STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 20 / ISSUE 37 / 20 SEPTEMBER 2018 / £4.49

SHARES

WE MAKE INVESTING EASIER

The best FUNDS ON THE MARKET

Your shortcut to picking the freshest investments

IS THE MOOD WRONG ON EMERGING MARKETS?

WHY VAPING CRACKDOWN COULD BENEFIT UK TOBACCO SHARES

•INSIDE•
WOMEN AND INVESTING

Turn to well-run businesses when times get tough

Finsbury Food is a great example of a company that has proved it can navigate challenging market conditions

The ability to successfully navigate endless market challenges is the sign of good management and a well-run business. Investors seeking examples should look no further than **Finsbury Food (FIF:AIM)** which has just served up an impressive set of full year results.

While you may think that baking bread and cakes isn't challenging, this company is currently battling with a multitude of headwinds, any of which has the potential to cause a profit warning. Fortunately the business has so far coped very well and the underlying business looks healthy.

Understanding the risks around an investment is very important when you're researching a stock. It is paramount that you appreciate what could go wrong, rather than simply lock on to what could go right and how much the end market is worth.

In Finsbury Food's case, it is battling raw material price inflation, a consolidating customer base – namely **Sainsbury's (SBRY)** and Asda – and a segment of its end market going through turmoil (being casual dining restaurants).

Against this backdrop it has managed to deliver 4% rise in annual adjusted pre-tax profit to £17.2m, a 10% hike in the dividend to 3.3p, a 10.5% reduction in net debt to £15.6m and maintained capital investment levels at £12.6m. On an unadjusted basis the results were distorted by closing a loss-making factory.

'Management has delivered a stellar performance by controlling costs and maintaining margins in a challenging market environment,' says Cenkos analyst Zane Bezuidenhout.

Finsbury Food's chief executive John Duffy attributes the success to a tight focus on efficiency and the benefits of earlier investments.

While general food price inflation in the grocery sector is slowing down, bakery price inflation is

still running at 2.5% to 3%, says Duffy, referring to items like flour, butter and eggs. 'It is our job to work with our customers to try and avoid as much inflation feeding through to the consumer as possible,' he adds.

The CEO says the relationship between Finsbury Food and its customers – the companies selling its goods rather than consumers – is increasingly collaborative in nature. This arguably puts Finsbury Food in a stronger position and means it isn't creating products simply in the hope that a supermarket or retailer will buy them.

The latest performance should provide some reassurance to investors that the company has the skills to manage its challenges, which could get worse. Principally the risk is that prices will either have to go up or profit margins could fall.

Duffy seems relaxed about Sainsbury's merging with Asda, despite fears among the supply chain that a larger business will demand cheaper prices and squeeze suppliers' margins.

Finsbury Food potentially faces higher logistics and administration costs as a number of its butter and egg products are imported from Continental Europe. Brexit could increase custom border checks and require Finsbury Food to hold higher stock levels to ensure it has sufficient ingredients to hand.

It won't be alone in having to deal with such issues and investors should brace themselves for a possible bumpy ride. Yet if you're happy to invest in a small company, surely it is better to back one with a proven track record of dealing with problems rather than one that is simply hoping for the best? (DC)

Contents

VIEWING SHARES AS A PDF?
CLICK ON PAGE NUMBERS TO JUMP TO THE START OF THE RELEVANT SECTION

DISCLAIMER

IMPORTANT

Shares publishes information and ideas which are of interest to investors. It does not provide advice in relation to investments or any other financial matters. Comments published in Shares must not be relied upon by readers when they make their investment decisions. Investors who require advice should consult a properly qualified independent adviser. Shares, its staff and AJ Bell Media Limited do not, under any circumstances, accept liability for losses suffered by readers as a result of their investment decisions.

Members of staff of Shares may hold shares in companies mentioned in the magazine. This could create a conflict of interests. Where such a conflict exists it will be disclosed. Shares adheres to a strict code of conduct for reporters, as set out below.

1. In keeping with the existing practice, reporters who intend to write about any securities, derivatives or positions with spread betting organisations that they have an interest in should first clear their writing with the editor. If the editor agrees that the reporter can write about the interest, it should be disclosed to readers at the end of the story. Holdings by third parties including families, trusts, self-select pension funds, self select ISAs and PEPs and nominee accounts are included in such interests.

2. Reporters will inform the editor on any occasion that they transact shares, derivatives or spread betting positions. This will overcome situations when the interests they are considering might conflict with reports by other writers in the magazine. This notification should be confirmed by e-mail.

3. Reporters are required to hold a full personal interest register. The whereabouts of this register should be revealed to the editor.

4. A reporter should not have made a transaction of shares, derivatives or spread betting positions for seven working days before the publication of an article that mentions such interest. Reporters who have an interest in a company they have written about should not transact the shares within seven working days after the on-sale date of the magazine.

Is the market at peak bearishness on emerging markets?

We reveal why the team behind new Mobius EM trust is confident in a recovery

Emerging markets have been having a tough time this year as a stronger dollar and weakened investor sentiment have hit performance.

The accompanying chart, based on the latest Bank of America Merrill Lynch fund manager survey, shows the extent to which fund managers are bearish on emerging markets relative to the 17-year history of the survey.

It is also important to note that the main stock market index in China – the Shanghai Composite – is currently trading at the same level it did at the start of 2007, illustrating how certain markets have struggled to make progress.

But the team behind upcoming stock market float **Mobius Investment Trust** believes the market is wrong to remain so pessimistic.

The trust aims to raise over £200m when it debuts on the London Stock Exchange on 1 October.

The average correction for emerging markets has generally been seven months, with the longest lasting just over a year, according to Mobius Capital Markets' founding partner Greg Konieczny.

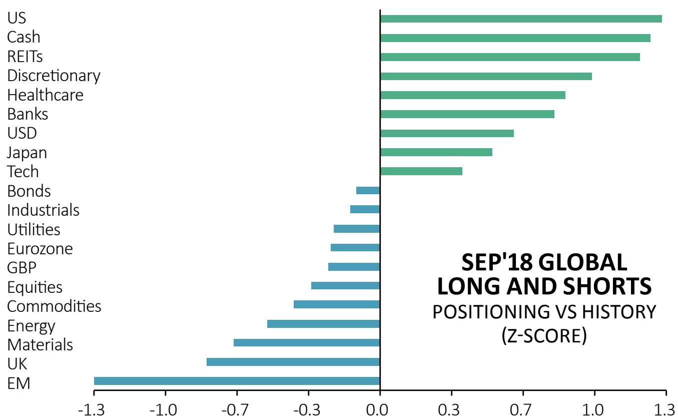
INVESTORS 'OVER-EMOTIONAL' ON EMERGING MARKETS

Fellow Mobius founding partner Carlos von Hardenberg insists emerging markets will recover and investors will become rational as they realise fundamentals are robust as companies enjoy strong earnings.

They argue that over the last decade, emerging market firms have been tapping into industries like steel and car-making traditionally dominated by the West. This has helped them to generate good earnings and benefit from domestic demand.

According to von Hardenberg emerging markets also feature lower debt levels, controllable inflation and benefit from a population boom and surging demand, making companies less dependent on international trade.

THE LATEST BANK OF AMERICA FUND MANAGER SURVEY ILLUSTRATES INSTITUTIONAL INVESTORS ARE LARGELY NEGATIVE ABOUT EMERGING MARKETS.



Source: BofA Merrill Lynch Global Fund Manager Survey.
*Data since 2006 for commodities & real estate; since 2001 for all others.

INVESTING IN UNKNOWN UNDERDOGS

Konieczny and von Hardenberg's counterpart Mark Mobius, a veteran of emerging markets investing, believes the new investment trust differs from its rivals by focusing on undervalued firms with the potential for environmental, social and governance (ESG) improvements.

He says companies developing and adopting technology as well as healthcare and education businesses are of particular interest as these are expected to grow rapidly in the future.

Unlike other investment trusts, Mobius explains his new fund is not going to invest in well-known emerging market 'champions' or slavishly follow an index. Instead the focus will be on smaller family-run companies which are open to change.

Mobius is confident that developing an action plan on how to improve governance in these businesses should reduce risk and help these firms enjoy a re-rating. (LMJ)

Is ITV about to pay £3bn for Endemol?

There are question marks over the merits of the deal and how it would be funded

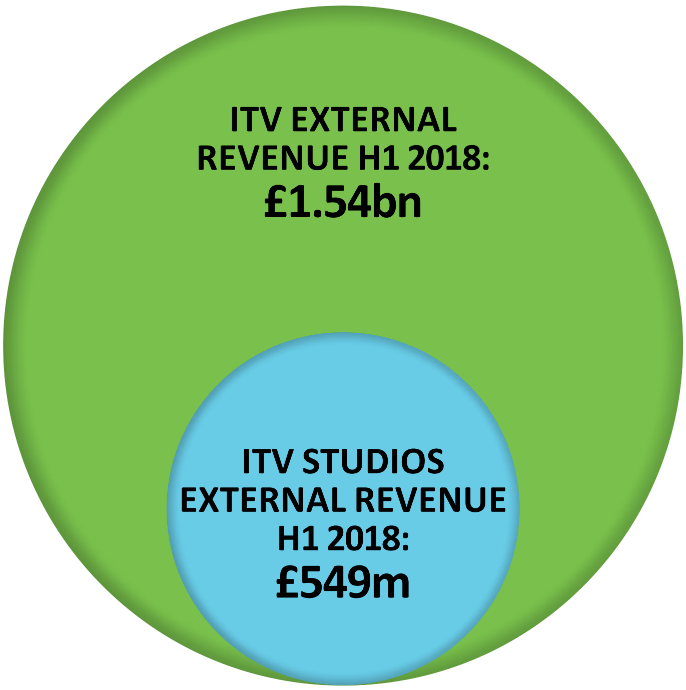
Free-to-air broadcaster **ITV (ITV)** is widely reported to be in the bidding for independent production business Endemol Shine with a mooted price tag of £3bn.

Probably most famous for creating the *Big Brother* series, Endemol is also behind TV hits like *The Fall*, *Peaky Blinders* and *MasterChef*.

Two factors lend credibility to the reports; one is the link with ITV's chairman Peter Bazelgette who was previously chief creative officer and UK chair of Endemol.

The second is new ITV chief executive Carolyn McCall's emphasis on continuing a strategy pursued under her predecessor Adam Crozier of diversifying away from volatile TV advertising revenue by boosting the company's ITV Studios production arm.

Structural trends in the television market, particularly the demand for content from streaming services like Amazon Prime Video and Netflix, make this a logical plan and in 2016 the company made an ultimately failed bid for the owner of *Peppa Pig*, **Entertainment One (ETO)**.



Source: ITV

ITV's production arm is already growing, with revenue up 16% in the first half of the year, but in terms of external revenue, i.e. for those shows not sold directly to ITV itself, it still represents only around a third of the business.

Buying Endemol could therefore be a short-cut to rapidly increasing the scale of ITV Studios but it would represent a very bold move by McCall early in her tenure. It would likely require ITV to raise a lot of new money, plus it would be acquiring a company in a weak financial position.

Currently owned by private equity firm Apollo and 21st Century Fox, Endemol is heavily indebted and made an operating loss of £18.7m in 2017.

Analysts at Macquarie note big content deals like this rarely create value as it is difficult to retain the talent behind said content once earn-out periods have expired.

Their counterparts at Deutsche Bank comment: 'The valuation looks challenging for an asset with a mixed recent operating performance, other bidders have already walked away, and the deal would involve a material increase in leverage and/or a capital raise.' (TS)

Mining sector down nearly 13% this year on multiple headwinds

Nine out of 11 FTSE 350 sector constituents have seen their share price fall so far in 2018

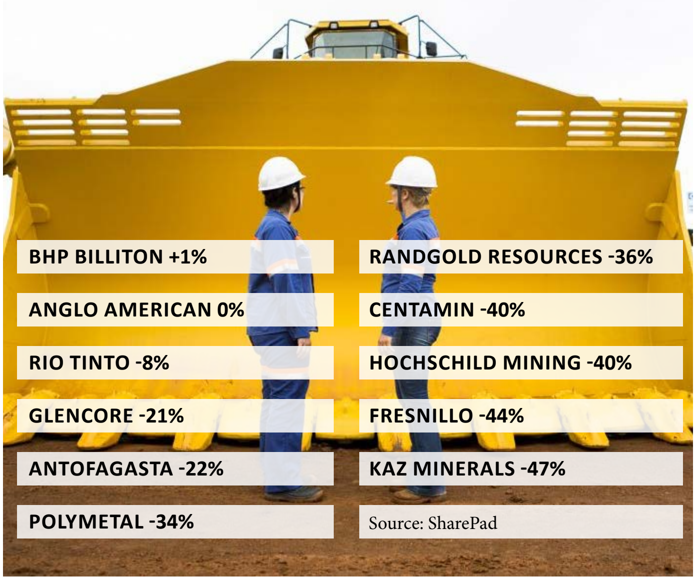
The FTSE 350 mining sector has disappointed investors this year, down 12.7% in value.

Most companies should have been in better financial and operational shape, having streamlined over the past five years following the previous commodities crash. Unfortunately a multitude of factors have weighed on share price performance.

The escalating trade war between the US and China has been a major factor as investors fear that Chinese commodities demand will be hit. Exacerbating the situation has been tighter credit in China acting as another headwind for commodities demand.

The Chinese government recently appears to be more accommodative around monetary policy such as providing liquidity for inter-bank lending, although there are no signs of 'stimulus flood gates opening', says Liberum analyst Ben Davis.

FTSE 350 MINING SHARES YEAR-TO-DATE



BHP BILLITON +1%	RANDGOLD RESOURCES -36%
ANGLO AMERICAN 0%	CENTAMIN -40%
RIO TINTO -8%	HOCHSCHILD MINING -40%
GLENCORE -21%	FRESNILLO -44%
ANTOFAGASTA -22%	KAZ MINERALS -47%
POLYMETAL -34%	Source: SharePad

12 MONTH COMMODITY PRICE MOVEMENTS

Gold -9% Iron ore -10% Copper -10%

Source: Trading Economics

He says it is difficult to be negative on diversified FTSE 100 miners such as **Glencore (GLEN)** and **Rio Tinto (RIO)** because of momentum in the Chinese property development market.

'However we could be in a very different position by the end of the year if the Chinese government have not pushed on the monetary stimulus accelerator pedal.' He fears that property developers will be left with excess inventory if the current cycle runs out of steam.

Some mining stocks have suffered because of company-specific issues. Kazakhstan-based copper miner **Kaz Minerals (KAZ)** is down 47% year-to-date in part caused by negative reaction to a $900m deal to buy a Russian copper project. Analysts questioned the logic, saying it requires high capital expenditure and is located in a very difficult place to work because of extreme cold temperatures.

Precious metal miners **Fresnillo (FRES)** and **Centamin (CEY)** has suffered from operational issues. **Randgold Resources (RRS)** has battled resource nationalism issues; and Glencore has been engaged in a court battle.

Rio Tinto and **BHP Billiton (BLT)** are either sitting on, or are about to receive, a lot of cash generated from operations and asset sales. There is limited appetite to do large deals in the mining sector at present, so this cash is ultimately being used to fund dividends and share buybacks.

Shares in **Anglo American (AAL)** have outperformed the sector, albeit they are only flat year-to-date. It has been linked with potential carve-out interest from 19.35% shareholder Volcan. (DC)

Rail infrastructure services group Readypower set to unveil IPO plans

The company operates in a market where Network Rail is set to spend big money

Rail specialist **Readypower** is preparing to float on London's Main Market and may interest investors looking for a different way to play the infrastructure sector.

Established in 1992 and currently owned by private equity firm Primary Capital Partners, Readypower has two divisions.

The rail services arm hires out specialist construction and maintenance vehicles which can be driven on road and rail as well as carrying out operational and compliance planning work. It also owns civil engineering business Readypower Terrawise, acquired in November 2017.

Readypower's customers include Network Rail, Amey, **Balfour Beatty (BBY)** and Keltbray.

Network Rail is projected to spend £47bn between April 2019 and March 2024 with more than two thirds of this cash allocated to network maintenance and renewals where Readypower is principally focused.

The company reckons it is at an advantage compared to its major competitors as it can offer an integrated service and has a more modern fleet of road and rail vehicles.

In the 12 months to 31 March the company generated revenue of £44.4m, up 38.2% year-on-year, with around £5.2m of this revenue linked to the Terrawise acquisition.

It intends to have a progressive dividend policy. (TS)

Manx plots hearing aid to boost profit growth

Isle of Man telco eyes direct to market and reseller opportunities

ISLE OF MAN communications network incumbent **Manx Telecom (MANX:AIM)** plans to launch a specialist mobile communications service specifically designed for the approximately 11m Brits that struggle with hearing difficulties.

Analysts are confident this could provide the company with a valuable growth lever for what is otherwise a largely mature, yet highly cash generative company.

The stock's main attraction for investors has largely been its hefty income. Shares in Manx, at the current 169p, imply a 2018 dividend yield of 7.1%, and 7.5% for 2019, based on forecasts.

The hard-of-hearing product has been developed by Goshawk Communications, majority owned by Vannin Ventures, the growth arm set up by Manx to identify new business opportunities.

Manx's main opportunity will be via the mobile virtual network operator (MVNO) venture it will set up using **BT's (BT.A)** EE mobile network. The company is confident it can win circa 600,000 customers over the next five years. Manx will also provide the product to other mobile and fixed-line telecoms suppliers, earnings a licence fee per user.

Analysts at broker Peel Hunt calculate this could add something like £9m to £10m in annual earnings before interest, tax, depreciation and amortisation (EBITDA) to Manx over the coming years based on mid-point assumptions. Manx is expected to report £27.7m of underlying EBITDA for 2018. (SF)

Looking for growth, income and low volatility?

SENECA
INVESTMENT MANAGERS

Seneca Global Income & Growth Trust plc

Our multi-asset expertise and approach have delivered successful outcomes for investors over the last five years.*

The Seneca Global Income and Growth Trust plc is designed for investors seeking a quarterly income with long- term capital growth and low volatility.

The Trust employs a proprietary Multi-Asset Value Investing approach. The core principle of value investing, buying good quality assets when they are under-valued is traditionally associated with equities. We apply a value approach to everything we do. Led by Peter Elston, the Investment Team manages the Trust through in-depth research into asset allocation and the various asset classes we invest in.

In the UK, we focus on mid-cap equities. For overseas equities and fixed income, we use third party funds which share our value style. Elsewhere, we focus on property, infrastructure, specialist financial and private equity which together we call specialist assets. Each area contributes both to the capital return and the income generation of the Trust.

Growth, Income and Low Volatility

- The Trust pays quarterly dividends, offering a current yield of circa 3.8%[1]. Over its last five financial years to April 2018 the Trust has grown its dividend at a compound rate of 4% per annum, ahead of CPI every year.**
- Over a typical investment cycle[2], we aim for the Trust to achieve a total return of at least CPI plus 6% after costs, with low volatility. In addition, we aim to grow aggregate dividends at least in line with inflation.
- Over the five years to end July 2018, the Trust delivered an NAV return of +47.5% with volatility circa two thirds that of the major equity indices[3]. Details of the Trust's returns can be found in the performance tables below.

Cumulative performance (%) to 31.07.2018	3 months	6 months	1 year	3 years	5 years
Trust share price	0.5	0.4	2.5	33.3	66.0
Trust NAV	1.1	1.0	2.7	30.4	47.5
Benchmark[4]	1.7	4.3	8.7	16.5	25.0

Discrete annual performance (%)	31 July 2018	31 July 2017	31 July 2016	31 July 2015	31 July 2014
Trust share price	2.5	22.1	6.5	11.4	11.8
Trust NAV	2.7	20.1	5.7	7.5	5.2
Benchmark[4]	8.7	3.5	3.6	3.6	3.5

Find out more about Seneca Investment Managers at senecaim.com or call us on 0151 906 2450

Things To Be Aware Of

[1]Current yield: the yield calculation is based on the latest quarterly dividend, annualised, compared against the month end share price.

[2]Seneca Investment Managers Ltd defines a typical investment cycle as one which spans 5-10 years, and in which returns from various asset classes are generally in line with their very long term averages. There is no guarantee that a positive return will be achieved over this or any other period.

[3]Annualised volatility of returns over five years versus FTSE World ex-UK and FTSE All Share.

[4]Benchmark: CPI plus 6% from 06.07.17. Previously LIBOR GBP 3 Months plus 3%, all after costs for the period ending 31.07.2018 a forecast CPI is used.

* The Trust has outperformed its benchmark over the last five years and has grown its dividends in excess of inflation over each of the last five financial years. It has delivered these returns with materially lower volatility than equity markets over the last five years.

** There is no guarantee that dividends will continue to increase or grow ahead of CPI.

Performance and dividend data sources: Seneca Investment Managers Ltd, Bloomberg & Morningstar. Share prices calculated on a total return basis with net dividends reinvested. NAV returns based on NAVs excluding income and with debt valued at par. Returns do not include current year revenue.

Past performance should not be seen as an indication of future performance. The information in this article is as at 31.07.2018 unless otherwise stated. The value of investments and any income from them will fluctuate, and investors may not get back the full amount invested.

Seneca Investment Managers Ltd does not offer advice to retail investors. If you are unsure of the suitability of this investment, take independent advice. Before investing you should refer to the Key Information Document (KID) for details of the principle risks and information on the trust's fees and expenses. Net Asset Value (NAV) performance may not be linked to share price performance, and shareholders could realise returns that are lower or higher in performance. The annual investment management charge and other charges are deducted from income and capital. The KID, Investor Disclosure Document and latest Annual Report are available in English at www.senecaim.com Seneca Investment Managers Limited is the Investment Manager of the Trust (0151 906 2450) and is authorised and regulated by the Financial Conduct Authority and is registered in England No. 4325961 with its registered office at Tenth Floor, Horton House, Exchange Flags, Liverpool, L2 3YL

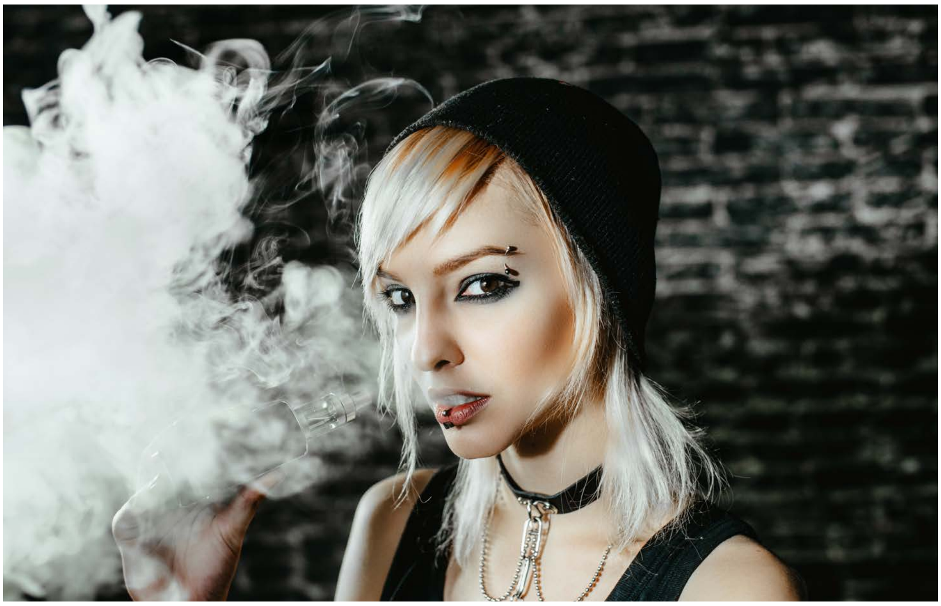
All calls are recorded. FP18 250

FDA weighs in on vaping: four key questions for investors in tobacco stocks

'Cool' Juul is seen as the main victim of a crackdown on the e-cigarette market – which could be good for the UK-quoted tobacco stocks

On 12 September 2018 the commissioner of the US Food and Drug Administration (FDA) Scott Gottlieb set in motion plans for a crackdown on youth vaping.

This intervention was taken positively by investors in tobacco stocks with both **British American Tobacco (BATS)** and **Imperial Brands (IMB)** briefly rising in the aftermath – something that shareholders haven't seen for some time as the sector has been long out of favour.



1 WHAT HAS THE FDA SAID?

Among the most powerful of US government agencies, the FDA has responsibility for monitoring the safe consumption by Americans of more than $2.4tn worth of medical products, food and tobacco items.

Gottlieb says there is an 'epidemic' of younger users switching on to flavoured electronic or e-cigarettes. He's pledged to halt sales of these types of product if major manufacturers can't prove they are taking sufficient action to keep them out of the hands of children and teenagers.

The firms behind the Juul, Vuse (part of British American Tobacco's portfolio), MarkTen XL, Blu (owned by Imperial Brands) and Logic brands, accounting for 97% of e-cigarette sales in the US, are being given 60 days to submit 'robust' plans to prevent youth vaping. If these plans aren't seen by the FDA as having gone far enough then it could order their products off the market.

BRITISH AMERICAN TOBACCO HAS INVESTED $2.5BN IN THE DEVELOPMENT AND COMMERCIALISATION OF NGPS SINCE 2012

2 WHY IS IT SIGNIFICANT?

The news could act as a handbrake on an industry which has grown rapidly in recent years as it has been seen as a safer alternative to smoking tobacco. Market intelligence firm Euromonitor put global sales of e-cigarettes at £0.5bn back in 2009 but this category is now heading towards the tens of billions mark worldwide.

Unsurprisingly tobacco manufacturers have made attempts to muscle in on the action, though these so-called 'next-generation products' or NGPs still make a relatively limited contribution to overall sales, less than 4% for British American Tobacco in the first half of 2018, for example.

NGPs are also significantly lower margin than traditional tobacco products.

3 WHY DID SHARES IN TOBACCO COMPANIES RISE ON THE NEWS?

The key reason why traditional tobacco manufacturers saw their shares surge in response to the FDA crackdown is that the clampdown on youth vaping effectively reduces a competitive threat from Silicon Valley start-up Juul.

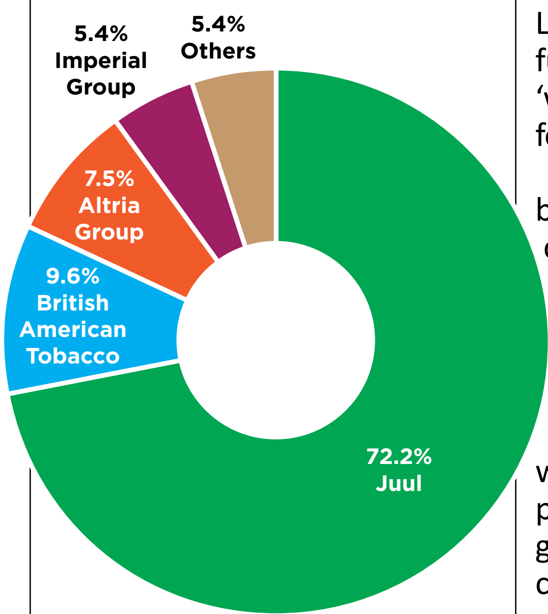
Juul launched in 2015 and has been a major market disruptor, taking more than 70% of the US market. The company is seen as particularly vulnerable to action from the FDA due to its popularity among younger users and emphasis on flavours.

Investment bank Jefferies says anything that slows down Juul's market share growth is a positive for the main tobacco groups.

Liberum's tobacco analysts comment: 'All things equal, greater barriers to e-cigarettes are a win on the margin for (traditional) cigarettes, which are more profitable and higher ROIC (return on invested capital) for tobacco manufacturers.

'Juul has become cool among youth in a way that few, if any, can replicate. One thing that is clear is that nicotine addicted youth will need to go somewhere to sustain their addiction. Research has shown that youth e-cig users are more likely to become smokers. As enforcement ratchets up, it will be critical to see how addicted youth respond.'

Liberum's analysts also believe a crackdown on the use of flavours in vaping products could reduce their attractiveness and drive smokers back to traditional cigarettes.



MARKET SHARE: August 2018
Source: Nielsen, Wells Fargo

4 WHAT HAPPENS NEXT?

It ultimately depends how firm a line the FDA takes with the industry. Pod-based e-cigarettes are also under scrutiny and Liberum notes this could be a further disappointment as they 'were a part of the margin story for e-cigarettes'.

Using the timeline outlined by the FDA, its next move could come in mid-November. Even if this move is seen as a positive for the entrenched traditional operators in the short-term, it is worth considering the long-term implications as NGPs were seen as the industry's main protection against stiffening global rules governing traditional cigarettes and declining levels of smoking among younger people. (TS)

Buy regeneration expert Harworth as it moves into the spotlight

The company is able to chalk up strong returns thanks to active portfolio management

Investors should snap up shares in regeneration specialist **Harworth (HWG)** before the company joins the FTSE All-Share for the first time on 24 September.

Previously holding a standard listing on the London Stock Exchange, the company shifted to a premium listing at the beginning of August and its current market cap should see it join the FTSE Small Cap index, where it would automatically be bought by tracker funds.

Beyond this technical catalyst, there are clear reasons to buy Harworth, with the company, in the words of Peel Hunt analyst James Carswell, able to 'generate good total returns in a relatively flat real estate market'.

HARWORTH BUY
(HWG) 132p
Stop loss: 105.6p

Market value: £424.4m

WHAT IS THE MODEL?

Harworth chief executive Owen Michaelson says the company focuses on 'beds and sheds' in the North and the Midlands, owning and managing a portfolio of 21,000 acres on 136 different sites.

Formerly the property division of UK Coal, Harworth makes money by buying brownfield land at an attractive price, obtaining the necessary planning consents and cleaning up what are often ex-industrial sites and selling the land on to third party developers or, in some cases, developing the land itself.

The company also retains selected land and property assets to generate growth and a long-term recurring income. It is looking to improve the quality of this income by selling off low-yielding agriculture land and some of its more mature sites. This is a stock to buy more for capital gains as the forecast yield is a relatively modest 0.7%.

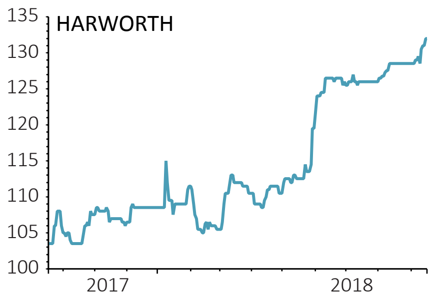
IS THE COMPANY DELIVERING?

In the first half of the year, the company saw a 10.9% year-on-year increase in its net asset value per share. It hiked the dividend by 10% and generated value gains in the portfolio of £10.5m.

The outlook is supported in the near-term by the fact more than 90% of forecast sales are either completed, exchanged or in the legal process. On a longer term view it has a portfolio of consented sites standing at 10,638 residential plots and 12.13m square foot of commercial space.

After an active period for acquisitions, with a £50m outlay in the first half, the company's loan to value ratio was slightly above the targeted 10% to 15% range at 19%. However, this is expected to come down by the year-end due to a repeat of the typical second half weighting for asset sales.

The shares currently trade at a material discount to Canaccord Genuity's 2018 forecast NAV of 142.8p and we would expect this gap to close as the company enjoys its new-found FTSE status and delivers its expected strong second half. (TS)



Don’t miss handsome little Elecosoft: its earnings are set to soar

A recent acquisition has scope to accelerate growth for this attractive technology supplier

This is a small cap investment story we have watched for ages and now feel confident it has developed the scale and market positioning to really move the earnings needle.

Incredibly, **Elecosoft (ELCO:AIM)** has been in business for more than 100 years but turned itself into a construction industry technology supplier when it sold its physical building operations about five years ago.

These days it provides specialist software solutions that cover the core elements of a construction project, such as computer-aided design and visualisation, engineering resource planning, cost estimation and tracking. It sells primarily in the UK, Sweden, and Germany although also to the Benelux region and US through reseller partners.

Companies using Elecosoft tools include international building firms Skanska and Mace plus global wood flooring supplier Boen.

Financial performance since its technology focus rejig has been very decent if not spectacular. Revenues have increased about 45% since 2015 while operating profit has tripled, assuming forecasts are correct for £22.3m revenue and £3.76m operating profit for the year to 31 December 2018.

ELECOSOFT BUY
(ELCO:AIM) 82p
Stop loss: 57p

Market value: £64m

Most of that growth has been generated organically, barring the £2.4m purchase of industry data management firm ICON in October 2016.

The potential to accelerate growth rates has now been harnessed after striking a £6.3m deal to buy Shire Systems in July. Shire supplies post-construction tools to the facilities management space, effectively giving Elecosoft a cradle-to-grave set of building information management solutions.

Shire’s kit should dovetail neatly with Elecosoft’s own flagship Powerproject and ICON applications but it also offers the tantalising opportunity to cross-sell a range of products to an enlarged 800-strong customer base. It means landlords can manage their property assets more efficiently, having already captured most of the structural data during design and build phases.

There is also a bulging pipeline of in-house developed new tools or upgrades in visualisation and site management, for example.

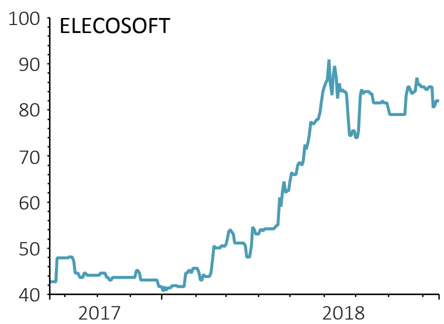
Shire’s largely recurring revenue model will also speed up Elecosoft’s own direction of travel towards cloud-based recurring revenues, now up to 55% of all sales.

First half results showed adjusted operating profit up 33.5% to £1.76m on a 7% rise in revenue to £10.6m (on a constant currency basis).

Earnings per share (EPS) jumped 38% to 1.8p, demonstrating the excellent control management has on costs.

The dividend was hiked 40% to 0.28p, albeit still offering a limited income yield of just 0.85%.

Analysts are confident Elecosoft in the future should achieve double-digit sales growth, 20%-plus adjusted operating margins and strong cash conversion (90%-plus of operating profits). (SF)



K3 CAPITAL
(K3C:AIM) 341p

Gain to date: 52.2%
Original entry point:
Buy at 224, 1 February 2018

ADVISORY FIRM **K3 Capital (K3C:AIM)** is a market leader in its niche, topping the Thomson Reuters league table for most active dealmaker in the small cap space for 2017 and the first half of 2018.

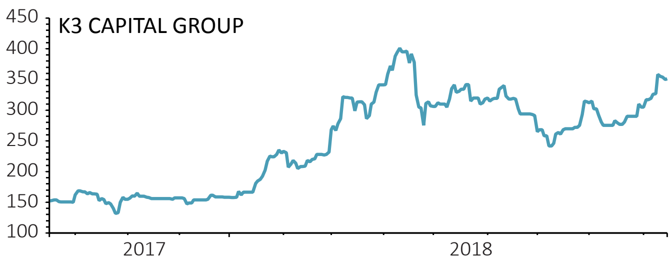
Its recent full year results (11 Sep) lead us to reaffirm our backing for this growth machine.

Revenue grew by 53% to £16.5m and pre-tax profit increased by 103% to £7.3m. Othe notable metrics include a 121% increase in its net cash position to £7.5m with earnings per share up 114% to 14.1p.

Speaking to CEO John Rigby, he says that while other advisory firms are given mandates by the big consultancy firms, K3 goes out and wins its own business through targeted marketing.

The fees the company receives for completed deals have grown materially, starting at £7,000 and now in excess of £36,000. This is has underpinned the step change in profitability.

Rigby says K3 has another trick up its sleeve with a new business, KBS Capital Markets, which should be up and running soon.



SHARES SAYS:
Still a buy. (DS)

RESTORE
(RST:AIM) 471p

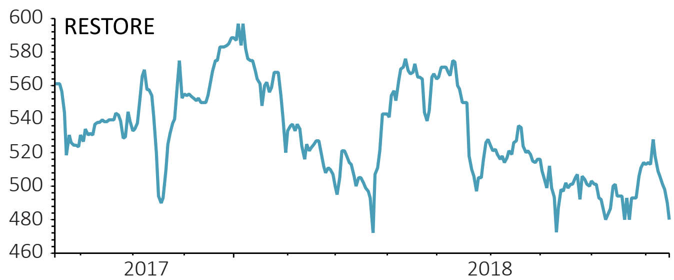
Loss to date: 7.1%
Original entry point:
Buy at 507p, 29 March 2018

WE'RE DISAPPOINTED WITH how shares in the document management business are performing, particularly as **Restore (RST:AIM)** was meant to have enjoyed a recent catalyst from new data protection laws called GDPR.

The clampdown on how data has to be managed resulted in higher than normal box destruction rates in the six months to 30 June, balanced by more project revenue as clients had to pay a fee to look through their boxes being stored by Restore.

Chief executive Charles Skinner says GDPR has been neutral short-term for the business, but could result in slightly higher box destruction rates in the medium term. He also thinks clients will do more shredding and scanning in the future.

The trading period included the acquisition of TNT Business Solutions, yet Restore couldn't get its hands on the business to enforce change until August as it was blocked while competition authorities looked at the deal. It bought the business to get a leg up in the public sector where it sees considerable outsourcing opportunities.



SHARES SAYS:
The results have failed to revitalise Restore's share price and investors may have to wait until November's capital markets day to see any positive price action.

That event is expected to outline future opportunities and help analysts and investors better understand the business. You'll just have to be patient.

Its long-term track record of value generation is good so stick with the stock. (DC)

WOMEN *and* INVESTING

Why female participation in the markets is not growing fast enough

Lack of confidence may be holding many women back when it comes to investing – that's despite the fact that they may be naturally more suited to it than men.

While women are more likely to be in charge of the household finances, when it comes to investing they are still far less engaged than men.

The number of female investors is certainly growing – women opened some 892,000 stocks and shares ISA accounts in the last tax year, according to the most recent figures from the Office for National Statistics. But that's still far fewer than 1.1m investment accounts opened by men in the same period.

A natural aversion to risk means women are far more likely to keep their money in cash – that much is clear from the ONS figures, which show women opened 5.2m cash ISA accounts last year, compared to 4.4m opened by men.

BUY AND HOLD

Just 23% of female adults in the UK hold an investment product, compared with 35% of men. It's a pattern which is also evident among professionals too – just one in 10 funds of the 2,500 or so products available to UK investors are run by a female manager.

Tracey Browne, wealth management consultant at Salisbury House Wealth, says: 'It's great to see a growing number of women using ISAs, but it is important they adopt the right investment strategy for the long term to start closing the wealth gap. While saving in cash is often seen as the safe option, it's not the best for long-term savings growth.'

Indeed, natural character traits may actually mean women are better investors when they do make the leap. For example, 12% of women only check on their investments once a year, compared with 14% of men who check once a month and 10% who check once a week.

That implies women don't tend to tinker with their portfolios as much, which gives them the benefits of buy and hold investing: they don't rack up trading costs, don't get distracted by short term market movements, and so aren't tempted to sell at the bottom of the market and buy at the top.

RISK FOCUS

Holly Mackay, founder of independent advice site Boring Money, says: 'From my experience, women are more likely to focus on risk and associate

investing with gambling. Data confirms that women typically feel less confident than men when it comes to investing even though their knowledge levels are similar.

'I don't think women or men are the better investor, but I do think that different patterns of behaviour and different self-diagnosis about investing skill can lead to better outcomes for female investors.'

But there could be drawbacks too; while women's slow and steady approach makes them great buy and hold investors, it can mean they miss out on opportunities while they are coming to a decision.

Men are also typically more likely to consider diversification when making their investment decisions and tend to spread their portfolio across different assets, sectors and regions. That could mean their portfolios are better protected than women's in the event of a market fall.

A FULLER UNDERSTANDING

Claire Walsh, personal finance director at Schroders, says: 'I don't think it's that women are necessarily averse to investment risk compared with men, it's more than women want to fully understand what the risks are, how an investment works, where their money is being invested and to get detailed explanations of charges, whereas men tend to gather the top-level information and then make a decision more quickly.'

She says women may miss out on investment opportunities because they take longer to make a decision and could, for example, lose out on valuable employer pension contributions in the meantime. Women are also more likely to put the needs of their family before their own, saving their money into a child's Junior ISA rather than into an account of their own, for example.

In terms of the funds men and women are drawn to, it is difficult to ascertain material differences, however some experts argue that ethical and sustainable aspects seem to be more important to female investors.

Research from Triodos Bank reveals 58% of women would like their investments to support companies that contribute to making a more positive society and sustainable environment, while 57% would move their investments if they discovered their money was being invested in companies causing social or environmental damage.

"WOMEN WANT TO FULLY UNDERSTAND WHAT THE RISKS ARE, HOW AN INVESTMENT WORKS, WHERE THEIR MONEY IS BEING INVESTED AND TO GET DETAILED EXPLANATIONS OF CHARGES"

Meanwhile, some 64% of women told Boring Money they would likely blacklist certain sectors such as weapons production from their investments, compared to just 48% of men.

Adam Robbins, investor relations manager at Triodos Bank UK, says: 'There is clear demand among women for investments which not only make financial sense but which also benefit the world around them. Female investors look set to be a driving force for the future growth of the ethical investments market, as they increasingly recognise the power of money to be a powerful tool for change.'

Laura Suter, personal finance analyst at investment platform AJ Bell, notes there is a 'double whammy' at work in that women are neither saving nor investing enough of their money to achieve higher returns. Given their longer life expectancy, the smaller implied pension pot is in Suter's words 'worrying'.

She adds: 'Investing can seem daunting for first timers, particularly with the amount of complicated terms and the overriding fear of losing your money. I think there is a large onus on the financial industry to make investing more approachable for everyone, particularly women, and to cut through the waffle and baffling jargon to make it easier for everyone to invest their money.' (HB)

Bakk-it or Bakk-off? Should you invest in hummus and pizza seller Bakkavor?

We explore how the FTSE 250 company makes its money

Having joined the stock market at 180p in November 2017, shares in food group **Bakkavor (BAKK)** have since drifted down to 164p.

One possible explanation is a negative read-across from quoted peer **Greencore (GNC)** which has had mixed fortunes with its UK and US expansion.

Also weighing on the share price are tough market conditions, concerns about input cost volatility and the supply chain post Brexit, not to mention a share overhang with investors factoring in potential divestments by 25% shareholder Baupost.

While this is a murky situation, it is still worth exploring how Bakkavor makes money, given it is a member of the prestigious FTSE 250 index.

WHAT DOES BAKKAVOR DO?

Bakkavor is the leading provider in the large, fast-growing UK fresh prepared food market, being driven by structural trends towards convenience, and is a business focused on building long-term sustainable growth in the UK, US and China.

Competitive strengths include strong capabilities in salads, ready meals, pizza and desserts. Bakkavor also caters to the more affluent dinner party set through products such as hummus, dips and artisan breads. Sustainable

competitive advantage stems from Bakkavor's sheer scale and close partnerships with customers.

Focusing on retailers' own label brands, Bakkavor has dominant supply positions with key customers including **Tesco (TSCO)**, **Marks & Spencer (MKS)**, **J Sainsbury (SBRY)** and Waitrose, while also supplying **WM Morrison (MRW)**, Asda, Aldi and Co-Op.

It has early-stage convenience food operations in China and the US, supplying retail and foodservice customers with everything from sandwiches and burritos to ready meals.

Significantly from a growth investor's perspective, sales volumes are growing with all key overseas customers due to new store openings and the introduction of new ranges.

Adjusted EBITDA margin has been rising since 2014 and management see their charge growing sales in line with the 4-5% category growth rate with modest margin gains, although raw material cost inflation represents a margin headwind.

THE BAKKAVOR BACK STORY

Bakkavor is 50%-owned by Lydur and Agust Gudmundsson, who founded the business in Iceland in 1986 as a fish products manufacturer and exporter.

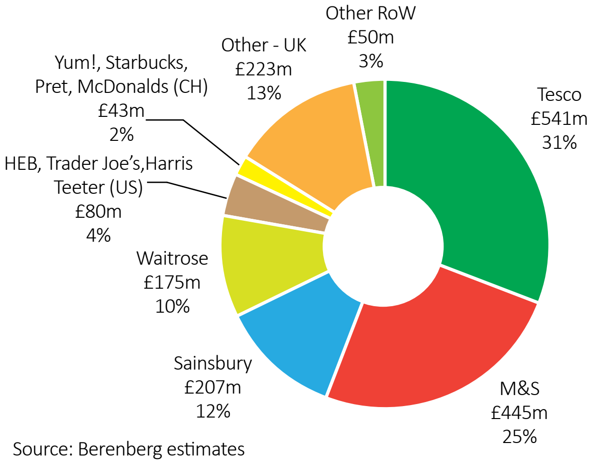
The business grew aggressively during the 2000s, riding the wave of a credit boom that blew up quite messily. Given its historical issues with debt, deleveraging has been a priority for management ever since Bakkavor delisted from the Icelandic stock exchange in 2009 and converted into a private limited company.

From 2010 onwards, Bakkavor began exiting low margin businesses and low growth geographies, then simplified its corporate structure with a new parent company domiciled in the UK in 2012.

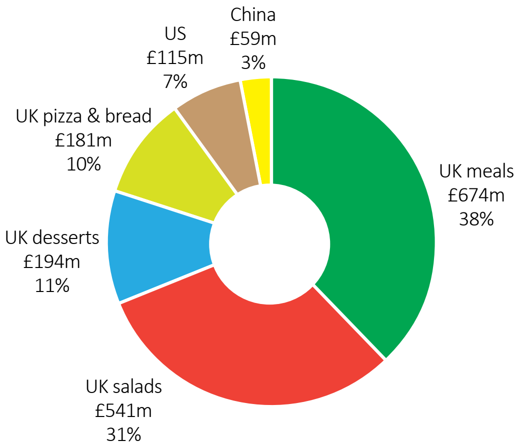
In 2016, Baupost, the Boston-based hedge fund run by renowned value investor Seth Klarman, became a significant shareholder with a €163m investment for a 40%

BAKKAVOR OVERVIEW

Sales by customer, 2016



Sales by category/geography, 2016



Source: Berenberg estimates

equity stake. As part of this process and the preparation for an IPO, mainly to allow Baupost an exit, Bakkavor refinanced its bank facilities and high yield bonds in March 2017.

TASTY TRENDS

The UK is Bakkavor's biggest market at 90% of total turnover and here, thanks to scale and operational leverage, it makes an EBITDA margin of 9.1%. Bakkavor is geared into the consumers' quest for fresh, healthy and convenient chilled foods, although retail price inflation and subdued consumer demand are material headwinds.

International represents a potentially huge growth opportunity for Bakkavor, although it only accounts for 10% of group sales at present.

Margins in the overseas business, where customers span Costa, Starbucks, KFC, Pizza Hut and McDonald's, have scope to move higher on fixed cost leverage as volumes grow.

Bakkavor is undertaking an ambitious investment drive to expand its capacity and capabilities overseas – investing in a new factory for a key customer (HEB) in Texas and with a new state of the art factory in East China set to become operational in the fourth quarter of the year – although such expansion carries execution risk and returns are unlikely before 2020.

The latest half year results were solid rather than spectacular, showing sales up 0.8% to £910.4m, with like-for-like revenue edging 2.8% higher to £910.1m and pre-tax profit rising 38.9% to £47.1m.

We note with interest the 7.3% rise in free cash flow to £32.4m and a reduction in net debt from £368.2m to £269.8m, as well as signs of sales momentum building into the second half, although management's caution about input cost volatility proved a trigger for modest downgrades to outer year estimates.

Drawing confidence from its strengthening balance sheet, Bakkavor has made its first UK acquisition in a decade, snapping up sweet bakery goods producer Haydens Bakery from bombed-out **Real Good Food (RGD:AIM)** for £12m.

The deal increases the breadth and depth of Bakkavor's desserts range and management plans to grow sales and move Haydens from a break-even position into profit.

On the downside for the group as a whole, any sustained increase in labour costs, labour shortages post-Brexit or raw material input costs could materially affect margins. Furthermore, the bulk of Bakkavor's outlook is still tied to its top four customers.

TASTY VALUE MORSEL OR SWEET TREAT?

Investment bank Berenberg forecasts a near-doubling of adjusted pre-tax profit from £56m to £102m this year, ahead of £110m in 2019 and £121m in 2020.

On these estimates, Bakkavor swaps hands for 11.3 times estimated 2018 earnings, which looks fair value given the uncertainties that hang over the business.

While there is reasonable earnings growth potential and a prospective 3.9% dividend yield, we're concerned about rising food prices near-term and believe the shares could get a lot cheaper. That said, this is definitely one to watch should the valuation become more appealing. (JC)

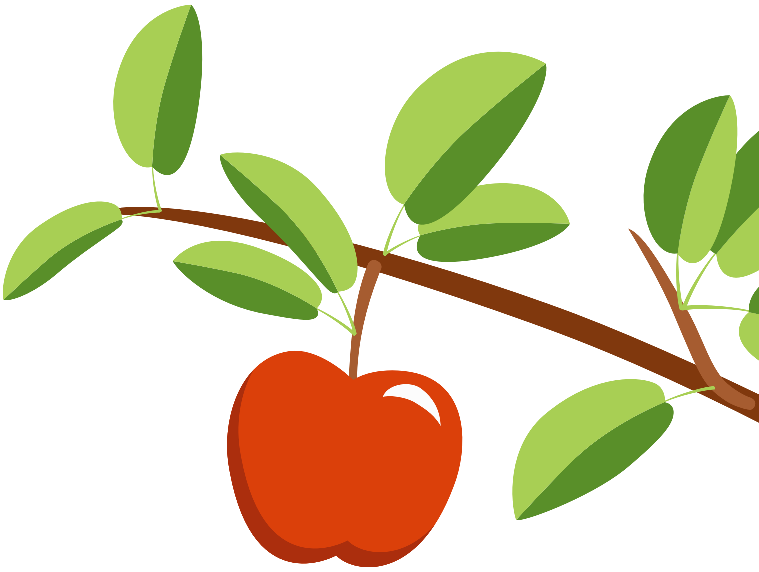
THE BEST FUNDS *on the* MARKET

Your shortcut to picking the freshest investments

Last year (2017) saw a record-breaking £46bn of cash invested into UK funds, almost 600% more than in 2016 when initial fears about the UK's decision to leave the EU caused investors to pull money out of funds in droves.

It's easy to see why funds are popular as you get exposure to lots of different assets through a single product.

Unfortunately, knowing which fund to pick can be tricky unless you are an expert or know where to get help. There are thousands of fund options which can lead to what psychologists call the 'paradox of choice,' when too much information paralyses people into making no decision at all.



Some funds have a wide-ranging investment remit such as targeting returns that roughly match global growth or the ambition might be to perform a bit better than the MSCI AC World Index, for example, over a period of time. They might target capital growth, income or a mixture of the two.

Other funds are far more specific. They might target a particular geographic market such as, the UK, US, Europe or emerging markets such as Asia, for example. Or they might focus on particular industries such as technology, infrastructure or renewable energy. You can even get funds which focus on specific asset classes such as bonds or property as well as, or instead of, equities.

DE-CLUTTER YOUR THINKING

Simplifying the selection process can help, as we discussed in detail in a feature on 14 September 2017. In that article we talked through an elementary six-step process.

The sixth step is to consider using a short-list provided by a trusted source of analysis.

Most execution-only investment platforms offer a preferred funds list, and experts at AJ Bell have recently re-jigged their own conviction line-up. This exercise effectively strips down the thousands of funds on the market to just 76, a far more manageable number for investors to assess for themselves.

'Identifying the best funds from the thousands that exist in the market is one of the biggest challenges investors face and is something our customers consistently ask for help on,' says Ryan Hughes, head of active portfolios at AJ Bell.

The majority of the conviction list features actively-managed funds, 55 in all, although they are complemented by 21 passive exchange-traded funds, so there's something for investors of every stripe.

Popular names on this conviction list include **BlackRock Gold and General (B5ZNJ89)**, **Polar Capital Global Technology (B42W4J8)** and **TB Evenlode Income (BD0B7D5)**, the latter having beaten its FTSE All Share benchmark every year since 2011.

SIX STEPS TO PICKING A FUND

STEP 1:
ESTABLISH YOUR INVESTMENT GOAL AND TIME HORIZON

STEP 2:
ESTABLISH WHETHER YOU WANT YOUR FUNDS TO PROVIDE INCOME OR GROWTH OR BOTH

STEP 3:
DON'T LIMIT YOURSELF TO ONLY BUYING FUNDS THAT HAVE DONE WELL IN THE PAST

STEP 4:
MAKE SURE YOU UNDERSTAND EACH FUND'S INVESTMENT PROCESS

STEP 5:
KNOW THE MOST IMPORTANT BITS TO READ ON FACTSHEETS

STEP 6:
STILL NEED HELP? LOOK AT THE VARIOUS 'BEST BUY LISTS' OR TOP RATED FUNDS

HANDS-ON OR HANDS-OFF

Active funds are run by a professional fund manager who selects what goes in the portfolio. The aim is to typically beat a benchmark index and outperform the market, meaning investors in the fund could get better returns, although you have to pay a fee for the services of the fund manager.

The alternative is to use passive funds, often called tracker or index funds.

These aim to mirror the performance of a key benchmark or index, such as the FTSE 100 or FTSE All-Share. They do this by investing their cash to match the make-up of the benchmark they are tracking. These types of funds are relatively low-cost, although potential returns are unlikely to exceed the index they are tracking.

As you might image, distilling thousands of fund possibilities into a relative handful is huge and complex task.

'The funds have been picked using a variety of criteria, including assessing the fund manager's ability through multiple market cycles, the investment process utilised and cost,' explains Simon Molica, a fund manager at AJ Bell.

New entrants to the AJ Bell conviction list include **Man GLG UK Income (B0117D3)**, **Troy Trojan Income (BZ6CQ17)** and the **JOHCM UK Dynamic (BDZRJ10)**, which we write about in more detail later in this feature.

Funds that have fallen off the list are NOT sell recommendations, AJ Bell stresses, but the refreshed selection represents 'our highest conviction picks today,' says Molica.

It is also important to stress that AJ Bell is not giving financial advice by providing its list of favourite funds. It is simply to provide some guidance to investors who want help with narrowing down the funds universe and anyone interested in these funds should always go off and do further research before making an investment decision. We will profile eight of these funds in this article. The full list can be found at youinvest.co.uk/investment-ideas/favourite

Man GLG's portfolio includes a stake in Qinetiq which is involved in air, land and cyber protection

How AJ Bell's experts pick funds

AJ BELL'S IN-HOUSE fund research team apply their significant knowledge and expertise in the funds space to help navigate the large fund universe to focus on an elite group of products.

'We ask a whole variety of questions at our regular one-to-one fund reviews, such as whether the funds' management teams are sufficiently resourced down to individual stock picks in order to ascertain whether they are truly sticking to their defined investment process,' says Simon Molica.

'Ultimately, we are looking to assess whether we believe the stated objective is achievable time and time again through a well-defined repeatable investment process.'

FOUR *new names* ON THE FAVOURITE FUNDS LIST

FRANKLIN UK SMALLER COMPANIES (B7FFF70)

This smaller company specialist fund has been overhauled since Richard Bullas and Paul Spencer were named as co-managers in June 2012. The fund runs on a combined quality and value mixture, hoping to identify a basket of 40 to 50 stocks that offer either high-quality growth, are undervalued and overlooked, or are out-of-favour cyclical companies capable of recovery down the line.

Potential investments are then subject to a valuation test. This involves a series of in-house models that assess appropriate multiples for common valuation metrics, and what they might be in five years' time.

These typically include aspects like enterprise value to earnings before interest, tax, depreciation and amortisation, or EV/EBITDA for short. It also uses the EV/EBITA measure which strips out depreciation of assets from the previous metric, as well as price-to-book which is a traditional balance sheet valuation benchmark.

The portfolio currently includes document management specialist **Restore (RST:AIM)**, broadcast cameras designer **Vitec (VTC)** and parts and components supplier to the engineering industry, **DiscoverIE (DSCV)**. There are several other engineering and electronics industry suppliers in its portfolio.

Savvy stock spotting has helped Franklin UK Smaller Companies beat its benchmark FTSE Small Cap index in four out of the past five years and AJ Bell experts like the fund's disciplined approach and collaborative team style. (SF)

5 years annualised return: 12.73%
Benchmark: 8.66%

Vitec is one of Franklin's fund holdings

JO HAMBRO UK DYNAMIC (BDZRJ10)

Celebrating its 10 year anniversary over the summer, **JO Hambro UK Dynamic (BDZRJ10)** is a new addition to the AJ Bell favourite funds list.

This UK equity fund seeks to outperform the FTSE All Share via a valuation-biased process developed by fund manager Alex Savvides, one driven by stock selection to create a fairly concentrated portfolio of between 35 and 50 holdings.

The collective seeks to profit by backing positive corporate change and offers investors a compelling combination of recovery situations, and restructuring and 'hidden growth' stories.

Savvides believes the market's misunderstanding of corporate change – typically new management teams with new strategies – regularly throws up opportunities for patient, disciplined and unemotional investors.

His process aims to profit from understanding change and investing where there is the highest probability of success but with the highest cash-based valuation support. This approach typically leads him to put money to work with high quality, unloved and under-researched UK companies.

As at 31 July, leading portfolio positions range from oil major **BP (BP.)** and private equity giant **3i (III)** to grocer **WM Morrison Supermarkets (MRW)** and electrical goods distributor **Electrocomponents (ECM)**. (JC)

5 years annualised return: n/a
(3 years: 12.24% / Benchmark: 10.10%)

MONTANARO UK INCOME (BYSRYZ3)

Notably this fund has a very high active share of near-on 100%. Or, in plain English, nearly all its holdings differ from those in its benchmark. It has a small and mid-cap focus and a concentrated portfolio of 50 companies – with a 'one in, one out' policy which means it always stays at this number.

It earns a place on AJ Bell's favourite funds list thanks to its expertise in small cap investing backed both by the experience of manager Charles Montanaro and a well-resourced team.

The fund's approach offers a reminder that small and mid-sized companies aren't just about growth as many also offer a decent income stream too.

Top holdings include chemicals firm **Victrex (VCT)**, cinema chain **Cineworld (CINE)** and meat packer **Hilton Food (HFG)**.

More than 90% of the fund is invested in stocks that trade on the London Stock Exchange, with a smattering of European equities also included. Industrials represents the biggest sector at nearly 20%. (TS)

5 years annualised return: n/a
(3 years n/a / Benchmark: n/a)


Cinema operator Cineworld features in Montanaro's portfolio

SCHRODER EUROPEAN (0764812)

This fund will provide you with exposure to large cap stocks across Continental Europe. The investment style is to find companies trading below what fund manager Martin Skanberg believes to be their proper value, with the expectation that they will eventually revert back to the higher level.

Earlier this year, Skanberg predicted a rise in capital expenditure among European companies, a sign they are confident the European economic recovery will be long-lasting.

While higher spending could result in slower dividend growth for some companies, the fund manager also has also the opportunity to invest in businesses which benefit from higher corporate spending such as those who build new plants, retool factories or produce equipment.

This might explain why the fund's portfolio currently includes software group SAP and industrials giant Siemens, in addition to other well-known names such as chemicals group Akzo Nobel and oil and gas producer Total.

Skanberg, who has run the fund since 2006, likes to find 20 new investment ideas each year so existing holdings need to remain attractive in order to stay in the portfolio.

You're likely to make most of your returns via capital gains rather than income as the dividend yield is only 1.5%. An annualised total return of 10.1% over the past decade is a very decent performance. (DC)

5 years annualised return: 10.60%
Benchmark: 8.79%


Schroder fund holding Akzo Nobel in action - airplane coating

FOUR *existing names* ON THE FAVOURITE FUNDS LIST

ARTEMIS US SELECT (BMMV510)

Managed by Cormac Weldon since its September 2014 launch, **Artemis US Select (BMMV510)** has an objective of generating long-term capital growth from a book of equities traded across the pond. It has outperformed the IA North America sector on a cumulative one and three year basis.

With lead manager Weldon assisted by Stephen Moore and William Warren, the fund seeks to outperform the S&P 500 Index through investments in large caps with an emphasis on growth. Top down assessments are combined with bottom up analysis (numerous company meetings plus fundamental analysis) to arrive at a concentrated portfolio of 40 to 60 best ideas.

As of 31 August, the top 10 holdings include high-quality tech titans Microsoft, Alphabet (Google's parent company) and Apple; as well as branded apparel retailer Burlington Stores.

In the opinion of AJ Bell, Artemis US Select benefits from an extremely experienced team head, having been involved in analysing US equities for over two decades.

It adds: 'The strong application of this conviction-driven investment approach is another positive feature. Additionally, the resource behind the strategy is highly regarded owing to the core of this team successfully running similar mandates at another investment house before joining Artemis.' (JC)

5 years annualised return: n/a
(3 years: 23.21% / benchmark: 25.75%)

Apple is one of the key holdings in Artemis' fund

BAILLIE GIFFORD GLOBAL ALPHA GROWTH (B61DJ02)

All investors should have a good global fund in their portfolio. This fund aims to outperform the MSCI AC World Index by at least 2% per year over rolling five-year periods (before management fees).

The fund was launched in 2010 and is a growth-orientated product. We would suggest it is aimed at investors seeking a fund to buy and tuck away as a core long-term holding in their portfolio.

Its investment process seeks companies with the potential to grow at a faster rate and on a more sustainable basis than their peers, believing these characteristics could result in higher long-term returns.

The portfolio is allocated into four growth buckets with varying degrees of growth, says Morningstar analyst Fatima Khizou. These are: rapid growth, latent growth, cyclical growth and growth stalwarts. Khizou says the team's growth approach has typically seen the fund leading the pack when the markets rally, but investors should appreciate it can go through very volatile periods.

Buying the fund today would give you exposure to some of the biggest corporate names in major regions of the world. In addition to Amazon and Alibaba (China's massive e-commerce business), you're also getting Asian life insurer AIA, US health insurer Anthem, energy firm Apache and South African media group Naspers, among many others. (DC)

5 years annualised return: 15.52%
Benchmark: 15.76%

KAMES ETHICAL CAUTIOUS MANAGED (B7V2CD0)

The ethical and socially responsible end of the investment universe has ballooned in recent years as investors embrace the wider ethos and, crucially, have begun to recognise this does not mean poorer performance.

Investment targets come from a diverse spectrum of the UK stock market and further afield (about 10% to 12% of fund is invested in North America and Europe), such as engineering, technology and insurance, where it has a little more than 2% of its funds in **Prudential (PRU)**.

Strict rules determine that no more than 60% of its money is tied up in equities but this arguably plays to its real strengths, which according to Morningstar analysis, is in fixed income assets, or bonds.

5 years annualised return: 5.79%
Benchmark: 7.79%

This hints at the investment strategy's 'cautious' approach, which will no doubt appeal to many investors either approaching, or in, retirement and are looking for a solid income.

AJ Bell experts give Kames Ethical Cautious credit for the breadth and depth of its management team, although the overall performance versus its combined FTSE All Share and iBoxx Sterling Non-Gilts Index is mixed.

Fairly low-cost (including a 0.75% annual management fee and 0.79% ongoing charges) and with a 2% income yield, Kames appears to be a solid if unspectacular ethical income option. (SF)

Kames' fund has an investment in Transport for London's bonds

NEWTON GLOBAL INCOME (B0MY6X4)

More than a decade on from its inception, this collective is one of the longest standing in the Investment Association's Global Equity Income sector.

The fund has a sensible approach to risk which might see it miss out on big returns during stock market rallies but also helps mitigate any downturns.

The focus is on companies with higher yields than the worldwide market average, and where manager Nick Clay reckons the dividend is sustainable and can be grown over time.

The departure of co-lead manager Ian Clark earlier this year was a blow – but not disastrous enough to deter AJ Bell from keeping it on its list of favourite funds thanks to the strength of the analysts and strategists working behind the scenes at Newton Investment Management.

5 years annualised return: 12.46%
Benchmark: 10.92%

Some of the fund's larger investments include US IT firm Cisco Systems, Ralph Lauren and UK spirits manufacturer **Diageo (DGE)**. The fund pays dividends quarterly, yields 3.1% and has an ongoing charge of 0.79%. (TS)

One of the brands owned by Diageo (a key holding in the Newton fund)

DISCLAIMER: Editor Daniel Coatsworth has a personal investment in Evenlode Income referenced in this article

Sponsored by

AJBell
Youinvest

SHARES
INVESTOR EVENINGS

Are you looking for new companies to invest in?

REGISTER TODAY FOR NEW INVESTMENT IDEAS

03 OCT 2018

Novotel Tower Bridge
London
EC3N 2NR

During the event and afterwards over drinks, investors will have the chance to:

- Discover new investment opportunities
- Get to know the companies better
- Talk with the company directors and other investors

COMPANIES PRESENTING

ALLERGY THERAPEUTICS (AIM:AGY)
Nick Wykeman, FD
Allergy Therapeutics is a fully integrated commercial biotechnology company specialising in allergy vaccines.A market leading, pioneering immunology business with specialist experience in the research and development of allergy treatments.

MERCIA TECHNOLOGIES (MERC)
Dr. Mark Payton, CEO
Mercia Technologies is a national investment group focused on the funding and scaling of innovative businesses with high growth potential from the UK regions. Initially this is through Mercia's managed funds and then selectively scaling businesses through its own balance sheet capital.

PLUS MORE TO BE ANNOUNCED

Event details
Registration 18:00
Presentations to start at 18:30
Complimentary drinks and buffet available after the presentations

Register free now
www.sharesmagazine.co.uk/events

Contact
Chris Williams, Spotlight Manager
chris.williams@sharesmagazine.co.uk
020 7378 4402

How has your income fared since the crisis?

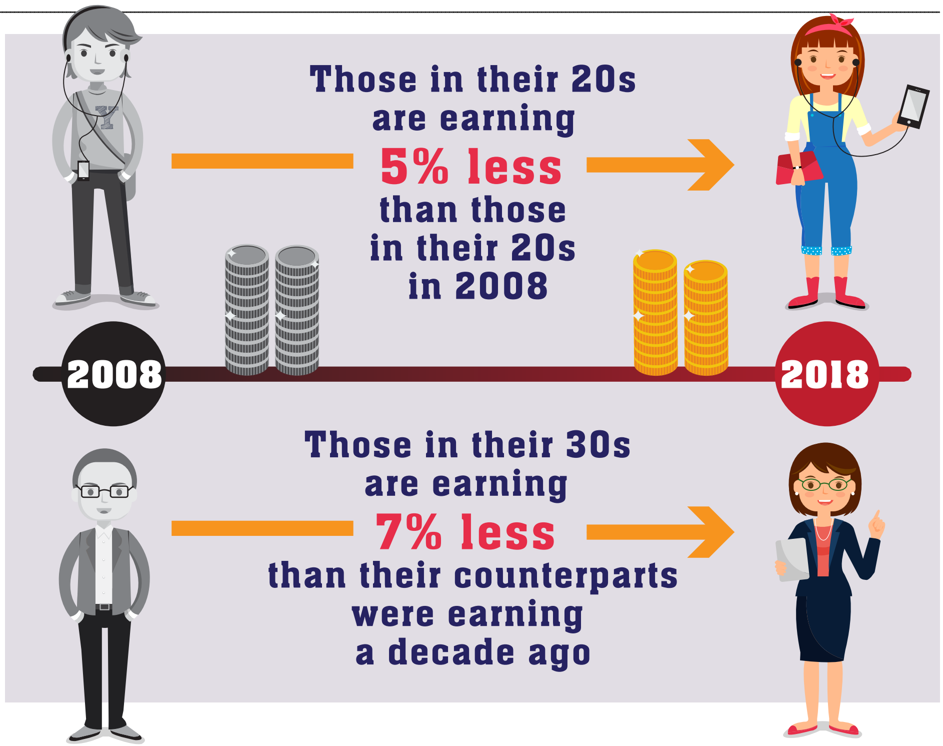
Younger individuals have suffered financially in the aftermath of the credit crunch

Millennials have been hardest hit by the financial crisis, with their wages being affected more than older generations, a new study has found.

The Institute for Fiscal Studies report looked at how different age groups have fared since the global financial crisis, sparked by the collapse of Lehman Brothers 10 years ago.

The report found those in their 20s are earning 5% less than those in their 20s in 2008, while those in their 30s are earning 7% less than their counterparts were earning a decade ago. This compares to those aged 60 and over, who are earning 1% less than those in the same age group 10 years ago.

In monetary terms, those in their 30s are earning on average £2,057 less than 10 years ago, with an average salary of £26,442. This compared to those aged over 60, whose average earnings have fallen from £18,766 to £18,637.



A DIFFICULT DECADE

Jonathan Cribb and Paul Johnson, authors of the research, say: 'Alongside poor earnings growth and government policy decisions which have tended to favour the old, this has contributed to a decade during which the living standards of young people have done much less well than those of older people. For example, the after housing costs incomes of those in their 20s are still below where they were in 2008, whereas for those over 60 they are almost 10% higher.

'We should never stop reminding ourselves just what an astonishing decade we have just lived through, and continue to live through... record low earnings growth, record low interest rates, record low productivity growth, record public borrowing followed by record cuts in public spending.

'On the upside employment levels are remarkably high and, in spite of how it may feel, the gap between rich and poor has actually narrowed somewhat, but the gap between old and young has grown and grown.'

RECRUITMENT SITUATION

What's clear from the research is that many of those in their 20s were entering the job market for the first time just after the financial crisis, when it was difficult to get a job as so many positions had been cut or companies weren't hiring.

As a result, those individuals were paid less than their age group had been previously. This, coupled with the fact that wages across the board have stagnated over the past decade, means they are still earning less now.

During that time, millennials

Age group	Median annual earnings in 2017	Median annual earnings in 2008	% change 2008 to 2017	£ change 2008 to 2017
22-29	£21,408	£22,452	-4.6%	-£1,044
30-39	£26,442	£28,499	-7.2%	-£2,057
40-49	£26,728	£27,576	-3.1%	-£848
50-59	£25,069	£25,525	-1.8%	-£456
60+	£18,637	£18,766	-0.7%	-£129
All employees	**£23,327**	**£24,088**	**-3.2%**	**-£760**

Source: IFS

have also faced a Government decision to hike tuition fees dramatically, and rising housing costs as rents have increased and house prices have risen far ahead of inflation, leaving them with less disposable income.

This widening gulf between generations is partly due to Government decisions to maintain the triple-lock on pensions, which guarantees the state pension will increase by the higher of inflation, earnings or 2.5%.

PROPERTY CONUNDRUM

One factor that can't be underestimated is the difficulty many millennials face getting on the housing ladder. The average house deposit cost 12% of the average salary in 1997, compared to 65% of the average salary today.

What this highlights is the real difficulty people face buying their first home without help from their family – and this could create a bigger divide than the income disparity between generations. The millennial generation will be split by those with high-earning jobs or with parents who can help with a deposit, and those who have neither.

What is also alarming to note in the 10 years since the financial crash is the sheer level of debt people of all ages have taken on. Low interest rates and relatively easy access to debt mean that households are now, on average, spending more than they earn for the first time since 1988. Even in the run up to the financial crisis, with the era of 100% or more mortgages, debt in households was not higher.

This is coupled with a decline in the amount people are saving, in part due to the low interest rates on offer and in part due to wages failing to keep up with the cost of living, driving more to raid their savings for everyday living.

There are bright spots though. Last week saw wage inflation – the rate at which wages are rising – outpace the rising cost of goods. This means that wages are rising (slightly) higher than prices, and leaves people with a bit more breathing space.

The Office for National Statistics' figures show that in the three months to July wages, excluding bonuses, grew by 2.9%, compared to current inflation which is 2.5% – marking the fourth month that wages have outpaced inflation.

Laura Suter,
personal finance analyst, AJ Bell

One factor that can't be underestimated is the difficulty many millennials face getting on the housing ladder.

The average house deposit cost 12% of the average salary in 1997, compared to 65% of the average salary today

What's the best way to get my pension's tax-free cash?

We look at the different options regarding tax treatment on retirement savings

While the main purpose of a SIPP (self-invested personal pension) is to provide an income as you transition away from work and into retirement, for many one of the primary attractions is the 25% tax-free cash available once you start accessing your money.

If you choose to keep your money invested within the pension tax wrapper there are two primary ways to get your hands on your tax-free cash without triggering the regular income that would come with an annuity. You can take ad-hoc lump sums (sometimes referred to as Uncrystallised Funds Pension Lump Sums, or UFPLS), or enter drawdown.

To understand how each option can be used to access your tax-free money – and the possible implications – let's consider an example.

Mrs Smith is 60 years old and holds a SIPP worth exactly £80,000. She still works part-time as a bank manager and earns £20,000 a year. She makes annual pension contributions of £2,000.

Mrs Smith is looking to withdraw £20,000 from her SIPP to help fund a deposit for her son's new house. Because she is still working Mrs Smith doesn't yet need to take an income from her remaining pension, preferring to leave the fund invested so it has the chance to enjoy further investment growth.

DRAWDOWN VS UFPLS

Under the first option she takes the full 25% tax-free lump sum of £20,000, leaving the remaining £60,000 invested and available to draw an income whenever she chooses, on which she'll have to pay tax in the same way as earnings.

The second avenue open to her involves taking an ad-hoc lump sum, or UFPLS, of £23,530 from her fund.

A quarter of this (£5,882.50) is tax-free with the remainder (£17,647.50) taxed at her marginal rate (20%), giving her the £20,000 she needs for her son's deposit (and 50p for a Curly Wurly chocolate bar).

One of the main advantages of the first option is that Mrs Smith retains the £40,000 annual allowance (maximum you can contribute to your pension each, while still receiving tax relief) until she takes any taxable income from her pot.

In the second option this will be reduced to just £4,000 (that applies once you start drawing a pension via UFPLS) – although this isn't a problem for Mrs Smith as her annual contributions are just £2,000.

Under the second option, Mrs Smith will be left with £56,470 in her pension fund – £3,530 less than if she takes the full 25% tax-free cash. However, she will still have lots more tax-free cash available to take in the future, while in the first option she has already used the lot.

In this example there is no 'right' option. However, if Mrs Smith was planning to make pension contributions of more than £4,000 a year she should avoid taking taxable income from her fund because of the impact on the amount she can pay in.

Equally, if she was a higher-rate taxpayer now but expected to be a basic-rate taxpayer in retirement she might prefer to take a tax-free lump sum and then draw an income in retirement taxed at 20% – rather than taking the ad-hoc (UFPLS) payment and seeing 75% of it taxed at the higher-rate (40%).

Tom Selby, senior analyst, AJ Bell

Janus Henderson INVESTORS

Structural change, disinflation and 'Amazonisation'

Serial disruptors like Amazon are shaping the economic transformation that is taking place before us. John Pattullo, co-fund manager of Henderson Diversified Income Trust, explains how investors can be on the right side of change.

The longest bull market of all-time was recognised on 22nd August by a number of institutions, including Bank of America Merrill Lynch and S&P Dow Jones Indices, edging past the previous record set between 1990 and 2000. Some disagree with the definitions of bull and bear markets, so the goalposts change depending on your view, but either way it has been an extraordinary period for US equities. Now, however, there are clear signs that we are entering the latter stages of the business cycle, which means a bear market is probably close.

For example, in August the S&P 500 Index broke its all-time record high of 2,872 set on 26 January this year, as illustrated in Chart 1. The pattern resembles what is known as a 'double top', which many analysts interpret as preceding an immediate or long-term reversal in price. That's not always the case, but you wouldn't be alone in taking on a bearish attitude as a result of this information.

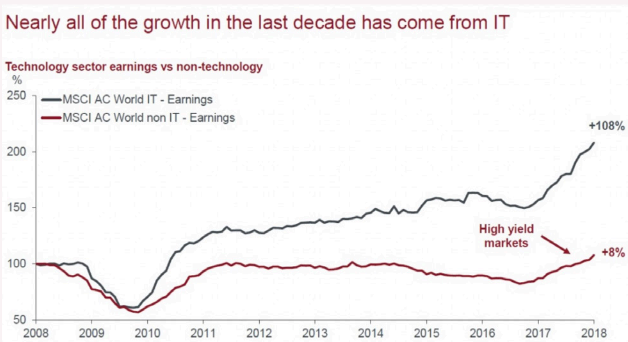
CHART 1

Source: Bloomberg Finance

For investors and the companies they invest in, there is also an unsettling undercurrent of structural changes in society to contend with, including changing demographics, consumer behaviour, low-growth economics and technology-driven disruption. It might be fitting that this bull market breaks the record during one of the longest and hottest summers on record, but to quote the decade's most popular TV series, 'Game of Thrones': "winter is coming".

As bond and equity investors, we have to be very mindful of secular trends and structural changes, and be careful to accept the disruption that is going on. Technology is developing at a phenomenal rate and some of the numbers around this are scary.

TECHNOLOGY OUTPERFORMANCE DRIVEN BY SUPERIOR EARNINGS GROWTH



Source: Bernstein, as at 06/04/2018
Note: Based on trailing earnings. Rebased to 100 at 31 March 2008
Past performance is not a guide to future perormance

Chart 2 highlights the vastly superior earnings growth achieved by information technology (IT) firms since the last financial crisis, which has

> Amazon announced it would enter the home security market with its February acquisition of Ring

turned start-ups into behemoths with almost all of their valuable assets being intangible, digital and intellectually-based.

Information technology has powered almost every form of growth and development in the past 10 years. There are so many billion-dollar companies that did not exist 30 years ago, but the FANG stocks (Facebook, Amazon, Netflix and Google – now Alphabet) are probably the most well-known. And among them, the story of Amazon is perhaps the most impressive.

The e-commerce giant started life in 1994 as an online book store and has evolved into the second-largest retailer in the US, after Walmart. The company has gradually eaten into the market share of traditional retailers and entered markets no one would have thought about. Its membership programme, Amazon Prime, is an awesome customer acquisition tool with discounts on Amazon products and discount partnerships at various other outlets. Prime has a household penetration rate of between 40% and 60% in the US, according to Wall Street analysts, which only adds weight to Amazon's frightening disruptive capability.

For example, Amazon announced it would enter the home security market with its February acquisition of Ring, which offers a do-it-yourself, state-of-the-art home security system, Ring Alarm, that undercuts similar products offered by market leader ADT and Google's Nest Secure product. ADT floated in January with an initial price of $14 per share, but fell as low as $7 in the aftermath of Amazon's announcement and now the company faces a daunting battle against a serial disruptor.

We owned ADT bonds before Amazon entered the market; and we thought the company was a relatively unexciting, low-margin, defensive business. We struggled to sell the bonds, which were long-dated, but we did buy protection against defaults using credit derivatives. Eventually we found someone more optimistic than us to buy the bonds from us, and now we are net short on ADT. That means we are now positioned for ADT to fail because we would make more money for our clients should the spreads on ADT bonds widen.

Another recent example of Amazon's frightening reach across industry came in June when it revealed its intention to acquire US online pharmacy PillPack for a reported $1bn. Soon after the announcement, some $14bn was wiped from the market cap of the US drug distribution industry, according to analysts at Reuters. These are simply the most recent examples of Amazon's disruptive reputation, there are plenty more to tell and we're pretty confident there will be plenty more to come, too.

The point is that this is all massively deflationary. Economies of scale, whereby behemoths like Amazon use their might to undercut rivals in new markets, means the prices of goods comes down. We are all used to seeing reduced prices or deals whereby you can buy a number of goods for a similar price to a product on its own.

We are used to disinflation (slowing down of inflation) and sometimes deflation (opposite of inflation). We live in a world where people expect a discount, are given a discount or where retailers will throw away their margin and just give you a discount sometimes without anyone asking for it; and that is a generational change.

For these reasons, we are very wary of value investing, which means investing in assets that appear under-priced; we think a lot of value businesses are cheap for a reason – they are value traps and are probably going bust. Value managers will give you a different take but we think there are structural changes going on in the economy and disruption is one of them, which would explain why quality growth, we think, will dominate for a few years. That's another way of saying we think bond yields will remain quite low going forward and would favour a growth strategy.

If you're in the other camp, you think reflation is coming, in other words inflation is rising and interest rates are rising in a cyclical upturn and you would expect value to start outperforming, but we see scant evidence of that. That's a very important point for how we frame our arguments in the bond world – with an occasional equity hat on.

Henderson Diversified Income Trust's (HDIV) net asset value per share (NAV) has come under pressure in 2018, which is typical of the latter stages of the business cycle. It's a tough period for bond investors with yields generally low, but we are positioning the portfolio to be resilient under market stress.

That means we are avoiding industries and sectors in the crosshairs of disruptive enterprises; and companies operating in the spaces where economic and demographic shifts could pull the carpet from under their feet.

The average maturity of our fixed income portfolio is between 6.5 and 7 years, which is long relative to historic levels but it's what you want in a deflationary environment; and we have reduced the portfolio's net gearing as we are mindful of being too highly leveraged heading into a bear market. Loans have outperformed high yield corporate bonds this year. About 9% of the portfolio is invested in loans, but increasing that exposure would have meant cutting the Trust's dividend, and our priority is providing a diversified income stream for our shareholders.

Our strategy rests on buying long durations in high quality companies that have a good reason to exist; which are typically non-cyclical, large cap companies that will pay a reliable, sustainable and realistic coupon. We are keeping our eyes open to the structural changes shaping the world's developed economies and we are confident the Trust is well positioned to thrive as these changes take effect.

GLOSSARY

Bull market: A financial market in which the prices of *securities* are rising, especially over a long time. The opposite of a *bear market*.

Bear market: A financial market in which the prices of *securities* are falling. A generally accepted definition is a fall of 20% or more in an *index* over at least a two-month period. The opposite of a *bull market*.

To hear more about the disruptive influence of Amazon and the changing shape of consumer economics, you can listen to John's latest podcast here.

Is it ever worth paying higher fees for investment trusts?

We look at some collectives with big fees and examine if they are worth it

The advent of robo-advice and DIY investment websites has led to an increased focus on the cost of investing.

Fund supermarkets have helped boost transparency around just how much investors are being charged to access funds and trusts. That, along with the rise of tracker funds, has put pressure on many companies to lower their fees.

INVESTING IS GETTING CHEAPER

As a result, investors can now access tracker funds for as little as 6 basis points – the equivalent of 60p for every £1,000 invested. But not all investments have responded to this pressure; while the typical fund now has annual charges of around 0.75%, there are plenty charging considerably more.

Figures compiled by the Association of Investment Companies for *Shares* show at least 10 investment trusts have an ongoing charges figure (OCF) of more than 2.1%. The question is: is it ever worth paying more?

Ian Sayers, chief executive of the AIC, says: 'Investment companies which invest in specialist areas tend to have higher costs.' He points to trusts in the private equity sector as being among those which often tend to be more expensive.

These trusts may have greater costs in the deals they negotiate and research they carry out on unlisted companies and tend to play a closer role in managing those businesses too, sometimes even appointing a person to the company's board.

Property is another area where costs can rack up. Refurbishing and redeveloping sites can be costly, as can managing a building, while void periods can mean no income for months at a time. That's not to mention the legal costs, stamp duty and various other fees involved in buying and selling property.

> **Investment companies which invest in specialist areas tend to have higher costs**

Ben Yearsley, director at Shore Financial Planning, says: 'I don't have a problem with high fees per se; if a manager consistently outperforms every year after fees then it matters less what you are paying them, but the fact is that very few do.

NO EXCUSE

'There are some investments that are more expensive because they are more labour intensive or can't scale up to help lower the fees, such as VCTs, but mainstream investments don't really have any excuse to justify abnormally high charges.'

MOST EXPENSIVE INVESTMENT TRUSTS (BY FEES)				
Company	AIC sector	OCF %	1 year %*	3 year %*
Global Resources IT	Sector Specialist: Commodities & Natural Resources	5.6	-31.9	-28.1
Regional REIT	Property Direct - UK	4.5	1.8	n/a
Blue Planet Investment Trust	Global Equity Income	3.7	2.8	45.8
UIL	Flexible Investment	2.6	15.5	86.2
TOC Property Backed Lending	Sector Specialist: Debt	2.58	5.9	n/a
Investment Company	UK Equity Income	2.5	6.0	14.0
JZ Capital Partners	Flexible Investment	2.35	-13.9	10.5
Schroder Real Estate Invest	Property Direct - UK	2.2	8.7	25.8
UK Mortgages	Sector Specialist: Debt	2.18	0.8	-2.4
Menhaden Capital	Sector Specialist: Environmental	2.1	3.3	-30.3

Source: AIC/Morningstar. * Change in value of investments

Top of the most-expensive trusts list is the **Global Resources (GRIT)** trust, which specialises in the natural resources sector, backing emerging development companies including a number of unquoted investments. It has an OCF of 5.6%.

Investment director David Hutchins says: 'Investing in unquoted assets is always going to cost more – it requires more effort and you need to take advice and make sure you're protected. It's a high risk, high reward strategy and I think investors recognise they have to pay higher charges for exposure to these assets.'

But the past few years have been a notoriously torrid time for natural resources investments and those enduring the higher costs of this trust have not been rewarded; it is down an eye-watering 31.9% over the past year alone. Hutchins adds that size is another important factor: 'We only have around £7m of assets, if that doubled costs would probably half.'

But other high-fee trusts have performed better, such as **UIL (UTF)**, which looks for out of favour stocks across the globe. It has returned 15.5% over the past year and 86.2% over three years, compared with a sector average of 3.7% and 32.8% respectively.

COSTS AND BENEFITS

Also among the most expensive trusts is **Regional REIT (RGT)**, which buys properties in need of improvement, redevelops them and then lets them to tenants. The trust has an OCF of 4.6%.

Director Stephen Inglis says this is because its vacancy rate is typically higher than competitors because of the refurbishment work the company carries out to improve its lots.

He says: 'We have to include property management fees, empty property costs, insurance and service charges and business rates. We're toward the higher end of costs compared to competitors because we do things differently.'

He points out that doing everything in-house, including admin and building maintenance, also adds to costs. However, he believes the high charge is justified because the trust produces a chunky dividend yield – currently 8%.

Overall returns have been largely in line with its peers, up 4% over the past year compared with a sector average of 4.1%.

Undoubtedly an investment with higher fees sets itself a difficult task; it must outperform that charge simply for investors to break even, and that can be difficult in illiquid or cyclical areas such as property, private equity or natural resources.

PROMPT FOR FURTHER RESEARCH

A higher charge may not need to be an immediate red flag but it should prompt investors to do a little more research to check that it is going to be worth the price, otherwise investors may be better off in a tracker fund charging six basis points.

Yearsley says: 'If the investment you have chosen has high fees, look back at the performance to see if it has consistently beaten a relevant benchmark. If it hasn't, it's probably not worth paying the price.' (HB)

Getting to grips with investment trust tender offers

We examine why investment trusts go down this route and what it means for shareholders


Investors have been eager to take up tender offers in emerging markets funds

Tender offers are an unappreciated attraction to owning investment trusts. Investors – particularly institutional ones like asset managers or pension funds – like them because they provide comfort that they will be able to sell a stake in the trust without having to worry about market liquidity (namely whether someone wants to buy the shares from them).

A tender offer is an invitation by an investment trust for investors sell them some or all of their holding. The event often happens once a year.

In order to incentivise holders to sell their shares, these tender offers are typically pitched higher than the current market price of the shares. More specifically, tenders are priced at a level which is better than the discount to net asset value (NAV) at which a stock might be trading.

According to data from industry body the Association of Investment Companies, 25 trusts carried out tender offers in 2017.

DEALING WITH DISCOUNTS

Investment trusts can trade at a premium or discount to their NAV, or total assets minus any debt. Whether they trade at a premium or a discount will depend on how popular said trust is with investors.

If a trust persistently trades at a discount it might look to address the issue and a tender offer is one of the methods employed.

For example, investment trust **Genesis Emerging Markets (GSS)** recently bought nearly 13.5m of its own shares back from investors (3 Sep) as part of a tender offer it launched in July 2018.

Genesis offered to buy back 10% of its shares at a discount of 3.5% to NAV compared with an average discount to NAV for the share price of 11% over the preceding five years.

Sometimes a tender offer will be launched in response to pressure from major shareholders, or a trust might have an explicit policy of launching a tender offer if the discount gets too wide.

This is known as a discount control mechanism or DCM, although the vast majority of DCMs are discretionary so trusts are not compelled to follow them to the letter.

WHAT ARE YOUR OPTIONS?

When faced with a tender offer, shareholders have the option of tendering more shares than the trust has offered to buy. If other shareholders have tendered less than their basic entitlement then whatever is left over can be split between those tendering more shares.

In the case of Genesis, the offer was heavily oversubscribed and, in the end, more than half the company's shares were nominated for sale. Genesis responded by offering to buy a further 2.6% of tenders above the 10% level.

According to the investment trust team at Numis this would result in 12.4% of shares being repurchased for those holders who tendered their entire stake.

Genesis has also said that if the performance of the trust on a net asset value basis does not beat its benchmark over the five-year period to 2021 the company will undertake a further tender offer for 25% of its shares.

LIQUIDITY ISSUES

Among the drawbacks of a tender offer is that it involves using capital which could otherwise have been invested and, by reducing the size of trust, it can undermine liquidity and ultimately make the fund unviable.

This was a problem faced by **BlackRock Emerging Europe (BEEP)** after it saw its own 100% tender offer in June met with overwhelming demand.

More than 60% of its shares were tendered for sale, potentially reducing the assets in the fund to just £48m.

This was below a £75m threshold the company had outlined before launching the offer. It was therefore scrapped.

The company announced an alternative plan on 17 August of liquidating the trust and giving shareholders the option of receiving cash at net asset value minus costs or rolling their shares into a new class of shares in **BlackRock Frontiers Investment Trust (BRFI)**.

EMERGING MARKETS DOMINATE

Aberdeen Frontier Markets' (AFMC) shares persistently trade at a wide discount to NAV and it announced in July that it would launch a tender offer for 15% of its shares at 98% of the prevailing net asset value.

Winterflood's analyst team note: 'Equities in emerging markets have underperformed their global equity counterparts in three of the last five years and, unsurprisingly, the discount for the emerging markets investment subsector has lagged that of the wider sector in this period.

'It is against this backdrop that £393m of capital has been returned from the subsector since the start of 2016 through tender offers and buybacks.'

Although a tender offer is one of the tools available to a trust, in the long run it needs to come up with the goods in terms of performance and market itself better if it wants to shake off a lingering discount.

Notably Genesis Emerging Markets pledged to increase marketing to existing and prospective investors alongside its offer. (TS)

Why investors must keep an eye on the Federal Reserve

A central policy error could be the next catalyst for financial market disaster

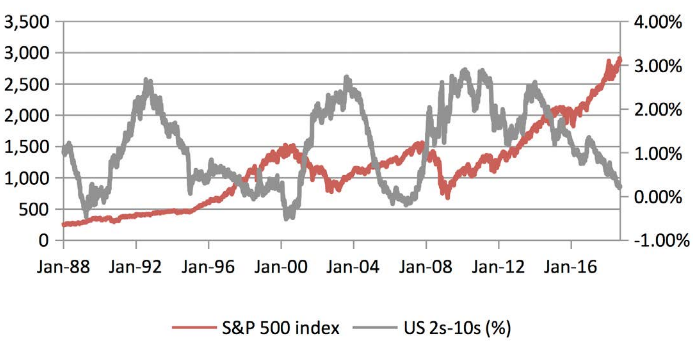
By Russ Mould, investment director, AJ Bell

'The most expensive words in the English language are "this time it's different".' This assertion from investor John Templeton has stood the test of time for a reason, so it is with a shiver that this column sees no less an institution than the US Federal Reserve arguing that the traditional measure of the yield curve should be ignored and a new one considered.

Instead of looking at the premium yield offered by 10-year Treasuries (US Government bonds) over a two-year period, the Fed is now saying we should look at the gap between the equivalent of 21-month Treasuries (three months plus six quarters ahead) and three-month Treasuries themselves.

This is very confusing, particularly as the average member of public cannot access information on 21-month Treasuries.

THE US YIELD CURVE IS FLATTENING AS THE PREMIUM YIELD OFFERED BY 10-YEAR GOVERNMENT BONDS OVER TWO-YEAR ONES KEEPS SHRINKING



Source: Thomson Reuters Datastream

One possible explanation for this fudge is that the traditional yield curve is flagging danger. The new one is not.

The premium yield offered by 10-year Treasuries is just 0.22% (down to a 2007 low) and close to inverting, when the two-year yield is higher.

While there have been false signals, an inverted yield curve generally warns of economic and financial market trouble ahead and as we negotiate the tenth anniversary of the collapse of Lehman Brothers with markets at new all-time highs, it may be worth considering what could – eventually – end the multi-year bull market in most asset classes.

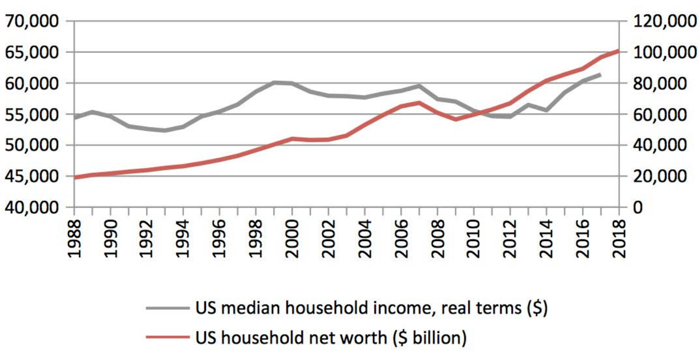
WAGES VERSUS WEALTH

We are overdue a correction of magnitude and this can be seen in how growth in US household income, in real terms, has been massively outstripped by growth in US household net worth.

The median US household income, in real terms, has just got back to the levels seen in 1999 and 2007 at around the $61,000 mark.

But US household net worth has just crossed the $100 trillion mark for the first time ever, a

US HOUSEHOLD INCOME HAS ONLY JUST REACHED PRIOR PEAK LEVELS WHILE HOUSEHOLD NET WORTH HAS SHOT HIGHER



Source: US Census Bureau; FRED -St. Louis Federal Reserve database mark 50% higher than at the cyclical high of a decade ago.

The difference is likely to be accounted for by the surge in the value of financial and other assets – equities, bonds, property and frankly everything from vintage cars to art to wine to baseball cards – and this is one warning that at some stage another collapse in financial markets will sweep around the globe.

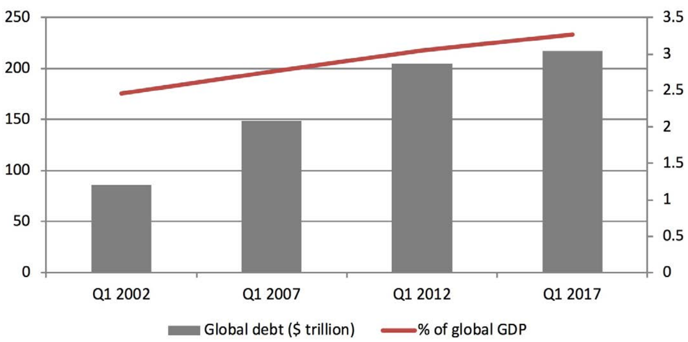
ASSET INFLATION

Surely household net worth cannot sustainably grow this much faster than incomes? The question then is what could trigger a correction in asset prices?

Lofty valuations and increased debt are both classic preconditions for any financial market calamity and they are in place, judging by the US household net worth figures and data from the Institute of International Finance which show global borrowing now massively exceeds the high of 2007.

That means one possible catalyst for disaster is a classic one – a policy error from a central bank and particularly the US Federal Reserve.

GLOBAL INDEBTEDNESS IS WAY HIGHER NOW THAN IN 2007



Source: Bank of International Settlements, Institute of International Finance, Haver Analytics

POLICY PICKLE

The US central bank is, in fairness, in a bit of a bind. Inflation is ticking up in the US, and frankly across developed markets (and that's before asset price inflation is taken into account), so chair Jerome Powell and his team will want to nip this in the bud.

The US central bank will also want to normalise policy so it can build up some ammunition for the next downturn. The Fed has cut interest rates by an average of 5.25% since 1970 in response to recessions, once it has embarked upon a down-cycle in borrowing costs. It is hard to cut by that much when the headline Fed Funds rate is 2.00%.

But even a modest – and slow – increase in US borrowing costs, from 0.25% in November 2014, is starting to damage financial markets, especially now the US central bank is withdrawing quantitative easy (just as the European Central Bank is about to stop adding to it and even the Bank of Japan is being accused of stealth tapering).

Cryptocurrencies blew up first, followed by low-volatility strategies and then emerging markets – the currencies of Argentina, Turkey, Brazil, Indonesia and India, all among the world's 25 largest economies, are at or near all-time lows against the dollar, which is responding to tighter policy in the US.

The Fed seems determined to press ahead with rate hikes and the danger is that they overdo it – this is one explanation for why the yield curve is so flat, with US 10-year Treasuries yielding only 0.22% more than two-year paper.

The flattening curve means investors seem to believe that while the Fed is keen to drive rates up now it will have to recant and cut sharply later.

That in turn could be why the Fed does not want markets to listen to it. Watch out for any discussion of this issue when Jerome Powell delivers the next interest rate decision on 26 September.

Policy error in the Marriner S. Eccles building in Washington therefore remains a key risk, especially as Fed officials are now peddling the line of 'it's different this time'. It is not for nothing that German economist Rudi Dornbusch once noted: 'No post-war recovery has died in bed of old age – the Federal Reserve has murdered every one of them'.

INDEX

KEY

- Main Market
- AIM
- Investment Trust
- Fund
- IPO Coming Soon

KEY ANNOUNCEMENTS OVER THE NEXT SEVEN DAYS

Full year results

21 Sept: Smiths Group.

Interims

21 Sep: SIG. **25 Sep:** Next. **26 Sep:** AA. **27 Sep:** 888.

Trading Statements

24 Sep: Pennon. **25 Sep:** Thomas Cook, United Utilities. **26 Sep:** PZ Cussons, SSP. **27 Sep:** RPC, CMC Markets.

WATCH OUR LATEST VIDEOS

Investors are excited about Anglo Asian Mining with its shares up 22% in the past week. Watch the company's presentation from our recent investor evening by going to **sharesmagazine.co.uk/videos**
You will also be able to watch videos featuring Condor Gold, Kodal Minerals and many more.

WHO WE ARE

EDITOR: Daniel Coatsworth @SharesMagDan

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

REPORTER: Lisa-Marie Janes @SharesMagLisaMJ

CONTRIBUTORS Holly Black, Russ Mould, Tom Selby, Laura Suter

MANAGING DIRECTOR Mike Boydell

ADVERTISING
Senior Sales Executive
Nick Frankland
020 7378 4592
nick.frankland@sharesmagazine.co.uk

CONTACT US:
support@sharesmagazine.co.uk

PRODUCTION
Head of Design: Rebecca Bodi
Designer: Darren Rapley

Shares magazine is published weekly every Thursday (50 times per year) by AJ Bell Media Limited, 49 Southwark Bridge Road, London, SE1 9HH.
Company Registration No: 3733852.