9,711	40,094
2009-10	31,437	12,542	43,978
2010-11	38,197	15,515	53,712
2011-12	37,222	15,546	52,768
2012-13	40,901	16,459	57,359
2013-14	38,821	18,439	57,260
2014-15	60,951	22,288	83,239
2015-16	58,694	21,129	79,823
2016-17	39,191	22,325	61,552
2017-18	39,801	28,702	69,310

Source: HMRC. *includes £36m in Innovative Finance ISA accounts.
** includes £290m Innovative Finance ISA accounts and £517m Lifetime Isa accounts.

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INVESTMENT TRUSTS FOR GROWTH

Whatever your ultimate investment goals if you are looking to grow your portfolio then investing in investment trusts can offer many benefits. In some investors' minds investment trusts are solely synonymous with income, but there are many trusts that have a growth mandate, or a combination of growth with income.

There are lots of different ways that investments trusts invest to generate their growth. They can be used to get exposure to different markets and asset classes and understanding where and how they put their money to use can help you better understand which investment trusts are right for you.

Come to the free **Investment Trusts for Growth** event to hear insights from leading fund managers on how the investment trusts they are responsible for achieve growth, get your chance to ask the questions that matter to you and network with your fellow investors.

Baillie Gifford UK Growth Fund
The Trust aims to maximise capital growth over the long-term from with the majority of assets held in a 'best ideas' portfolio of approximately 40 UK listed equities.

Henderson Alternative Strategies Trust
Benchmarked against the FTSE World Total Return index using a multi asset approach the Trust aims to exploit global opportunities not normally accessible in one investment vehicle.

Lowland Investment Company
With an objective of delivering a combination of income and growth the Lowland Investment Company's portfolio is predominantly UK focussed and includes a blend of large, medium and smaller companies.

Fundsmith Emerging Equities Trust
Using the same strategy as the Fundsmith Equity Fund the Fundsmith Emerging Equities Trust invests in companies that have their operations, or revenue derived from, developing economies.

Fidelity Special Values Trust
An actively managed contrarian trust, with a UK focus, that invests in what it believes to be undervalued stocks with growth potential.

Click on this page for full details and to register for your complimentary ticket.

Event details

Registrations 18:00
Presentations start at 18:30
Complimentary drinks and buffet available after the presentations

Registration contact

Lisa Frankel
lisa.frankel@sharesmgazine.co.uk
020 7378 4406

WIN A HAMPER

Attend the event on 30 October 2018 and you will be entered into a prize draw to win a **Fortnum & Mason Wayfarer Hamper worth £150** which will be presented on the night (Terms and Conditions apply)

EVENT CHAIR

Daniel Coatsworth
Editor
Shares Magazine

How SIPPs can help reduce your IHT bill

Looking at what happens to your pension when you die

Historically the role of a pension was to provide an income throughout retirement, usually through the purchase of an annuity from an insurance company (unless you were lucky enough to have a guaranteed defined benefit plan).

However, the introduction of the pension freedoms in April 2015 has dramatically increased the flexibility of product, with savvy savers often using retirement products as part of a broader tax planning strategy.

Here's a quick guide to the treatment of pensions on death and how investing in a SIPP could help shelter your hard-earned retirement pot from the taxman.

TAX TREATMENT DEPENDS ON TYPE OF PLAN

The tax treatment of your pension on death will depend on the type of plan you have.

If you have a defined benefit (DB) pension or an annuity then normally you can't pass on your pot after death.

Most DB pensions do come with a valuable spouse's pension attached, usually paying out 50% of the value of your income stream after you die. You can also add a spouse's pension to an annuity, although unsurprisingly this extra benefit will come at a cost.

However, neither of these pensions allow future generations to inherit your fund.

Defined contribution (DC) pensions such as SIPPs provide more options. Any money that is left in your pot will usually be outside of your estate for inheritance tax (IHT) purposes, meaning you won't risk paying a 40% charge as you might with other assets above £325,000.

In fact, if you die before age 75 your fund will be paid to your loved ones tax-free, provided the money is 'designated' to your beneficiaries within two years of your death. 'Designated' just means transferring the money into your beneficiaries' names.

If you die after age 75 any leftover funds will be taxed at your beneficiaries' marginal rate of income tax. So for example if you leave £5,000 and your beneficiary has total income of £50,000, the inherited money will be taxed at 40% (£2,000).

TAX BILL MITIGATION

It is possible for your beneficiaries to mitigate their tax bill by choosing to take any inherited funds as an income through drawdown rather than as a single lump sum.

For example, if they have total taxable income of £30,000 and inherit a £50,000 SIPP, they might choose to take £10,000 a year (taxed at 20%) rather than taking the lot and seeing the lion's share taxed at the higher-rate of 40%.

If your nominated beneficiary doesn't withdraw all of the inherited pension before they die then they too can pass the money on to their loved ones, making pensions tax efficient vehicles for cascading wealth down the generations.

Tom Selby, senior analyst, AJ Bell

This is not the time to turn your back on technology stocks

As NASDAQ sets new records the tech sector is facing renewed valuation questions

On 29 August the NASDAQ composite, led by popular technology FANG stocks (Facebook, Amazon, Netflix and Google – officially called Alphabet) set a new record high, closing at 8,109.69. Year to date the index is up 15.7% compared to a 7.6% gain for the wider S&P 500.

Add Apple and Microsoft to the FANG gang (their relative size and influence demands we do), those six stocks have chalked-up an average 38% share price return in 2018, and notably that encompasses a 2% decline for Facebook. No wonder talk of a tech bubble has returned and people are wondering if the space is overvalued.

'The most common question I get asked as an analyst is whether we are heading for another crash like that in 2000,' says Richard Holway, a long respected technology analyst and founder of the website TechMarketView.

Recent reports of hedge fund rotation out of the technology space and growing short positions in popular tech stocks have helped fuel these concerns.

The biggest concern for investors is valuation. Market darling Advanced Micro Devices (AMD) is this year's best performing Nasdaq share, up 128% this year leaving it on a 2018 price to earnings (PE) multiple of 47.2. There are other stocks on even higher ratings.

So it is interesting to find that Alphabet, Facebook and Microsoft all trade on PEs of less than 30, while Apple's next 12 months ratio is 16.6, according to Reuters' data.

'At the end of July 2018, Microsoft was the third largest constituent of the MSCI All Countries World Growth Index and the fifth largest in the equivalent Value Index, whilst at one stage last year Apple topped both the MSCI Growth and Value Indices,' says Peter Askew, chief executive officer of Nottingham-based fund management boutique T Baile Asset Management.

PARTY, BUT IT'S NOT LIKE 1999

Multiple reasons stand between the tech bubble of 1999/2000 and now. Today's companies are (largely) hugely profitable with enormous cash-supported balance sheets and many revenues lines.

But perhaps the biggest single difference is how technology is now embraced and used, permeating every industry sector and the everyday lives of ordinary people. Back in 2000 most businesses could operate quite happily without the internet, emails or smartphones.

What technology investment experts believe is evident is that earnings growth is providing ample support for rising share prices. 'higher valuations largely reflect a strengthening US

economy, improved technology fundamentals and robust corporate earnings,' says Ben Rogoff, manager of **Polar Capital Technology Trust (PCT)**,

'I still like tech,' says Lars Kreckel, an equity strategist at Legal & General Investment Management. 'Alphabet and Amazon delivered another set of expectation beating quarterly results,' he says, even if Facebook, for the second time this year crashed the party after warning of slowing earnings growth in July.

'The market reaction to Facebook's results has been a useful reminder that the sector is not invincible,' says Kreckel after more than 20% was wiped off the social media platform share price.

Walter Price, manager of **Allianz Technology Trust (ATT)**, drew attention to Apple, whose second quarter results were better than expected. 'The real surprise for us was the services business, particularly iTunes and iCloud which both grew ahead of expectations,' Price says.

'We saw that the cloud computing theme continues to expand, with providers generally meeting or exceeding market expectations,' says Price.

A FEW GOOD STOCKS

This has led to claims of polarisation of stock performance, with a relatively small number of strong performing share prices driving the lion's share of stock market returns. The S&P 500's five largest companies (all tech firms; Apple, Alphabet, Microsoft, Amazon, Facebook) are worth 16% of the entire index.

This some experts believe is often a warning signs of an over-inflated stock market. Yet there would seems to be some inevitability about this when fund managers are often focusing on buying only the biggest and best in class within a niche industry or market.

'History shows that stock market returns are driven by a small group of big winners and it is the job of the investment manager to identify such companies and then invest in them with conviction,' that's how James Anderson and Tom Slater see it.

They run the **Scottish Mortgage Trust (SMT)**, one of the UK's most popular investment trusts, and while not strictly a tech fund, its focus on long-term growth opportunities means many of the FANG+AM stocks sit in the portfolio – Amazon is its biggest holding and is worth 10.2% of its invested funds.

Polar Capital Technology's Rogoff points out digital transformation and public cloud stocks such as Twillio, RingCentral, Five9, Ansys, Cognex, GrubHub 'all reporting strong quarters,' which helps illustrate the broader spread of performance than many investors may realise.

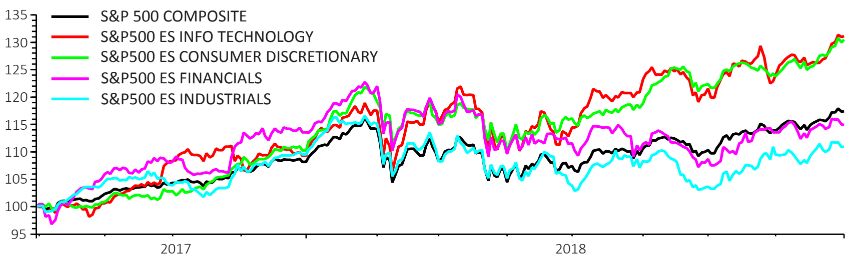
The technology sector's price to earnings multiple expansion may be running out of steam, believes Rogoff, yet this could be a positive for share prices as investor turn their attention on the underlying superiority of earnings within the sector.

This could mean a narrower group of winners drive strong returns, bringing us back to the polarising effects potentially at play on global stock performance.

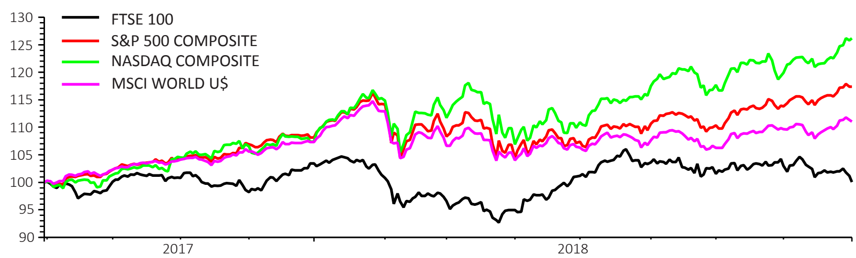
'If we are correct, this should continue to favour our growth-centric investment approach,' believes Rogoff.

'That's not to say that a correction won't happen,' points out Richard Holway, but 'I think that it's the global economy as a whole that runs the greatest risk - it is not tech specific.' (SF)

SECTORS



MARKETS



Cracking the performance code

Understanding the mechanics of performance is a vital weapon in your fund investing armoury

Among the prime considerations when selecting a fund or investment trust for portfolio inclusion – and remember there's a bewildering array of options available – is the small matter of performance.

Even a casual observer of the investment scene will have come across the well-worn phrase 'past performance is no guide to the future', and yet careful scrutiny of past performance can help you to understand the characteristics of a fund and the pedigree of the manager making the asset allocation decisions.

Performance data is readily available on the websites of individual fund providers, fund supermarkets and platforms including *Youinvest*, and via the fund factsheet or specialist websites including *Trustnet* or *Morningstar*.

That said past performance metrics genuinely aren't a reliable guide to future performance. You'll still need to ask whether the performance return denotes capital return or total return, if the performance is shown before or after tax and before or after charges, how the portfolio has performed relative to its benchmark and how is it performing versus other funds in its sector.

You'll also be looking for absolute performance, rather than relative to a benchmark and also to find out whether the past performance shown on the factsheet is the fund manager's entire track record; the current manager may only have been running the portfolio for short while, rendering historical, long term data largely irrelevant.

DIFFERING DATA

The majority of fund factsheets show total return figures, signifying the return you would have received from reinvesting the fund's income into the fund. Normally, performance data are provided for one, three and five year periods, stretching to ten years for longer-established funds, as well as the performance since launch and in individual years.

In the unit trust and OEIC universe, performance data is compared against a relevant sector from the Investment Association (IA) and typically shows the fund's ranking within the sector over different time periods.

Fund factsheets also supply 'cumulative' and 'discrete' performance data, on a percentage growth basis, the former presented as a graph and the latter as a bar chart on the factsheet.

Cumulative performance shows the aggregate performance from a fund from launch over various time periods from launch and represents the portfolio's overall long-term performance.

Discrete performance refers to a specific series of periods. For example, discrete quarterly or discrete annual performance would show a fund against its benchmark for each quarter or year since its launch.

In short, it makes sense to evaluate a fund manager's performance on both measures, since the cumulative performance could be flattered by a short period of stellar performance when the stock picker's investment style or sector was in fashion.

Examining the performance in discrete periods can tell you if the manager has consistently outperformed or delivered a lumpy performance. Another term you might encounter is annualised return, which refers to the conversion of the return on an investment into a yearly rate.

THE BIGGER PICTURE

Investors shouldn't solely rely on a fund's long term past performance record, since this can potentially lead to a misreading of the bigger picture.

For example, a fund with a strong 10-year performance track record may have delivered exceptionally strong performance for the first two years following launch, and then had poor or below average performance for the subsequent eight years. Investors should therefore be factoring in a review of discrete calendar year performance.

This would involve looking at each year to see if the manager has consistently beaten the fund's benchmark. A manager that beats their benchmark six or seven years out of ten is doing well and is more likely to deliver consistent outperformance in the future.

Also, if you are wondering why the data for the same fund are different, this will be because there are different types of units or shares; an 'income' class that pays out dividends directly into your dealing account, ISA or SIPP and an 'accumulation' class that rolls up dividends and other forms of income and puts them back into the fund.

This has the effect of increasing the value of each unit or share held, which will drive up the performance figures.

As the latest Trustnet data for **Invesco Perpetual Global Smaller Companies Z Acc (B8N46D9)** reveal, the Nick Mustoe-managed fund has delivered a five-year cumulative performance return of 90.1% versus 75.6% for the IA Global sector, a superior performance than shown for the income class, **Invesco Perpetual Global Smaller Companies Inc**, up 83.1% versus 75.6% for the aforementioned sector.

Significantly, the discrete performance data for this fund provides you with a clearer picture of performance versus the sector in different periods and market conditions; for instance, the fund was comfortably ahead on a 36-48 month view, but is behind the sector on a 0-12 month view.

Investors seeking a deep dive into performance can also visit Morningstar, where you can examine a fund's annual price return and its annual returns plus or minus its 'category', Global Small-Cap Equity in the case of Invesco Perpetual Global Smaller Companies, and plus or minus its 'category index', being the MSCI World Small Cap here.

Morningstar also provides the fund's annualised returns over one, three, five and ten years. '+/- Category' shows how the fund has performed compared to the average of all of the funds in the same category. (JC)

What needs to happen for gold to shine again

We examine why the precious metal is unloved and potential catalysts to get the price moving upwards

By Russ Mould, investment director, AJ Bell

As regular readers will doubtless be painfully aware, this column shares Warren Buffett's view that the best time to start researching – or even buying – an asset is when no-one else is. Anyone who sympathises with that contrarian take on markets and asset allocation might therefore be thinking about gold, not least because no-one else seems to be.

In August the metal dipped below $1,200 and reached its lowest level since January 2017.

This slide may seem all the more surprising to some advisers and clients given its status as a perceived haven in times of strife. It would have been logical to expect the gathering crises in Turkey and Argentina, for example, to take gold higher but nothing of the sort has happened.

This could be because markets are still of the view that Turkey and Argentina represent a little local difficulty but nothing more and certainly nothing with the power to roil markets on a global basis. Such complacency proved ill-founded when it came to a devaluation of the Thai baht in 1997 and a downturn in the Florida property market in 2007 and only time will tell this time around.

But, besides faith in the global economic outlook, there is an even more powerful force that is working against gold (oddly, just as it is against Turkey and emerging markets more generally). That is the dollar.

DOLLAR DYNAMIC

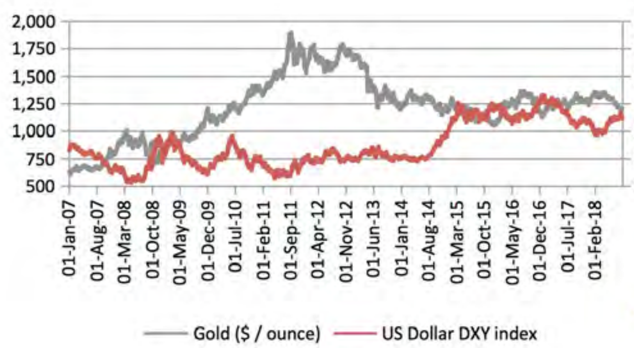
Like most raw materials, gold is priced in dollars, so if the greenback goes up then the precious metal becomes more expensive to buy in local-currency terms, potentially dampening demand (or so the theory goes).

Financial market participants' awareness of this historic relationship means they could also look to ride dollar strength by shorting gold, selling it now to try and buy it back later at a lower price and pocket the difference as a profit.

It is possible to track short positions in gold via futures contracts on America's COMEX, for both commercial and non-commercial interests.

Each futures contract represents 100 ounces of gold.

KING DOLLAR HAS BEEN LORDING IT OVER THE GOLD PRICE



Source: Thomson Reuters Datastream

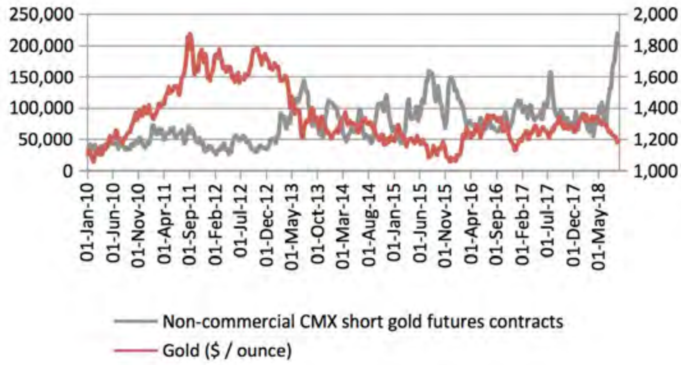
Commercial traders are likely to be gold miners or consumers of the metal such as jewellers who may use futures contracts to hedge their exposure or lock in prices at a certain level, but non-commercial traders are financial market speculators.

What is interesting here is that non-commercial short gold futures contracts have surged from 73,905 in June to 222,210, a figure which is more than double the amount of bearish positions on gold a year ago and the highest going back at least 20 years.

The implication is that bears are clearly stomping on gold, with dollar strength as the most likely pretext for doing so.

Contrarian advisers and clients may be intrigued to note that short futures positions against gold have surged by more than 100% year-on-year on several occasions since 2010. Gold subsequently rallied on almost every occasion, although it must be acknowledged that 2013 a notable exception.

SHORT POSITIONS AGAINST GOLD HAVE SOARED DURING THE SUMMER



Source: COMEX, Thomson Reuters Datastream

SHORT SQUEEZE

Fans of gold will therefore be arguing that all of the bears have piled in, given the huge number of short positions, leaving gold ripe for a snapback if the sceptics are put to flight.

The question is what could be the trigger for that? One possibility is central bank policy, because of its impact on the dollar.

The US currency is gaining as the US Federal Reserve reduces its Quantitative Easing programme and markets prepare themselves to be further deprived of liquidity by an end to increased QE from the European Central Bank. The Bank of England has already stopped adding to QE, leaving just the Swiss National Bank and the Bank of Japan to create money out of thin air.

Gold has done well when central banks have been adding to QE (amid fears the monetary authority have lost control of the global economy) and badly when they have not (in the view that the central banker have everything in hand and there is no need to create more 'money').

In sum, gold may well thrive if central banks, for any reason, find themselves obliged to stop raising interest rates, or start cutting them, or – most dramatically – crank up the electronic printing presses and turn to QE once more.

That may seem outlandish right now.

But an expansion in the aggregate assets of the British, EU, American, Swiss and Japanese central banks from $3.5tn to $15tn from 2007 to 2018 would have seemed like science fiction a decade ago and the Fed moved to bail out the Long Term Capital Management hedge fund at a cost of $3.6bn in 1998 after the Asia and Russian debt crisis.

Who knows, Turkey's crisis could still have wider implications than we dare imagine, to the benefit of gold and gold miners, while a surge in global indebtedness since 2007 could still oblige central banks to return to record-low interest rates and QE if – and when – the next global downturn comes.

HOW TO TAKE THE EMOTION OUT OF INVESTING

WE REVEAL THE TOP TIPS THAT CAN HELP YOU KEEP A COOL HEAD

It has been a volatile year for global equities as trade wars, geopolitical crises and Brexit negotiations have all soured investor sentiment.

It can be tempting to follow the herd and sell when things go sour or buy when everyone is confident, but investors should avoid acting impulsively and instead follow a clearly thought through strategy.

Unfortunately, this is easier said than done.

In this article we talk to the experts about how people can adopt a practical response to investing and avoid emotions clouding their decision making.

IGNORING YOUR INNER EEYORE

Fear can often play a part in rash investment decisions, especially in light of traumatic experiences with long-lasting effects such as the financial crisis in 2008.

'Try to put the depressing headlines into perspective, ignore your inner Eeyore and confront your fears with rational exuberance,' advises 7IM senior investment manager Dr Alessandro Laurent.

Focusing on fear and the worst outcomes are clearly bad for investors hoping to keep a cool head, but what strategies can people adopt to avoid acting on natural emotional responses?

Potential strategies include building a diversified portfolio, buying low and selling high, as well as avoiding timing the market.

One of the best ways investors can guard against volatility is diversification by spreading their money across various assets, including equities, commercial property and cash.

Having too much money in one area is dangerous according to Chase de Vere communications head Patrick Connolly.

Underperforming areas can negatively hit finances and lead to irrational decisions such as selling out after losses have already been made – or investors can be too optimistic and take on too much risk.

DON'T TRY TO TIME THE MARKETS

Drip feeding cash deters people from trying to time the market. James Hambro financial planner Charles Calkin warns against timing the market as it is 'notoriously difficult.'

'Try to remember that bubbles always burst and markets are good at picking themselves up off the floor, even when they look unconscious,' comments Calkin. For this reason it is often said that 'time in the market is better than timing the market'.

When markets are falling it is easy to let your emotions take over, making you nervous and reluctant to put money into shares.

In the short-term this might protect you from losses, but you could also miss out on returns when stocks rebound. By investing on a monthly basis, you will be well positioned for a recovery when it comes.

Another good strategy is to regularly rebalance financial portfolios. The idea is to periodically sell assets that have gone up and buy more of those that have fallen, in order to get back to a more balanced allocation towards different asset classes.

This helps to keep a more consistent level of risk exposure, and also encourages the discipline of selling assets that have appreciated and buying those that may have become relatively and temporarily undervalued.

DON'T LOOK TOO OFTEN

Equities can experience sharp moves with some global markets suffering declines on the back of factors outside of investors control such as potential trade wars and the direction of interest rates.

For investors, it can be scary seeing a sector out of favour or declines in global stock markets.

One way to avoid the emotional rollercoaster of short-term volatility is to not look at your portfolio every day.

Calkin believes investors will be happier (and potentially wealthier) by leaving their portfolio alone – as long as it is well balanced and diversified.

WHY PASSIVE FUNDS COULD BE A SMART OPTION

Connolly believes people can often try and pick outperforming funds if there is a lot of hype or if it is led by a star manager.

This can be a risky move as people can become emotionally attached to funds, making it more difficult to make logical decisions.

By choosing a passive fund, investors are less likely to try and predict whether it will outperform or underperform and will also benefit from lower charges. (LMJ)

Immotion looks to put some magic into leisure and shopping centres

The company has grand plans to profit from high footfall locations by offering virtual reality experiences

Virtual reality (VR) hasn't been the mainstream hit with consumers widely predicted a few years ago, despite equipment coming down in price and it being a fascinating experience.

There are a few obvious explanations such as the technology sometimes causing motion sickness, the price point still being too high for the mass market, and TV or online advertising failing to give viewers a chance to properly appreciate the experience of VR and entice them to buy the products.

What's clear, however, is that VR is not going to be written off as a failed experiment. While it may not be omnipresent in the home for some time, if at all, VR may still have a future as a leisure experience in theme parks, shopping centres, museums and more. And that's what **Immotion (IMMO:AIM)** is banking on.

The £26m company develops content to be used on a range of VR motion platforms which also house its bespoke content management system. These are being rolled out to big leisure operators such as **Merlin Entertainments (MERL)** and shopping centres, either as standalone shops or booths in the middle of malls owned by the likes of **Hammerson (HMSO)** and **Intu (INTU)**.

From an investment perspective, Immotion is still early stage and loss-making. However, chief executive Martin Higginson says its shopping centre operations are all profitable (and expanding).

Higginson says the £5.75m raised at the stock market listing will 'last the business to profitability'. Stockbroker WH Ireland forecasts maiden pre-tax profit of £0.1m in 2019, rising to £2.1m in 2020.

Some of Immotion's development plans include the provision of a motion platform to clients free of charge in exchange for a revenue-share agreement. For that, the CEO says any working capital requirements might be funded through debt agreements rather than raising new money from shareholders.

THE CORPORATE STRATEGY

Immotion currently buys motion platforms from Chinese manufacturer Leke and adds its own content management system, a Windows 10 operating system and headsets from HP and Microsoft.

It then feeds these VR machines with content developed in-house such as experiences involving rollercoasters, horror scenarios, driving games and underwater exploration.

A direct-to-consumer proposition sees these machines placed in shopping centres, so far having a presence in four sites: Bristol, Manchester, Castleford and Cardiff. Further locations are expected to be announced shortly. Customers pay £5 for a five-minute experience.

The other way in which Immotion makes money is to either sell the machines outright to a third party and earn 50p per game play as a content royalty.

Or it strikes partnerships to supply a third party with a machine for free and earn a share of the revenue each time someone plays on the machine. This model enables Immotion to overcome the problems that often come with dealing with large companies where buying decisions can be lengthy procedures.

For example, gambling group **Rank (RNK)** is currently piloting the machines in its casinos and two Merlin-run Lego Discovery Centres in Boston (US) and Manchester have already signed up.

With the latter, visitors strap on a VR headset, sit in a pod that moves around and experience a 2.5 minute Lego-themed race.

'Every week we are seeing increased usage and therefore higher revenue,' says Higginson about the Merlin-located machines. 'We believe it has added significant ancillary revenue to the Lego centres. The aim is to roll out the machines across other Merlin sites, but nothing is signed yet.'

The CEO says museums, aquariums and zoos have found it hard to increase footfall with numbers static over the past decade. Adding a VR machine is a proven way of increasing customer's average spend per head, he argues, saying people are prepared to pay extra for the experience.

Sir David Attenborough at Yorkshire Museum

LOW PRICING POINT

Immotion has deliberately kept its price-point low in order to have mass market appeal. As a comparison, another firm called The Void is charging £35 in the US for whole-body, fully immersive VR experiences based on the *Ghostbusters* and *Star Wars* films. Higginson says the experience is great but many families can't afford it and those that can may only do it once a year.

He wants Immotion's customers to come back again and again and has recently started leaderboards in the shopping centres to encourage competition – and it is working.

The company's own costs are kept low by sweating its asset such as a 'build once, sell multiple times' model. For example, it is developing a Jurassic experience and can edit the final version to tailor different markets. This might be focusing on the educational bits with a new voice-over for museums, or adding in a rollercoaster and more dinosaurs attacking the viewer if a client wants more thrills.

The CEO says the shopping centre model is being refined with a viewing to signing franchise agreements in the near future. Its platform sells for £15,000 retail and the sites often have four machines, so a total cost of £80,000 when also including displays and a till. 'We believe a franchisee could put a £24,000 deposit down and earn a £50,000 to £60,000 salary.'

He says landlords are eager to have more VR pods as it brings a sense of excitement to their shopping centres and also gives consumers another reason to visit the shops.

Analysts predict Immotion could end 2018 with 200 motion platforms in action, rising to 1,000 next year. Hollywood studios have also been sniffing around, wanting to use Immotion to promote certain films via VR to offer a different experience to the cinema. Higginson says he only wants to enter into talks once Immotion has bigger scale.

'The conversation would be more meaningful once we have 1,000 seats.' By that point it could be serving 60,000 experiences a day or close to half a million per week. (DC)

KEY

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

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ASOS (ASC:AIM) 8

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Interims

7 Sep: EnQuest. **11 Sep:** Ashtead, Cairn Energy, JD Sports Fashion, Team17. **12 Sep:** Advanced Medical Solutions, Ten Entertainment. **13 Sep:** GVC, WM Morrisons.

Trading Statements

10 Sep: Associated British Foods.

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