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Will the new boss of London Stock Exchange seek a mega M&A deal?

The industry needs to keep acquiring to achieve strategic growth

Many individuals are incredibly passionate about investing and spend a considerable amount of time chatting about stocks or investing skills with like-minded individuals. Despite this dedication, I'm amazed how little I hear **London Stock Exchange (LSE)** being discussed, given it is the system behind the UK stock market and the brains behind the FTSE stock market indices commonly used to benchmark performance.

Investing in London Stock Exchange's shares have been a very profitable trade; over the last 10 years its share price has increased by 515%. The shares earlier this month hit a new all-time high.

If you're a fan of momentum investing, this stock looks hugely attractive given the share price remains in a firm upward trend. The big drawback is how Brexit may impact the business.

The company said in August a no-deal or hard Brexit could adversely affect the group's business, results of operations, financial condition and cash flows. It has contingency plans in case Britain leaves the EU next March without a transitional deal.

While that risk is hanging over the business, it doesn't seem to be troubling investors given how the share price keeps rising. One possible explanation is that the exchange industry is ripe for another round of takeovers and mergers – and London Stock Exchange could be involved.

This industry has very high barriers to entry because existing exchanges have three important attributes. Firstly, they benefit from a network effect (the more people using them, the more valuable their proposition becomes, particularly in the field of liquidity and indices).

They also have intellectual property rights and post-trade efficiencies which act as barriers to rivals.

Because of these reasons, stock exchanges around the world may find it hard to grow into new areas without M&A, argues Berenberg analyst Chris Turner.

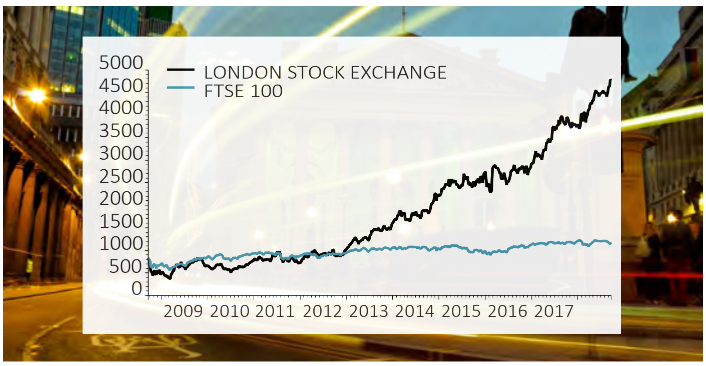
More acquisitions look inevitable, particularly as two players have already shown the benefits of buying other companies to strengthen their proposition – being ICE which has bought several trading businesses and London Stock Exchange which is very strong in information services thanks to buying index providers Citi Fixed Income Indices, Frank Russell and FTSE.

So what could happen next? CME buying London Stock Exchange looks plausible, says Turner at Berenberg – more so than a bid for the UK group by ICE where the potential rewards don't look high enough to compensate for the risks involved.

On the flipside, the analyst says there are many reasons why London Stock Exchange may want to acquire Europe's largest custodian, Euroclear.

London Stock Exchange's new boss David Schwimmer comes from an M&A background and may have the necessary skills to find solutions to challenges such as ICE owning 10% of Euroclear plus excessively complicated corporate governance arrangements at the hypothetical target.

Turner reckons buying Euroclear could boost London Stock Exchange's earnings per share by 30%. That's an incredibly attractive proposition and surely one that is sitting front of mind for Schwimmer who has yet to communicate his strategy for the business since becoming CEO in August. Make sure you watch this space closely. (DC)



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Brexit tensions stoked as political storm clouds gather

Labour moves towards Brexit position and outlines shares-for-workers plan at annual conference

Political risk continues to be front and centre for investors in 2018 with the risk of a disruptive no-deal Brexit on the rise after a tense EU summit in Salzburg which, in the words of prime minister Theresa May, have left negotiations at an impasse.

Some observers suggest the prospect of a Labour government led by Jeremy Corbyn is a bigger concern for financial markets and at its party conference in Liverpool the party has detailed radical plans to force companies with 250 employees or more to hand over up to 10% of their shares to workers.

The basic outline is firms would be forced to create 'Inclusive Ownership Funds' and transfer at least 1% of their stock into said fund each year up to a maximum of 10%. Workers would also be paid dividends from this fund of up to £500 per individual with whatever was left over going back into public services.

Labour reckons this 'social dividend' would be worth £2.1bn by the end of its first term in government.

TAX GRAB WARNING

Adam Marshall, the director general of the British Chamber of Commerce, describes the proposal as a 'tax grab and an unprecedented overreach into the way many businesses are run'.

Labour members are set vote on whether the party should support a referendum on the terms of the UK's exit from the EU, although the option of remaining looks unlikely to feature on any ballot based on comments from the Labour leadership.

Any market reaction to the Conservative Party conference is likely to be linked to machinations over Europe with sterling enduring a large drop against the dollar on 21 September amid the fall-out from Salzburg.

The Tory's conference kicks off in Birmingham on 30 September and a key focus will be whether or not Theresa May's Chequers plan will emerge intact, after heavy criticism for the proposals from all quarters of her own party and the EU itself. (TS)

KEY DATES

30 September-3 October: Conservative Party conference

18 October: European council meeting – PM to meet with EU leaders and European Commission to thrash out Brexit deal – though both parties have said talks could extend into November

17-18 November: Mooted date for special summit aimed at finally securing Brexit agreement

Q4 2018: A likely parliamentary vote to approve any deal if it is secured

21 January 2019: If there is no deal by this date, the Government has five days to make a statement on its plans under the EU (Withdrawal) Act of 2018

29 March 2019: Britain formerly leaves the EU

Sit tight with Randgold as it may attract a counter bid to Barrick's merger proposal

The current deal would see Randgold jump into bed with a business that has destroyed value for shareholders

We believe **Randgold Resources' (RRS)** proposed nil-premium merger with Barrick Gold is a bad deal for shareholders. Sit tight and see how the situation plays out, as there is potential for a counterbid now that the miner is 'in play'. Anglogold and Newmont look more suited to a tie-up with Randgold.

Under the Barrick plan, Randgold's London listing will be cancelled and investors will be left with shares that only trade in New York and Toronto.

There are major cultural differences between the groups which could create problems, plus Randgold is becoming part of a business that has destroyed value for shareholders over the years, not created it.

The winners of the merger are Barrick Gold's shareholders as they are effectively getting someone to take control of a broken business and potentially fix it.

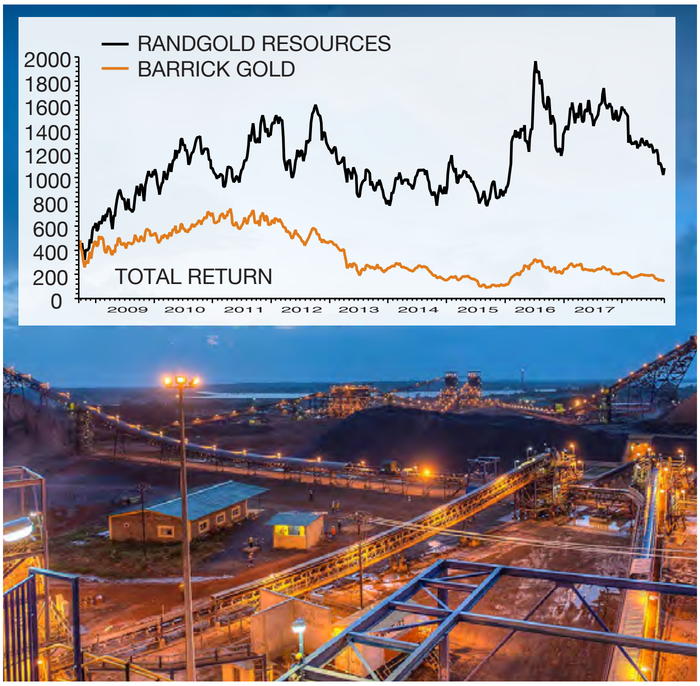
Having a more disciplined leadership team – Randgold's management are taking the chief executive and finance director roles at the enlarged group – could help tidy up Barrick.

Randgold is getting access to top tier assets which helps offset the fact it hasn't had much exploration success recently. However, the early stages of the merger are likely to be focused on cleaning up the business and not advancing growth.

Investment bank Jefferies says it has previously been concerned about 'a lack of clear strategic direction' for Barrick as its portfolio had been shrinking, its free cash flow was close to zero and it had no chief executive following the departure of president Kelvin Dushnisky in August.

These are hardly glowing credentials for Randgold's shareholders seeking to understand the attractions of a business about to merge with their investee company.

Shares in Barrick fell by 89% in the four years to September 2015 – falling from $55.18 to $5.94 – and a recovery rally to $20.5 in 2017 was short lived with the stock subsequently drifting back to $10.47 on the eve of the Randgold merger.



While Randgold's shares have also been weak of late, due to resource nationalism issues and a weaker gold price, the longer-term performance is far superior. On a 10-year basis with all dividends reinvested, Randgold has delivered 120% positive total return versus a 66% loss from Barrick. (DC)

The number of people betting against the gold price – i.e. hoping it will fall in value – has more than doubled year-on-year, notes Russ Mould, investment director at AJ Bell. 'But on every occasion this has happened since 2013, bar one, gold subsequently rallied,' he adds, suggesting the smart trade is to buy gold now.

Will Aston Martin shares be a luxury you can't afford?

Car maker could trade at a material premium to Ferrari based on IPO pricing range

There are concerns that luxury car brand **Aston Martin** will be just too expensive when it joins the stock market in early October.

The pricing range of the IPO, offering 25% of the business at between £17.50 and £22.50 per share, implies a valuation at the top end of a little more than £5bn.

The company reported net profit of £77m in 2017 which together with the mooted market cap feeds into a trailing price-to-earnings (PE) ratio of 65-times.

Italian sports car giant Ferrari is a good benchmark. Based on its own market cap of $26.5bn and 2017 earnings of $645m, Ferrari currently trades on a PE of 41-times.

Aston Martin undoubtedly has a strong brand, synonymous with the *James Bond* films, but its track record is hardly unblemished with seven bankruptcies since its inception in 1913.

There are also short and long-term challenges

on the horizon for the business. In the short term there is the disruption to the car industry threatened by Brexit and in the long term, the coming electric vehicle revolution.

We feel its growth plan looks too aggressive and that the shares may not be a good long term investment, even if they do jump immediately on listing. (TS)

Woodford Patient Capital springs back to life

The investment trust has benefited from major revaluation of one of its portfolio holdings

Woodford Patient Capital Trust (WPCT) has been given a welcome share price boost after portfolio holding Industrial Heat benefited from a revaluation uplift of 357% to $112.9m.

The news resulted in an 8.8% increase in Woodford's net asset value (NAV) to 99.26p, helping NAV to rise above its value when the fund was launched in April 2015.

Industrial Heat is making promising developments with its new energy technologies that focus on harnessing poorly-understood energy science such as cold fusion.

Winterflood analyst Kieran Drake argues the trajectory of this type of business is not always linear as the previous failure one of Industrial Heat's technologies and involvement in litigation led to a write-down.

Drake says there can also be a 'lag' between positive progress in unquoted companies and revaluations.

'In our view, it is therefore possible that a number of the companies in the portfolio may hold latent value given their progress in the time since their last valuation,' he comments. (LMJ)

Why the potential Uber-Deliveroo deal could be a 'terrifying' development for Just Eat

The online takeaway platform could struggle to grow profits and may be booted from the FTSE 100

Shares in online takeaway platform **Just Eat (JE.)** are languishing at a one-year low at 662.8p on reports that Uber is in talks to buy rival Deliveroo for several billion dollars.

Broker Canaccord Genuity analyst Nigel Parson says the development is 'potentially terrifying' for Just Eat, warning a possible war for market share could be 'very damaging' for margins and profits.

Just Eat has been struggling to catch up with its rivals and revealed plans to set up a delivery network with a £50m investment earlier this year, which was not well received by investors.

Amid intense competition and in reaction to high commission fees, some of the company's customers have abandoned the platform in favour of developing their own or using alternative providers.

Berenberg is sceptical over a potential merger between Uber Eats and Deliveroo, flagging the latter has historically been reluctant to relinquish its independence.

The broker argues the deal could create a scaled and capitalised competitor instead of an overwhelming new rival.

Just Eat needs to arrest the decline in its shares if it hopes to remain in the FTSE 100 past the New Year.

If it falls from its current position as the 100th largest London-listed firm to below 110, the company will be automatically ejected at the next quarterly reshuffle in December. (LMJ)

BAE Systems finally gets jet fighter green light

Qatari deal secures Eurofighter production into the 2020s

DEFENCE CONTRACTOR **BAE Systems (BA.)** has received initial payment from the Qatari government that means it can finally begin work on a jet fighter contract worth around £5bn.

The agreement will see the UK expert supply the Middle Eastern state with 24 Eurofighter Typhoon fighter jets and nine Hawk training jets, plus various support, maintenance and training services.

The contract was first announced in December 2017 but a series of delays and renegotiations led to significant heel dragging. Having finally received the initial payment from the Qataris it is believed the order supports Typhoon production into the early 2020s, say analysts at investment bank Berenberg.

BAE is also talking to the Saudi Arabian government over a follow-on order for an additional 48 Eurofighter Typhoon jets, although a contract has not yet been awarded. Berenberg anticipates 'positive news in the coming months' on this front. (SF)

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What does the launch of Jack's really mean for Tesco shareholders?

The stock market reaction has been positive but will it make a big difference to group earnings?

One week on from the very high profile launch of **Tesco's (TSCO)** new value chain, Jack's, and the stock market appears to have given a thumbs-up to the venture, judging by how the shares have risen nearly 3% since the launch on 19 September.

Now the hype has died down, we take a closer look at what Jack's could really mean for Tesco, from an investment perspective, and whether it is big news or simply a tiny part of the giant cog that is the £23.4bn company.

WHY HAS IT LAUNCHED JACK'S?

Tesco is attempting to tackle the rise and rise of German discounters Aldi and Lidl through the opening of its own discount store.

Over the coming six months, Britain's biggest retailer will launch 10-15 Jack's stores in the UK, the first two having already opened in Chatteris and Immingham, with the stores including a mix of new sites, buildings adjacent to existing Tesco stores and a small number of converted Tesco supermarkets.

Seemingly aping the model of the aforementioned German upstarts, Jack's will operate a business model designed to keep costs low and prices down for hard-pressed shoppers.

This no-fuss approach means a simplified product range, no fancy fixtures or fittings and no added extras.

HOW DOES JACK'S FIT IN THE WIDER CORPORATE STRATEGY?

Amid ultra-competitive market conditions, Tesco and its supermarket rivals are struggling to get their sales growth to exceed the pace of food price inflation, while rampaging Aldi and Lidl continue to grow fast.

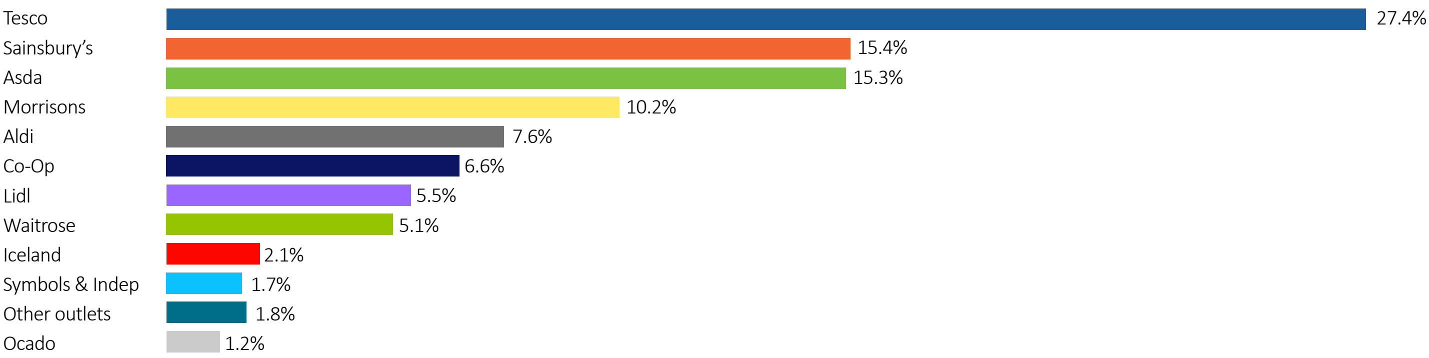
Having bolstered its position in the rapidly-evolving UK retail sector via the acquisition of Booker, Tesco's launch of Jack's is obviously a fresh attempt to bat off the threat posed by the German budget insurgents.

Yet there is some disappointment in that the initial roll-out isn't more ambitious. Are 15 stores enough to put much of a dent in the 13.1% combined market share of Aldi and Lidl, as chronicled by the latest Kantar Worldpanel supermarket share data (18 Sep), covering the 12 weeks to 9 September?

Ominously for their rivals, Aldi and Lidl, who together have over 1,300 stores across the country, continued to outpace the market in the period, growing sales by 13.9% and 8.3% respectively.

There are also concerns that Tesco, still very much the dominant UK player with 27.4% share while the Competition & Markets Authority (CMA)

GROCERY MARKET SHARE



Source: Kantar, 12 weeks to 9 September 2018

pores over the proposed merger of **J Sainsbury (SBRY)** and ASDA, could merely end up cannibalising its own shopper base, although it is better to cannibalise your own sales than have a rival do it for you.

A PIMPLE ON AN ELEPHANT?

An additional key risk is that Tesco may struggle to operate this different business model alongside the established core business, with management becoming distracted by the new and exciting launch.

And as Shore Capital, which recently attended the grand opening of Jack's, points out: 'The store is a pimple on the vast Tesco UK and group "elephant", so a sense of perspective is necessary.'

It adds: 'We struggle with the strategic importance of Jack's beyond its clear sign that management is out of fix mode and the cost engineering clearly evident.

'We do ask the open question as to whether or not Jack's could get under the skin of Aldi and Lidl and maybe destabilise industry gross margins with Tesco management claiming that its LAD (limited assortment discounter) will be cheaper.'

Keep in mind that for the current year to February 2019, Shore forecasts an increase in Tesco's adjusted pre-tax profit from £1.305bn to £1.903bn on sales of £63.62bn (2018: £57.49bn), so a 15-store strong Jack's estate would be small beer for the groceries behemoth.

Moreover, the broker senses that Jack's is 'very proprietary' and is taking up a reasonable amount of senior management time, although Shore insists it is 'a modest trial that does not "bet the bank" and falls within current capital expenditure guidance'.

SOUNDS FAMILIAR?

Patrick O'Brien, UK retail research director at GlobalData, reminds investors that: 'Sainsbury's tried something similar in 2014 with its Netto joint venture, only to close two years later having only opened 16 stores.

'The secrecy and fanfare surrounding Jack's launch points to a much more ambitious attack but its plans to open 10 to 15 stores next year are surprisingly tame.

'As Tesco targets a return to a 4% profit margin by 2020, opening at a faster rate would make this more difficult and also risk cannibalising sales.

'After years of battling accounting scandals and pulling back from some international markets, Tesco is at least back on the front foot and taking the battle to the discounters. But we expected a more aggressive store opening schedule and Aldi and Lidl are unlikely to be too concerned about this opening salvo.'

NEXT MOVE: EUROPE MERGER?

Chatter about potential merger talks between French supermarkets Casino and Carrefour will no doubt lead to speculation in the UK about whether Tesco might be a better partner for Carrefour. After all, the two companies formed a commercial agreement during the summer.

Tesco and Carrefour have a combined 8% share of the western European grocery market – greater than either Aldi or Lidl.

Tesco may want to strengthen its UK business before considering any such deal, but you can be sure that market will continue to speculate on its next move, now that Jack's has signalled a return to strategic growth for the business. (JC)

This metals producer can survive in bleak times and pays a chunky dividend

Central Asia Metals is a rare beauty with low operating costs and a potential 6.7% yield

Buying shares in the mining sector will take some nerve given how commodity prices have been very weak of late, thanks to concerns about how the trade war between the US and China and Chinese economic activity will affect demand for raw materials. Yet buying when no-one is interested can often yield superior returns.

You need to look at the downside risk with mining as much as the upside potential. Many miners operate on slim profit margins and get into all sorts of financial trouble when commodity prices take the slightest knock.

Therefore picking low-cost producers with little or no debt is preferable as they should have a better chance of surviving when times get tougher.

It is against this backdrop that we pick **Central Asia Metals (CAML:AIM)** as an outstanding stock to buy at the current price. Its management have a track record for being incredibly conservative with their growth plans, in order to ensure they are always creating value for shareholders and not being reckless in the pursuit of growth at any price.

We also note that sector sentiment is improving, as evidenced last week by the highest inflow into industrial metals exchange-traded funds in 15 weeks, according to provider ETF Securities.

CENTRAL ASIA METALS
BUY
(CAML:AIM) 236.5p
Stop loss: 165p

Market cap: £416m

Central Asia Metals has very low costs at its two operating mines, plus a $125.2m net debt position is only one fifth of its market cap. It is highly cash generative, meaning it is able to pay down borrowings fairly rapidly and also allocate decent dividends to its shareholders.

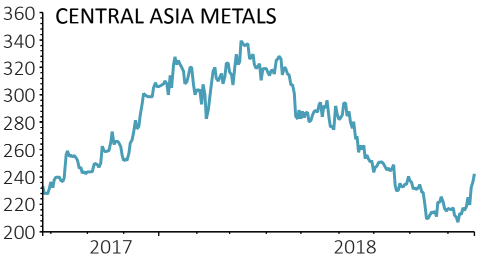
You could earn a 6.8% yield based on the consensus forecast 21c (15.98p) dividend in 2019. Its policy is to pay 30% to 50% of operating cash flow, less capital expenditure.

Central Asia Metals' shares fell from 340p in March to a low of 207p earlier in September, amid a broad sell-off in metal prices. Operationally the business is doing very well apart from a dip in copper production at its Kounrad project in the first half of 2018 due to very cold weather in Kazakhstan.

Kounrad involves reprocessing old mine waste to recover copper. The company has a licence to run this project until 2034.

Last year it bought the Sasa zinc/lead mine in Macedonia which has operated smoothly since purchase. Chief operating officer Scott Yelland says he is looking at ways to improve productivity and efficiency, potentially with a small increase in production. The ore body is being drilled to increase confidence in the mine life, currently at 20 years.

The miner says no acquisitions are currently under consideration despite an appetite to do another deal. (DC)



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WORLDWIDE HEALTHCARE TRUST

Positive healthcare sector fundamentals

Trevor Polischuk of OrbiMed Advisors LLC, the portfolio manager of Worldwide Healthcare Trust PLC, highlights what OrbiMed believe to be the key drivers of growth for the sector going forward.

Trevor M. Polischuk, portfolio manager of Worldwide Healthcare Trust PLC

Worldwide Healthcare Trust PLC ("WWH") is a London-listed investment trust that invests in the global healthcare sector with the objective of achieving a high level of capital growth. In order to achieve its investment objective, the company invests worldwide in a diversified portfolio of shares in pharmaceutical and biotechnology companies and related securities in the healthcare sector. It uses gearing, and derivative transactions to mitigate risk and also to enhance returns.

Don't miss the chance to buy this high flying small cap fund on the cheap

Henderson Smaller Companies has a superb track record of rewarding shareholders

Investors keen to put money to work with UK equities, yet skittish about the domestic outlook given Brexit uncertainties, might find the 10.4% discount to net asset value (NAV) on **Henderson Smaller Companies Trust (HSL)** appealing.

Given more hesitant GDP growth, higher inflation and a hard-pressed consumer, the UK equities space remains unloved, yet value abounds and this trust's unwavering mission to buy quality companies with above-average growth potential is driving impressive total returns.

Henderson Smaller Companies is managed by Neil Hermon, who has outperformed the Numis Smaller Companies benchmark in 14 of the last 15 financial years. He insists that investing in equities is about growth, but he remembers the bursting of the dotcom bubble and his portfolio has the bedrock of value.

Over the past 10 years, the trust has delivered 18.4% annualised total return, significantly outperforming the FTSE Small Cap Ex-IT TR benchmark index which achieved 11.3%. Shareholders have seen a 41-fold increase in the dividend over the past 15 years.

Growth at a reasonable price (GARP) investor Hermon wants to own companies that are profitable, cash generative and dividend-paying; over 90% of the portfolio's stocks are income-yielding and this GARP approach drives above-average dividend growth, albeit with a lower than market starting yield of 2.3%.

HENDERSON SMALLER COMPANIES BUY
(HSL) 919p
Stop loss: 735p

Total assets: £826.1m

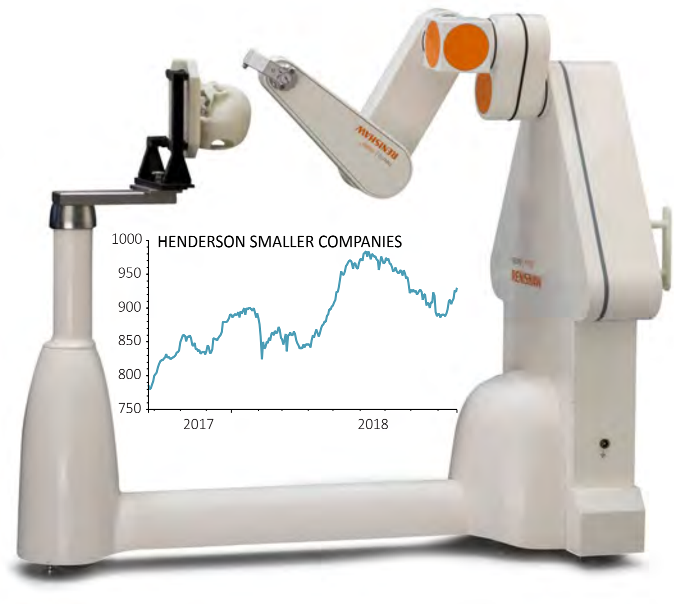
The trust delivered a net asset value total return of 15.9% in the year to 31 May 2018, dwarfing the 5.3% return of the benchmark and boosted by the likes of **NMC Health (NMC)** – subsequently sold at a profit when it entered the FTSE 100 – as well as gains from chemical company **Victrex (VCT)** and litigation finance provider **Burford Capital (BUR:AIM)**.

The trust has a portfolio of 108 holdings. Despite having 'smaller companies' in its name, there is a mid-cap bias with 62% of net assets in the FTSE 250 as at 31 August – a result of the fund manager's desire not to sell his most successful smaller companies when they hit the mid-cap bracket.

Investors nervous about Brexit can also take comfort in the fact roughly half of the portfolio's end market sales are generated away from UK shores.

Top 10 holdings include housebuilder **Bellway (BWY)**, cinema operator **Cineworld (CINE)**, precision engineer **Renishaw (RSW)** and fashion brand **Ted Baker (TED)**.

We admire Hermon's long-term approach and avoidance of unnecessary portfolio turnover, which helps to keep ongoing charges low. (JC)



STRIX

(KETL:AIM) 160.8p

Gain to date: 14.9%

Original entry point:

Buy at 140p, 26 April 2018

HEADLINE REVENUE growth of just 1.5% in the first six months of this year looks a little on the light side for **Strix (KETL:AIM)** but exchange rates skew those numbers. Strip out currency effects and the company posted a decent 4% rise.

IPO costs and finance charges also drag on headline pre-tax profits but the underlying picture suggest there is a robust and steady business here.

Maintaining a rough 38% international market share in the kettle controls business is encouraging while it is also worth noting that more than 100% of the £14.8m earnings before interest, tax, depreciation and amortisation (EBITDA) converted into £15.2m cash.

EBITDA margins adjusted for one-off costs also rose 900 basis points to 34.5% while gross profit margins also improved (from 37.2% to 37.9%).

Net debt has also been reduced, another encouraging sign of disciplined financial management, now running at about 1.1-times EBITDA.

Analysts see the shares hitting 210p over the coming months.

SHARES SAYS:

Committed to a full year dividend of 7p per share (the interim payout was 2.3p), rising to 7.7p in 2019, we remain very comfortable with share price valuation and prospects going forward. (SF)

QUIXANT

(QXT:AIM) 458.5p

Gain to date: 4.8%

Original entry point:

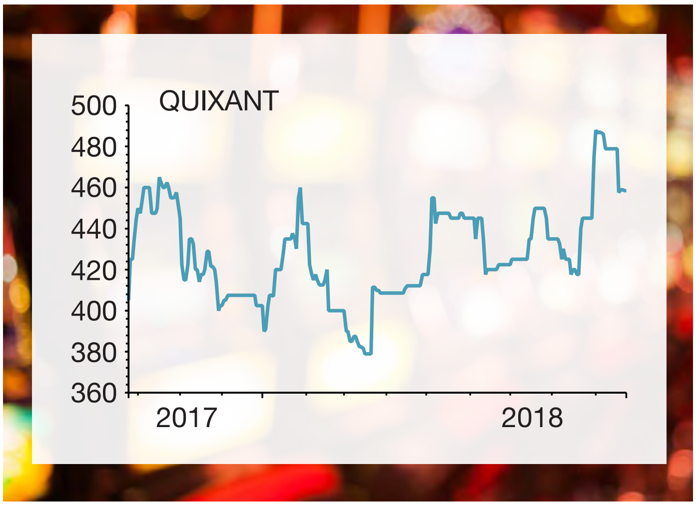
Buy at 437.5p, 25 January 2018

THERE IS NO question that **Quixant's (QXT:AIM)** share price progress has been surprisingly lacklustre even in the face of continued robust and disciplined financial performance. Half year results on 19 September only embolden our view that it is a long-run, and attractive, growth story.

The first point to make is that last year's bumper first half was never likely to repeat (thanks to a big one-off order), a point on which management have been crystal clear. A return to the normal 40:60 first half, second half split is expected.

In that light investors can take management's expectation of another record year in 2018 at face value especially given record unit shipments and order book.

It's also encouraging that the company will not chase volumes at the expense of profit margins, which should ensure pre-tax profit around the $19m ballpark, versus $17.7m on an adjusted basis in 2017. That's in spite of some cost pressures, much of which Quixant has been able to pass on to customers, always a sign of a value-adding supplier.



SHARES SAYS:

We believe Quixant remains a high-quality growth story that the wider market has been slow to pick up on. That will change and analysts anticipate a 600p share price over the coming months. (SF)

DIAGEO
(DGE) £26.78

Loss to date: 4.4%

Original entry point:
Buy at £28.02, 2 August 2018

WE'RE STICKING with our bullish stance on international drinks maker **Diageo (DGE)**, despite a mixed trading update on 20 September from the global spirits leader.

Chief executive Ivan Menezes says the year has started well and the business is performing in line with expectations, though he warns that increased emerging market currency volatility is hurting sales and profit.

The *Johnnie Walker* whisky-to-*Smirnoff* vodka maker expects sales to be reduced by £175m this year and operating profits to fall by £45m directly because of foreign exchange fluctuations, as the high-quality compounder pays a short-term price for its diversity of geographic end markets.

Nevertheless, we remain an admirer of the spirits and beer producer's coveted brands, which also include *Guinness* and *Captain Morgan* rum.

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

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

SHARES SAYS: ↗
While a near-term currency hit is unhelpful, we're sticking with Diageo for its global sales, strong brands, cash generation and capital returns. (JC)

The pros and cons of investing in Fundsmith's new Smithson investment trust

We analyse the IPO prospectus and consider the potential investments for Terry Smith's high-profile fund launch

Investors who have made a mint from **Fundsmith Equity (B41YBW7)** are now deciding whether to back a new fund from the same asset manager, to be called Smithson Investment Trust.

The prospectus has shed some more light on the strategy and potential investments, meaning we now have a much better idea of the possible shape of the trust's portfolio.

Our conclusion from these bits of information and analysis of asset manager Fundsmith's longer term track record lead us to believe this could be another winner.

We suggest you take part in the fund's IPO (initial public offering) offer which is available via most of the major stockbrokers and investment platforms until 12 October – or wait until the shares start trading on the open market from 19 October.

To explain why we have come to this conclusion, and to help you better understand the proposition, we now look at the pros and cons of investing in Smithson. We also discuss some of the potential investments.

PROS

It is rare to see an investment trust give so much information and in a very clear manner ahead of joining the stock market. Fundsmith is unique as an asset manager in publishing an 'owner's manual' for its funds. These are written in an easy-to-understand fashion. The accompanying prospectus for Smithson is also fairly easy to comprehend.

Fundsmith Equity fund has delivered 309% total return since it launched in November 2010, adding up to to a 19.7% annualised return.

Fundsmith chief executive Terry Smith has created a very clear investment process which is to buy high quality companies that aren't trading on excessive valuations and to hold them for a long time. And this approach clearly works given the past performance.

The strategy avoids companies which rely on debt to achieve an acceptable return and instead focuses on businesses with clear growth prospects and whose assets are intangible and difficult to replicate.

The same approach applies to Smithson; the main difference is the size of company being sought. Fundsmith Equity invests in large cap stocks whereas the new investment trust is targeting mid and small caps.

There is likely to be considerable investor interest in the Smithson IPO offer and we wouldn't be surprised to see the shares trade at a premium to net asset value once they hit the market. Essentially that would mean anyone taking part in the

Smithson is targeting companies in similar size to Next

IPO offer could see an immediate gain on paper, although this is not guaranteed.

For example, Neil Woodford was once of the most popular fund managers in the UK when he launched **Woodford Patient Capital Trust (WPCT)** in 2015. Such was the demand for its shares that the investment trust traded 6% above its IPO price within the first week of trading, and a 10% premium in a little over a month.

Fundsmith's second fund, **Fundsmith Emerging Equities Trust (FEET)**, saw its share price rise by 8% in its first week of trading in 2014.

In both situations, investors bid up the shares either because they didn't get their desired allocation in the IPO offer and wanted more, or they ignored the offer and waited to buy on the open market.

CONS

We think it is slightly misleading that Smithson is being marketed as a small and mid-cap fund. It is targeting companies that are worth between £500m and £15bn, with the expected average to be £7bn. We would reclassify this as a pure mid cap fund.

We classify small cap as being below £500m, although acknowledging our definition doesn't always match that of the institutional investment community.

To put this in some context, chemicals group **Johnson Matthey (JMAT)** and retailer **Next (NXT)** are both worth in the region of £7bn, and most people consider these to be large cap stocks.

You aren't going to make much money from dividends with Smithson as the prospectus implies the fund isn't expecting significant income from the shares in which it will invest.

Terry Smith isn't going to be the manager of the fund, which may act as a deterrent for some investors. Instead, two former employees of investment bank Goldman Sachs will manage the portfolio, albeit following the defined Fundsmith investment process and consulting Smith on every portfolio decision.

The fee structure is slightly different to the norm as it will be linked to the share price, not net asset value. So Fundsmith will collect more money if the shares are trading at a premium to net asset value, something which isn't out of the question. That does align the interests of the

> **There is likely to be considerable investor interest in the Smithson IPO offer and we wouldn't be surprised to see the shares trade at a premium once they hit the market**

Airline ticket booking system expert Sabre looks a prime candidate for inclusion in the Smithson portfolio

firm with shareholders though, as Fundsmith would collect less than it could have done under the normal industry model if the shares trade below NAV.

The other issue to consider is whether the high profile launch of this investment trust feels like top of the market behaviour. We're long overdue a correction in the market and Smithson's timing looks quite risky. Should the market fall, Terry Smith would probably argue his firm's new fund is getting an opportunity to pick up good companies at even cheaper prices.

WHAT TO EXPECT

Investors should expect to see a concentrated portfolio potentially with a bias towards tech, industrial and healthcare stocks.

It is targeting companies which have an established track record of success, 'such as having already established a dominant market share in their niche product or service, or having brands or patents which others would find difficult, if not impossible to replicate,' says the Smithson prospectus.

Research to date by the trust's fund managers has found 83 companies which meet its required criteria. Half are listed on a stock exchange in the US, 14% in the UK and the rest in places ranging from Japan and France to Italy and New Zealand.

UK-quoted names which have been highlighted by Smith in media calls as looking suitable include drinks group **Fevertree Drinks (FEVR:AIM)** and engineer **Spirax Sarco (SPX)**. US-listed fried chicken chain Wingstop has also been touted, so too US airline ticket booking system provider Sabre.

Further hints can be found in Smithson's owner's manual which features a range of corporate logos relating to firms in which the fund could theoretically make an investment, says a spokesperson for Fundsmith.

These include sinks-to-toilet flushing systems maker Geberit, patient monitoring technology group Masimo and medical devices specialist Fisher & Paykel Healthcare.

And a corporate presentation includes even more potential names such as safety expert **Halma (HLMA)**, distribution business **Diploma (DPLM)** and property portal

SMITHSON: HISTORICAL PERFORMANCE MEASURES OF ITS INVESTABLE UNIVERSE (83 STOCKS)

	INVESTABLE UNIVERSE	MSCI SMID INDEX
FREE CASH FLOW GROWTH	22%*	10%
RETURN ON CAPITAL EMPLOYED	28%^	9%
GROSS MARGIN	59%	33%
OPERATING PROFIT MARGIN	25%	8%
CASH CONVERSION	112%	85%
LEVERAGE	2%	40%

Source: Fundsmith
*Excludes Swedish Match whose growth was greater than 1000%
^Excludes Rightmove which had a return of greater than 1000%

SMITHSON: BACKTESTING THE PERFORMANCE OF ITS INVESTABLE UNIVERSE (83 STOCKS)			
TOTAL RETURN	1 YEAR	3 YEARS	5 YEARS
SMITHSON INVESTABLE UNIVERSE BACKTEST	28.3%	122.0%	251.8%
MSCI WORLD SMID CAP INDEX	12.7%	57.1%	85.3%
MSCI WORLD INDEX	12.4%	53.9%	81.9%
FTSE 100 INDEX	9.4%	30.4%	41.5%

Source: Fundsmith

Rightmove (RMV).

The Smithson team have run a backtest on the 83 companies in its investable universe, to see how the group would have performed if they were the actual portfolio. The results are very good, as you can see from the accompanying table.

The annualised return would have been 28.6% over five years with this hypothetical portfolio versus 7.2% from the FTSE 100.

While these figures are useful, investors should appreciate that no-one knows what the future performance will be, and the backtest featured 83 companies – the real portfolio will only have 25 to 40 investments.

WOULD WE BUY IT?

The answer is a resounding 'yes'. We expect the fund managers to take the long term view about what the business could be worth rather than look at near-term metrics, which may highlight rich valuations for some of the implied holdings.

The new fund managers may be unfamiliar names to most investors but they will be following a clear and proven investment process, essentially a template that has worked well in the past.

Investors are putting faith in the management team that the process can continue to be successful, yet it is important to recognise there is no guarantee of success and the small and mid-cap arena could be more volatile share price-wise than large caps, ergo Smithson could be more volatile than Fundsmith Equity. (DC)

DISCLAIMER: The author has a personal investment in Fundsmith Equity

SMITHSON'S INVESTMENT MANTRA

'We will only invest in the equity of companies which we believe can compound in value over many years, if not decades, where we can remain a happy owner, safe in the knowledge that in five to 10 years' time our investment is likely to be worth significantly more than what we paid for it,' says the Smithson owner's manual.

'We work on the principle that in order to maximise long term profits, you should choose investments with the highest probability of an acceptable profit, rather than those with a small probability of a very high profit (and therefore a much larger probability of a loss).

'We attempt to achieve this by not trying to predict winners, but by only selecting companies that have already won.'

Why investing in healthcare through REITs could be a smart move

We look at the yields on offer from health and care property investors

The healthcare sector is an interesting investment opportunity. People inevitably need some medical guidance in their life, whether it is visiting a GP surgery, hospital or receiving support in a care home and an ageing population is increasing demand for these services.

One way to gain exposure is through UK-listed healthcare-focused real estate investment trusts (REITs) which invest in a range of health and care-related properties.

These include **MedicX (MXF)**, **Primary Health Properties (PHP)**, **Assura (AGR)**, **Target Healthcare (THRL)** and **Impact Healthcare (IHR)** which we will discuss in this article.

The structure of REITs, which stipulates that they pay out the bulk of their earnings in dividends, makes them ideal for income investors and this particular group aims to offer healthy dividend yields of between 4% and 6%.

HEALTHY DIVIDEND YIELDS

MedicX used to trade on a 7.7% dividend yield, but this is no longer the case after cutting its payout in May as the dividends were only covered by 61.5% of earnings – it converted to REIT status in October 2017.

In the year to 30 September 2019, the dividend is expected to fall from 6p to 3.8p, leaving the prospective dividend yield at 4.7%.

The highest prospective yields can be found with Impact Healthcare (5.9%) and Target Healthcare (5.8%).

Despite MedicX cutting its payout, some analysts remain bullish about its prospects.

Liberum's David Brockton argues MedicX pursues consolidation more conservatively than its peer Assura by focusing on dominant GP practices that are likely to remain strategically important as healthcare needs evolve.

Brockton forecasts 10% annual total returns until 2020.

SUPPORTING THE NHS

With an ageing (and growing) population, healthcare provision has become more vital than ever, particularly as the NHS is under pressure.

A potential solution is to encourage more people to visit local GPs for non-urgent medical concerns.

PROSPECTIVE DIVIDEND YIELDS	
Impact Healthcare	5.9%
Target Healthcare	5.8%
Primary Health Properties	4.9%
Assura	4.7%
MedicX	4.7%

Source: Digital Look, Winterflood

This is where MedicX, Primary Health Properties and Assura come into play, by investing in modern primary care centres.

Primary Health Properties has a portfolio of 308 assets worth £1.4bn as of 30 June.

Managing director Harry Hyman says the investment trust is helping the NHS by offering care outside of a hospital.

Returns are generated through rent paid by GPs, which is reimbursed by the Government, reducing income risk. Thanks to strong demand, rent usually increases between 3% and 5% every three years.

Primary Health Properties also pays builders to develop properties and look for new builds in areas that will benefit from a good demographic underpinning as well as doctors and room for extra facilities.

Stifel analyst John Cahill has trimmed his earnings per share forecasts for PHP by 1.8% to 5.3p in 2018 and by 5.3% to 5.6p in 2019 on an expected slowdown in acquisitions.

Cahill believes Primary Health Properties will cut spending from £175m every year to £150m.

> **Despite MedicX cutting its payout, some analysts remain bullish about its prospects**

WHAT DOES MEDICX DO?

Rival MedicX has a similar agenda as it aims to acquire freehold or long leasehold interests in modern, purpose-built primary healthcare properties, some of which have potential for expansion.

MedicX has a portfolio of 166 properties valued at £797.9m as of 30 June.

The real estate investment trust is interested in property that can be used long-term and wants to ensure occupiers can deliver services for a large number of people.

Management believes MedicX benefits from longer leases, larger businesses and a newer portfolio than its competitors. Similar to Primary Health, MedicX regularly negotiates rental hikes.

In the short-term, MedicX has warned of pressure in primary care and a potential slowdown in NHS capital expenditure.

Mitigating this is an increase in open market rates and anticipated benefits of

Two Rivers Medical Centre – One of Primary Healthcare Properties' centres

investment in four primary care centres in Ireland.

Primary Health Properties also has a footprint in Ireland with three properties as it hopes to take advantage of growing demand for out of hours care services.

One of the drawbacks in Ireland is that rent is not supported by the government and people have to pay to see their GP, which could suppress demand.

BOTTOM-UP APPROACH

Focused solely in the UK, Assura has the biggest portfolio with 525 properties valued at £1.7bn.

Assura designs, builds, invests in and manages GP surgery buildings and primary care centres.

Chief executive Jonathan Murphy says the investment trust has a 'bottom-up' approach by working with GPs to establish whether there is demand for a new facility and to provide support.

Assura has a database of GP buildings allowing the company to pinpoint which facilities might be re-developed or in need of refurbishment.

Murphy expects no impact from Brexit as demand for new buildings and treatment has not been affected, but there has been speculation over potential recruitment risks.

ON THE HUNT FOR M&A

Over the last five years, Assura has been on an M&A drive, more than doubling the size of its portfolio. In 2017 alone, the investment trust allocated £300m to acquisitions.

Murphy says the performance of the underlying business is strong and is optimistic about the outlook as Assura has a pipeline of developments worth £70m.

While conceding that MedicX and Primary Health are strong rivals with robust cash flow, Murphy argues one of Assura's strengths is that it is internally managed instead of through a fund.

The company can be more cost-effective and benefits from a conservative financing structure according to the chief executive.

Stifel analyst Miranda Cockburn believes Assura's share price has been unfairly impacted by MedicX's dividend cut.

She flags Assura continues to make good acquisitions in a competitive market, which should drive three-year earnings and dividends by 3% at a compound annual growth rate.

INVESTING IN CARE HOMES

Demand for high-quality care in a residential setting is expected to surge as the number of 85s or older doubles over the next 20 years. Impact and Target Healthcare want to tap into this trend by investing in care homes.

Target Healthcare chief executive Kenneth MacKenzie says the quality of care homes in general is poor with just 20% of total rooms featuring an en-suite wet room.

Currently there are 49 assets in Target's portfolio and seven under construction.

When looking for investments, the company exclusively focuses on purpose-built and appropriate care facilities with a wet room attached to every room alongside good public and private space.

Rent hikes are connected to the Retail Price Index (RPI), leading to an annual increase of between 2% and 4% for the tenants, which are traditionally local Government operators.

MacKenzie says property tenants could come under pressure on potential staffing issues, making sustaining rents and occupancies a priority. Before Target invests in a care home, their operational and financial ability is assessed, to ensure they will continue to thrive in difficult situations.

Numis says it is hard to compare Target and rival Impact Healthcare amid limited information on property and operator metrics, but notes they both target a 6% yield, which is partially uncovered by earnings as they deploy growth funds.

FOCUS ON HIGH QUALITY CARE

Impact Healthcare invests in any real estate that provides healthcare in the UK with a core focus on residential care homes.

The investment trust seeks out high quality tenants that can provide good care with appropriate facilities.

Unlike Target, Impact managing partner Andrew Cowley rules out investing in greenfield developments.

He says the the company is keen to spend money to extend or improve buildings they own if there is sufficient demand.

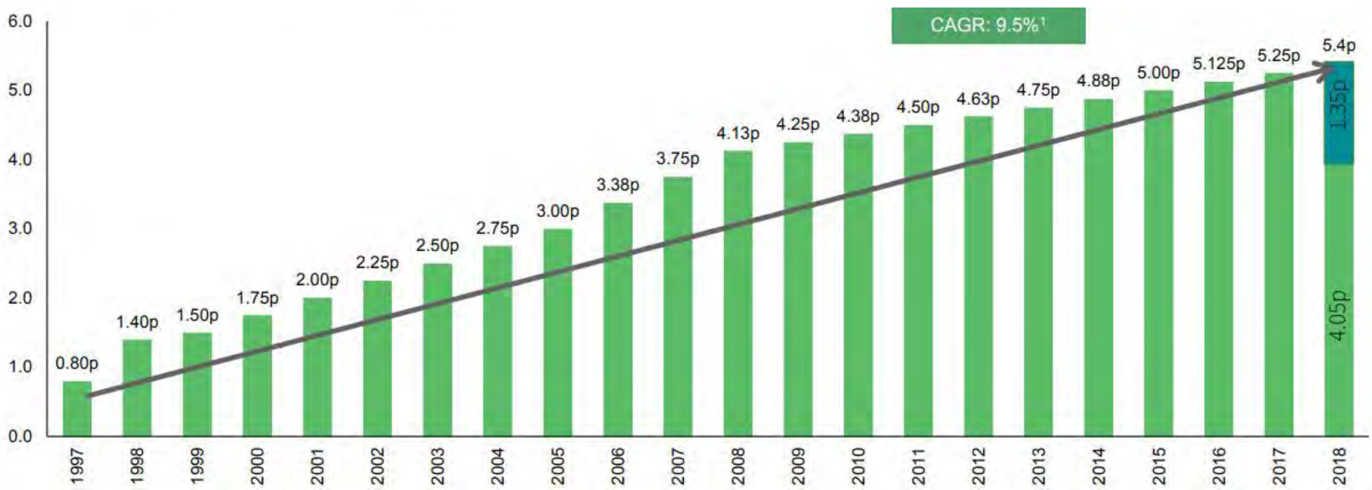
Future growth is expected to be fuelled by annual rent increases linked to RPI with a limit of between 2% and 4%. Impact has a war chest of around £20m for aquisitions.

As Brexit negotiations continue, Cowley is concerned the Government is not focused on healthcare policy, which needs a long-term funding solution.

Heavy cuts in local Government spending is putting pressure on hospitals as local authorities are more likely to defer referring patients to care homes.

Winterflood analyst Emma Bird says the long term, inflation-linked leases are appealing in the current environment and is impressed by the amount of asset management activity since Impact's debut in March 2017. (LMJ)

PRIMARY HEALTH PROPERTIES: HISTORIC DIVIDEND PROGRESSION



Source: PHP

Vanguard and Invesco among big winners at the AJ Bell FIT awards

More than 7,300 investors and financial advisers voted for best-in-class products

More than 7,300 private investors and financial advisers have voted on which funds and investment trusts should be awarded best-in-class across 15 product categories in this year's AJ Bell Funds & Investment Trust (FIT) Awards.

The winners included multiple gongs for asset managers Vanguard and Invesco.

Shares' editor Daniel Coatsworth was part of the expert panel which put forward nominations, alongside AJ Bell's head of active portfolios Ryan Hughes and head of passive portfolios Matt Brennan, Square Mile Research's managing director Richard Romer-Lee, Lift Financial's CEO Joel Adams, and Kepler co-founding partner William Heathcote Amory.

A shortlist was produced from the panel's nominations and winners were voted by retail investors who are customers of AJ Bell Youinvest and financial advisers using AJ Bell's Investcentre platform.

Each category featured an active and passive fund winner, and certain funds have remained very popular as they've won for the second year in a row including Liontrust Special Situations, Baillie Gifford Shin Nippon and Polar Capital Global Technology.

The full list of winners can be found in the accompanying table. The awards were sponsored by AJ Bell, First State Investments, Invesco, Invesco Perpetual, Pictet Asset Management and UBS.

FIT AWARDS: THE WINNERS

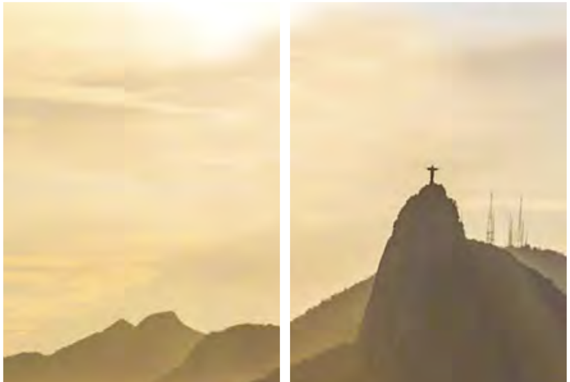
CATEGORY	WINNER
UK Equity - Active	Liontrust Special Situations
Emerging Markets Equity - Active	BlackRock Frontiers Investment Trust
Japan Equity - Active	Baillie Gifford Shin Nippon Investment Trust
Asian Equity - Active	Invesco Perpetual Asian
North American Equity - Active	JPMorgan US Smaller Companies Investment Trust
European Equity - Active	Jupiter European
Specialist - Active	First State Global Listed Infrastructure Fund
Ethical/Sustainable - Active	Stewart Investors Worldwide Sustainability
Income - Active	City of London Investment Trust
Bonds - Active	Artemis Strategic Bond
Property - Active	Standard Life Investments Property Income Trust
Technology/Biotech - Active	Polar Capital Global Technology
Commodities/Resources - Active	Pictet Water
UK Smaller Companies - Active	Standard Life UK Smaller Companies Investment Trust
Global Equity - Active	Fundsmith Equity

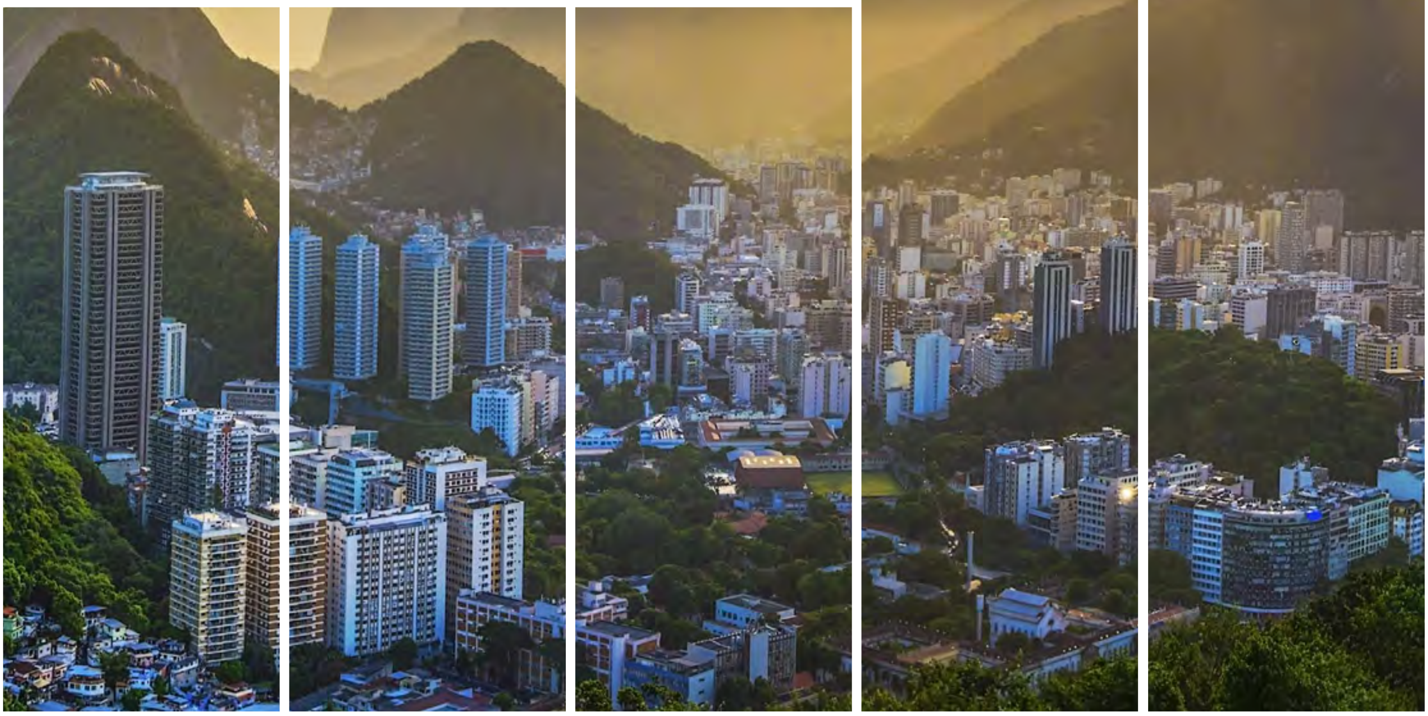
CATEGORY	WINNER
Specialist - Passive	iShares Global Infrastructure ETF
Ethical/Sustainable - Passive	UBS ETF MSCI World Socially Responsible ETF
Income - Passive	iShares UK Dividend ETF
Bonds - Passive	Vanguard USD Emerging Markets Government Bond ETF
Property - Passive	Legal & General Global Real Estate Dividend Index
Technology/Biotech - Passive	Invesco Technology S&P US Select Sector ETF
Commodities/Resources - Passive	ETFS Physical Gold
Global Equity - Passive	Vanguard FTSE All-World ETF
Emerging Markets Equity - Passive	Vanguard FTSE Emerging Markets ETF
Japan Equity - Passive	Vanguard FTSE Japan ETF
Asian Equity - Passive	iShares Core MSCI Pacific ex-Japan ETF
North American Equity - Passive	Vanguard S&P 500 ETF
European Equity - Passive	Invesco EURO STOXX 50 ETF
UK Equity - Passive	HSBC FTSE All Share Index

BLACKROCK®

LATIN AMERICA
THE BIGGER PICTURE

By Will Landers,
Portfolio Manager,
BlackRock





Investment decisions are always a balance between company performance and the wider economic landscape, but never more so than in Latin America, argues portfolio manager Will Landers.

Capital at risk: All financial investments involve an element of risk. Therefore, the value of your investment and any income from it will vary and your initial investment amount cannot be guaranteed.

Some regions are more prone to volatility than others. Latin America – comprising South America, Central America, Mexico and the Caribbean – is a case in point. Major political and corporate scandals are common, as are strikes that can bring labour to a standstill, while whole economies can veer out of control and back again with changing governments. It's also vulnerable to wider political factors, for example the US administration's attitude to tariffs and free trade.

Making investment decisions in this region requires a deep awareness of such sensitivities. When we look to making a new investment, our approach is typically bottom up – we look for individual companies that we believe will offer good investment prospects. We then assess the quality of the management, develop a view on the earnings it will make and whether that company is going to be able to deliver what we expect of it. Regular meetings with senior management – along with government officials – are an important component of our process.

While our belief in investment choices is paramount, it is increasingly important to understand the wider economic and political forces that can influence the market and affect the performance of our investments.

Awareness of sensitivities

The region's sensitivity creates risks we must manage in the portfolio and so central bank policies and politics must also be factored in. To give an example, the impeachment of former Brazilian president Dilma Rousseff on charges of corruption in 2016 had an impact upon the whole region. The ‘hangover’ from this episode placed greater importance on all elections throughout 2017 and 2018 and led us to reconsider how to integrate our views on the macro issues into our decision-making process and as a result, increased the weight we give these matters.

Likewise, trade tensions have increased around the world as a result of US policies and this has serious consequences for the region. Mexico is under threat of tariffs and, along with Canada, awaits the outcome of the North American Free Trade Agreement (NAFTA) negotiations.

Elsewhere in the region, we are seeing governments take greater responsibility for sustainable economic policies. Brazil is leading by example by curbing spending to take control of the budget deficit. It has also addressed weaknesses in the labour system by introducing business-friendly policies that make it easier to recruit workers and limit the cost of providing benefits.

Ever vigilant

We have a strong understanding of the Latin American market, with two senior research analysts based in São Paolo, Brazil, who keep their fingers on the pulse. They work closely with other team members in New York and we are part of a broader global emerging market team.

Being part of the world’s largest asset manager offers us a great deal of resource to support – and challenge – our thinking about investment decisions. Monthly meetings with our risk and quantitative analysis group and senior economists examine current trends, consider new opportunities and debate how we might respond to changes in the future.

This collaborative approach to risk management provides additional perspective on the economic and political risks in the region. This, along with our deep analysis of the markets, our ongoing narrative with colleagues about each economy and local knowledge from boots on the ground, benefits investors seeking to access this exciting and highly dynamic market.

We know that investors are looking for alternatives beyond developed economies. Latin America, with its predominantly young demographic and the potential for domestic growth, remains an exciting and highly dynamic market – just so long as we always keep an eye on the bigger picture.

Emerging market investments are usually associated with higher investment risk than developed market investments. Therefore the value of these investments may be unpredictable and subject to greater variation.

To find out more, visit www.blackrock.com/uk/brla

Trust specific risks

Overseas investment will be affected by movements in currency exchange rates. Emerging market investments are usually associated with higher investment risk than developed market investments. Therefore, the value of these investments may be unpredictable and subject to greater variation. Investment strategies, such as borrowing, used by the Company can result in even larger losses suffered when the value of the underlying investments fall.

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

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DESTINATION MILLIONAIRE

We show you how and when investors could hit the big time

For many of us growing up, the idea of becoming a millionaire would have seemed a pipe dream which could only be achieved by winning the lottery or coming into an unexpected inheritance from a long-lost relative.

However, making a million from the markets is a genuinely realistic goal. In this article, we do the sums to show how, by using tax efficient wrappers and benefiting from the superior returns offered by stocks and shares, you might get to the £1m total from a standing start.

JOINING AN EXCLUSIVE CLUB

Almost 3.6m households in the UK are millionaires according to figures from the Office for National Statistics but this largely reflects rising property values.

The number of people with £1m in liquid assets like shares or cash savings is significantly smaller and this is an exclusive club worth joining, particularly if you want to enjoy a high standard of living in retirement.

As well as exploring the monthly contributions required to hit a million within three decades we also look at how you might get to the more modest sum of £50,000 over a five-year timeframe. And we take a look at some potential investments which have delivered the kind of returns required to hit that seven-figure total over the long term.

DOING THE MATHS

According to stockbroker AJ Bell if you invest £12,600 – split as £7,000 in a pension and £5,600 in an ISA – every year for 30 years then, assuming a relatively conservative 5% investment return after charges and including the tax relief available on a pension, you would hit £1m in 30 years. A little more than £0.6m would be in a pension with the remainder in an ISA account.

This is a relevant consideration as you would pay tax on any income or withdrawals from your pension but not from your ISA.

Dividing £12,600 into 12 equal chunks means you would be investing £1,050 per month which may be beyond the reaches of some people.

However, a couple could split the contributions (such as £525 each) so the outlay would be more manageable.

As an individual, if you want to get to £50,000 in five years then, at the same investment return of 5% and assuming the same split between

THE CASE FOR OPTING OUT OF THE LOTTERY

You might shell out £2 a week in the hope of becoming a millionaire by winning the National Lottery or even £4.50 if you play EuroMillions once a week too.

Yet the chance of winning the National Lottery jackpot is one in 47m – you are almost five times as likely to be struck by lightning.

If, instead of frittering away your £4.50 a week on lottery tickets, you put that money into the markets instead you could, based on a 7.5% return, build a healthy little investment pot of more than £25,000 over 30 years.

PENSION				ISA	TOTAL VALUE
End of year	Value of personal contribution	Value of basic rate tax relief	Value of pension total investment	Value of personal contribution	
	£7,000	£1,750	£8,750	£5,600	£14,350
1	£7,350	£1,838	£9,188	£5,880	£15,068
2	£15,068	£3,767	£18,834	£12,054	£30,888
3	£23,171	£5,793	£28,964	£18,537	£47,500
4	£31,679	£7,920	£39,599	£25,344	£64,943
5	£40,613	£10,153	£50,767	£32,491	£83,257
6	£49,994	£12,499	£62,493	£39,995	£102,488
7	£59,844	£14,961	£74,805	£47,875	£122,680
8	£70,186	£17,546	£87,732	£56,149	£143,881
9	£81,045	£20,261	£101,307	£64,836	£166,143
10	£92,448	£23,112	£115,559	£73,958	£189,517
20	£243,035	£60,759	£303,793	£194,428	£498,221
30	£488,326	£122,081	£610,407	£390,660	£1,001,067

Source: AJ Bell
Assumes 5% annual return after charges. Annual contributions: £7,000 into a pension, £5,600 into an ISA

your pension and ISA, you would need an annual contribution of £7,500 a year or £625 per month.

BALANCING RISK AND RETURNS

Investors who want to get to £1m in 30 years with a more modest annual contribution could consider taking on a bit more risk by targeting a higher return. If you achieved a 7.5% return after charges your annual contribution (as an individual) falls to a slightly more manageable £7,650 or £637.50 per month.

For a couple the savings requirement would work out at less than £320 each per month. And arguably an investor or investors with 30-year time horizons can afford to take on more risk.

SEARCHING FOR INVESTMENTS WHICH COULD POTENTIALLY ACHIEVE AT LEAST 5% ANNUAL TOTAL RETURN

TO ACHIEVE A total return of 5% after charges we are going to be conservative on the level of costs involved in investing and assume you need an annualised total return of at least 6% from your portfolio.

One way to look for potential investments that could deliver such returns is to analyse historical performance. Yes, past performance isn't always a guide to future performance, but it can be a good starting point for your research to spot companies which have a good track record of rewarding shareholders for a long time.

We've run some data looking at the past 20 years on the markets. As part of our research, we have also included stocks with a 10-year monthly beta of less than 0.75 – in order to spot investments that might be more suitable for a less risk-tolerant investor.

Beta measures how much a stock moves when the overall market rises or falls by 1%. The stocks in our research have, over the last 10 years, moved less than 0.75% for every 1% monthly movement in the FTSE 100. Low beta stocks should in theory help protect your portfolio during periods of increased market volatility.

LOW-BETA STOCKS WITH AT LEAST A 6% HISTORICAL RETURN

Company	20-yr annualised return
Next	16.4%
Berkeley	14.8%
Halma	14.4%
Bunzl	13.4%
British American Tobacco	13.3%
Smith & Nephew	12.2%
Imperial Brands	12.2%
Reckitt Benckiser	11.9%
Diageo	9.7%
Unilever	9.1%
Associated British Foods	8.7%
RELX	7.2%
Sky	6.9%
SSE	6.7%
AstraZeneca	6.6%

Source: SharePad, 20 September 2018

Diageo (DGE) is among the names in the FTSE 100 which meet our criteria during the back test. It boasts brand strength, strong cash generation and progressive dividends.

Also fitting the bill is health and safety specialist **Halma (HLMA)** for its regulatory-driven profit as well as business supplies firm **Bunzl (BNZL)**. The latter provides day-to-day necessities which firms rely on, including everything from cleaning products to office supplies.

Investors should note the inflation-busting income on offer from **National Grid (NG.)** which runs much of the UK's electricity and gas infrastructure. Unlike other utilities, such as **SSE (SSE)** which also makes this list of stocks delivering the required returns but isn't a share we'd recommend buying, National Grid gets paid for use of this infrastructure rather than being at the mercy of wholesale energy prices or consumer demand.

Some investors may prefer the diversification offered by investment trusts as an alternative to individual stocks and below is a list of larger trusts which have delivered annualised returns of 6% or more over the past 20 years, plus have low beta. Notable names include **Fidelity Special Values (FSV)** and **Finsbury Growth & Income (FGT)**.

LOW-BETA INVESTMENT TRUSTS WITH AT LEAST A 6% HISTORICAL RETURN

Trust	20-year annualised return
Fidelity Special Values	13.3%
BlackRock Smaller Companies Trust	12.9%
Baillie Gifford Japan Trust	12.7%
HgCapital Trust	12.4%
Aberforth Smaller Companies Trust	12.0%
F&C Global Smaller Companies	12.0%
British Empire Trust	11.7%
Mercantile Investment Trust	11.3%
Pantheon International	11.2%
RIT Capital Partners	10.9%
Finsbury Growth & Income Trust	9.6%
Caledonia Investments	8.0%
Law Debenture	7.4%
JPMorgan Japanese Investment Trust	7.1%

Source: SharePad, 20 September 2018

SEARCHING FOR INVESTMENTS WHICH COULD POTENTIALLY ACHIEVE AT LEAST 7.5% ANNUAL TOTAL RETURN

WIDENING OUR SEARCH to encompass FTSE 100 stocks which have delivered an annualised return of 8.5% or more (higher than the desired 7.5% as we are factoring in the costs of investing) over the past 20 years, we have also relaxed our beta criteria to include shares which have a 10-year monthly beta of between 0.75 and 1.5.

The results of our search include chemicals firm **Croda (CRDA)**. It has a large chunk of products being sold into a personal care market which, according to consultancy Euromonitor, is set to achieve around 4% compound annual growth over the medium term.

Johnson Matthey (JMAT) is trying to capitalise on the expanding electric vehicle market plus it has a growing health business, while credit checker **Experian (EXPN)** provides services which are integral to day-to-day life.

Companies like plumbing products firm **Ferguson (FERG)** and construction materials play **CRH (CRH)** have decent track records but are exposed to inherently cyclical industries.

Of the investment trusts which also fall into this higher risk but potentially higher growth category, among the names worth researching are **Worldwide Healthcare Trust (WWH)**, which could be a beneficiary of demographic trends and **Bankers (BNKR)** which has increased its dividend every year for more than five decades. (TS)

STOCKS WITH AT LEAST A 8.5% HISTORICAL RETURN

Company	20-yr annualised return
Croda	17.2%
Persimmon	16.2%
DCC	15.4%
Shire	14.0%
Johnson Matthey	13.9%
Whitbread	11.0%
Informa	10.9%
Ferguson	10.0%
Rolls-Royce	9.6%
Sage	9.1%
Schroders	9.1%
Experian	8.9%
CRH	8.9%

Source: SharePad, 20 September 2018

TRUSTS WITH AT LEAST A 8.5% HISTORIAL RETURN

Trust	20-yr annualised return
Worldwide Healthcare Trust	16.9%
Schroder AsiaPacific Fund	14.8%
JPMorgan Emerging Markets Investment Trust	14.7%
Polar Capital Technology Trust	14.3%
TR Property Investment Trust	14.0%
Templeton Emerging Markets Investment Trust	13.5%
Scottish Mortgage Investment Trust	12.0%
Fidelity European Values	12.0%
Herald Investment Trust	11.6%
Monks Investment Trust	9.6%
Bankers Investment Trust	8.6%
Foreign & Colonial Investment Trust	8.5%
JPMorgan American Investment Trust	8.4%
Perpetual Income & Growth Investment Trust	8.0%
Murray International Trust	7.7%

Source: SharePad, 20 September 2018

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INVESTMENT TRUSTS FOR GROWTH

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

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

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

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

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

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

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

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

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Registrations 18:00
Presentations start at 18:30
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Registration contact

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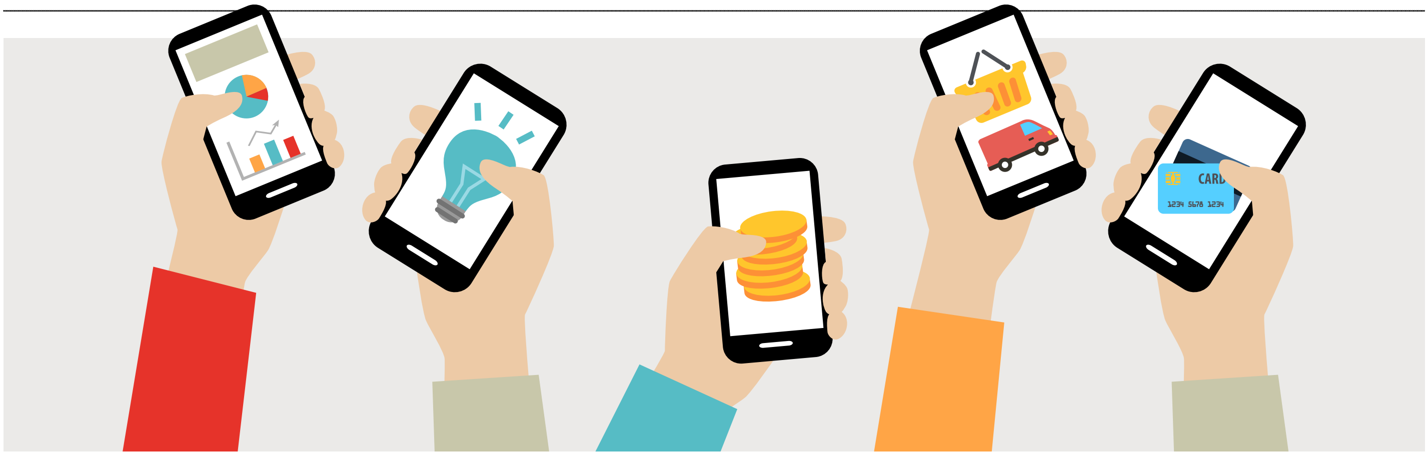
A new breed of apps can help you save money and have a brighter future

New services are being launched to help bring together your accounts and let you better manage your finances



An app on your phone can now help you to budget, save money or just organise your finances. But how do they work and what is on offer?

Since the start of this year so-called 'open banking' means that organisations can share information on your personal finances to enable you to look at all your money in one place.

For example, you could log-in to an app and see your current account balance from one bank, your savings account from another bank, and your investment account with another provider all in one place.

While many people rely on manually updating a spreadsheet to manage their finances and keep track of what is in each account, these new apps and services intend to automate that service. This will save people time but also hopefully increase engagement with finances, by drawing all the information into one place.

For example, the app could highlight to you that you have a large amount of money sitting in your current account earning very little interest – prompting you to move it into a higher paying savings account or into your investment account.

OPEN BANKING

MEANS THAT ORGANISATIONS CAN SHARE INFORMATION ON YOUR PERSONAL FINANCES TO ENABLE YOU TO LOOK AT ALL YOUR MONEY IN ONE PLACE

For those with debt, it may highlight that they have sufficient savings to pay down some of the debt, or highlight that they are paying a high interest rate and prompt them to move to a better deal.

WHAT IS OPEN BANKING?

In simple terms, open banking means that UK-regulated banks have to share information on your accounts, spending and companies with whom you spend, with other providers.

The move was made by the Competition and Markets Authority, which wanted to boost competition in the industry and try to ease the dominance of the large banks. Its aim was to save consumers money, by showing them better deals, cheaper providers or better rates.

The crucial factor is that you must give permission before anyone can access your information, and you don't have to share your data if you don't want to.

Many people are worried about how their data will be used and how safe it will be, and they can decide not to allow this information sharing.

If you sign up to an app or service that wants to access your data, you will have to give express permission before they can do so. If you change your mind, you can stop them accessing it.

It's important to check whether an app is authorised by a regulator, to ensure that your data is kept safe and that you are still protected by your bank. You can check on the FCA's register or on the Open Banking Directory to make sure the provider is legitimate.

Some apps are unauthorised, and many people still use them – it doesn't automatically mean your data is at risk. Some of these are in the process of applying for authorisation, and you can still use them in the interim if you are comfortable they are using your data carefully.

WHO IS OFFERING WHAT?

After the launch of open banking it was widely expected there would be an explosion of launches of apps and services, but this has not turned out to be the case. However, there are still a number of providers.

HSBC is the first large bank to enter the space, and launched a trial service called HSBC Beta last year before rolling it out under the name of Connected Money to its current account customers.

It allows you to look at your current account, savings account, credit card, mortgages and loans in one place. The app also allows you to analyse where you spend your money, and it is planning to launch more features.

AJ Bell has undergone the first roll-out of its financial management app. MyWealth is available for free to customers and is available when they log into their account. It brings together AJ Bell accounts and third party accounts, including bank accounts, credit cards, loans, and more obscure assets, such as artwork or antiques.

At the moment you have to manually enter information on your other account balances, but the service will be upgraded to fill these balances in automatically.

Other apps in the market focus more on budgeting, while still showing you all your accounts. Money Dashboard is one app doing this, letting you see your incomings and outgoings and has a budget planner where you can set limits – using last month's spending as a guide.

Yolt is another option doing a similar job, which is part of Dutch bank ING. It also allows you to track your bills and subscriptions and offers a comparison service, to get you a better deal.

Laura Suter,
personal finance analyst, AJ Bell

IT'S IMPORTANT TO CHECK WHETHER AN APP IS AUTHORISED BY A REGULATOR, TO ENSURE THAT YOUR DATA IS KEPT SAFE.

Could it pay to breach the pensions lifetime allowance?

We look at the tax implications and scenarios where it might be worth doing

Rising numbers of UK pension savers will find themselves facing a charge of up to 55% on their retirement pots after breaching the lifetime allowance (LTA). This is because successive governments have chipped away at the figure since 2010, reducing it from £1.8m to just £1m in 2016/17.

From this tax year the LTA has been pegged to inflation, meaning savers enjoyed a £30,000 increase in the allowance – the first time it has risen since 2010/11.

The lifetime allowance is 'tested' when you take money out of your pension, whether in a defined benefit (DB) scheme, through drawdown, taking an ad-hoc lump sum or purchasing an annuity. This is known in the jargon as a 'crystallisation event'.

For example, if you have a pot worth £1m and you buy an annuity with £300,000 of it, you have used up £300,000 of your lifetime allowance.

Any money that remains within your pension fund will be also be tested against the lifetime allowance at age 75.

If you go over the lifetime allowance you have two options – to take the money as a lump sum and pay a 55% tax charge, or leave it in the pension and pay a 25% charge. You will also pay income tax on any excess left in your pension when you eventually withdraw it.

It's worth noting that if you have taken out 'protection' on your fund you might have locked into a lifetime allowance of more than £1.03m.

There are some circumstances where it might make sense to breach the lifetime allowance.

The most obvious case would be where you are receiving a matched contribution from your employer – effectively a 100% bonus on your savings. Even with the lifetime allowance penalty you are still likely to be better off in your workplace pension (although if you have lifetime allowance protection make sure this isn't voided by making extra contributions).

It also might be worth paying in above your lifetime allowance if your priority is passing on unused funds to the next generation. If you die before age 75 and your pension is untouched then the 25% charge will apply to the excess, with the rest paid tax-free to your nominated beneficiaries.

If you live beyond age 75 then the 25% charge will be taken on your 75th birthday, with growth thereafter exempt from any further test, although income tax will be payable at the beneficiaries' marginal rate.

The lifetime allowance is a devilishly complicated bit of the pension system to calculate, so if you're at all unsure it's worth speaking to a regulated financial adviser.

Tom Selby, senior analyst, AJ Bell

HOW SUCCESSIVE GOVERNMENTS HAVE TINKERED WITH PENSION TAX ALLOWANCES

Year	Annual allowance (£)	Lifetime allowance (£millions)	Tapered annual allowance - adjusted income thresholds (£)	Money Purchase Annual Allowance (£)
2007/08	225,000	1.6		
2008/09	235,000	1.65		
2009/10	245,000	1.75		
2010/11	255,000	1.8		
2011/12	50,000	1.8		
2012/13	50,000	1.5		
2013/14	50,000	1.5		
2014/15	40,000	1.25		
2015/16	40,000	1.25		10,000
2016/17	40,000	1	150,000 - 210,000	4,000
2017/18	40,000	1	150,000 - 210,000	4,000
2018/19	40,000	1.03	150,000 - 210,000	4,000

Five ETFs that could help pay the bills in retirement

We look at the options for finding reliable income during your golden years

Tracker funds like exchange-traded funds (ETFs) are best-known for their ability to mirror the ups and downs of the stock market, so they might not be your first choice for an income investment. But retirees may do well to consider investing in ETFs not just for potential growth, but for reliable dividends too.

Many trackers follow the performance of companies on various stock markets which pay dividends, and that means the ETFs that track them will replicate this income too.

For example, the FTSE 100 yields a respectable 4% at the moment, a level of income which can be hard to achieve anywhere else.

Peter Sleep, portfolio manager at Seven Investment Management, says: 'For a retiree, a tracker that can preserve capital as well as generate income is the Holy Grail, and is just as elusive.'

IMPORTANT POINTS TO CONSIDER

Rock-bottom interest rates mean income-seeking investors have had a hard time in recent years.

Many investors have been forced to take on more risk than they usually might to generate the level of income they need. As well as that, they may find themselves in a concentrated pool of investments as the number of assets which can produce a decent yield dwindles, which only increases the amount of risk an investor is taking.

This is a particular concern for retirees, who are more likely to be focused on a reliable income than on growing their money. But capital preservation is equally important for those relying on their pension pot, and it's important not to take too much risk.

A portfolio created from ETFs is appealing for a number of reasons: not only are these tracker funds generally much cheaper than actively managed funds, but the growth of this part of the industry means they offer exposure to so many different stock markets, sectors, regions or asset classes.

Adam Laird, head of ETF strategy at Lyxor, says: 'Investors in retirement should focus on low cost, high-yielding assets but in the current environment those two features are often mutually exclusive.'

He suggests investing in government bonds for a lower risk option; while the income they pay is relatively low, so too is their chance of default. Government bonds are known as gilts in the UK and treasuries in the US.

Laird adds: 'A traditional gilt fund might yield around 1.5%, which isn't much but it beats cash. Over the long run, inflation-linked gilts will provide protection from the erosive effects of inflation.' One example which may interest investors is **iShares £ Index-Linked Gilts ETF (INXG)**.

TAKING THE CORPORATE BOND ROUTE

Moving up the risk scale slightly, investors could also consider corporate bonds, which are debt issued by companies.

For example, **SPDR Barclays Bloomberg Global Aggregate Bond ETF (GLBL)** invests in investment grade debt from governments and companies across the globe.

Money in this product is spread across more than 1,600 different investments (which lowers risk as it reduces the effect of any defaults) with US and Japanese government debt among the largest exposures in the portfolio. Its yield is relatively low at 0.9% but its charges are even lower at 0.1%.

UK equity income funds have long been a popular choice for anyone looking to achieve both capital growth and income, and it's an investment strategy which is now available through trackers.

Lyxor FTSE UK Quality Low Vol Dividend ETF (DOSH) is one option within this area. The tracker, which has charges of 0.19%, concentrates on UK companies paying higher-than-average dividends but also has a screen in place to check the businesses it backs are quality, reducing the likelihood of dividend cuts.

Companies which make the mark include pharma giants **AstraZeneca (AZN)** and **GlaxoSmithKline (GSK)** as well as telecoms firm **Vodafone (VOD)** and drinks maker **Diageo (DGE)**. It yields 3.9%.

> **Investing in Japanese equities may sound counterintuitive to a cautious retiree but that stock market tends to act independently of the FTSE and the yen tends to rise when sterling falls, so the region provides diversification to a portfolio**

Sony is among the companies being tracked by the Vanguard FTSE Japan ETF

PROPERTY EXPOSURE MAY APPEAL… SO TOO JAPAN

Physical assets such as property have been an increasingly popular choice in recent years because of the income they generate from the rents paid by tenants.

Sleep at Seven Investment Management likes **iShares Developed Market Property Yield ETF (IWDP)**, which offers exposure to listed property companies across the world. Currently, more than half of its assets are in the US, with a further 8.3% in Hong Kong and 6.7% in Japan.

Properties include a mix of industrial space, as well as retail and residential property. It has charges of just 0.59% and yields 3%.

To spread your risk outside of the UK, Sleep suggests looking further afield with **Vanguard FTSE Japan ETF (VJPN)**. He says: 'Investing in Japanese equities may sound counterintuitive to a cautious retiree but that stock market tends to act independently of the FTSE and the yen tends to rise when sterling falls, so the region provides diversification to a portfolio.'

Japan has also seen a crackdown on corporate governance in recent years, which has prompted companies to become better at paying dividends to their shareholders. This means there is potential for income from the region to grow, albeit from a low base.

The Vanguard tracker, which yields 1.6%, has charges of just 0.19%. It tracks more than 500 Japanese firms including Honda, Toyota, Nintendo and Sony. (HB)

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Why it is still all quiet on the Western front

Stock markets are unusually quiet: so what does that mean?

Erich Maria Remarque's *All Quiet on the Western Front* is one of the best-known anti-war novels (and films) as it outlines how German soldiers in France suffered physically and mentally in the trenches (and, ultimately, even once the defeated survivors had returned home).

All the troops want is a peaceful, quiet life and no doubt many investors would share that sentiment, especially with their portfolios in mind.

One of the most startling features of the global equity markets (or at least developed ones) is just how calm they seem to be and history shows this tends to be a good thing, although there do seem to be four clear 'cycles' when it comes to market volatility:

1. A period (often lengthy) of total calm, where headline indices do not gyrate, as they make steady, consistent upward progress
2. A period where the first doubts about the bull market creep in, sellers begin to challenge buyers with the force of their opinions and headline benchmarks make progress but at a lesser rate and with greater effort. Ultimately, this proves too much for nervy buyers and holders, who crack and start to sell.
3. A period where doubt finally leads to panic. Volatility becomes the norm as share prices and indices gyrate wildly, but with a clear downward bias. Finally, the wet towels come slopping into the ring as buyers capitulate and turn seller at almost any price.
4. Markets bottom amid this final frenzy. Calm descends as buyers begin to regather their nerve as they find assets that are once more attractively valued, and markets begin their next march higher.

It is not hard to work out where we are now. In the US, the S&P 500 has moved by more than 1% from open to close on a daily basis just 33 times in 2018 to date.

While that is an increase on 2016's soporific count of just eight times, it leaves the US on track for its quietest year, using this benchmark, since 2006.

US EQUITY MARKETS CONTINUE TO BENEFIT FROM A PROLONGED PERIOD OF CALM

Source: Thomson Reuters Datastream

In the UK, life is a little livelier, but not much. Thirty-six open-to-close gains or falls of more than 1% in a day again exceeds 2017's lowly tally of 17 but leaves the FTSE 100 on track for its most docile year since 2005.

THE FTSE 100 IS ALSO QUIET EVEN IF IT IS FINDING IT HARDER TO MAKE FURTHER GAINS

Source: Thomson Reuters Datastream

So, the questions now are why is trading so torpid? And will it continue?

After all, the good news is that volatility is spookily low as that has tended to be good for equity returns.

But low volatility could be bad news, too. The accompanying charts also suggest that unusual calm leads to unusual risk-taking which leads to over-exuberance, poor capital allocation and eventually volatility's return with a vengeance as poor (or simply over-valued) investments falter and confidence finally cracks – even if we all know the past is no guarantee for the future.

COOLING DOSE OF CASH

It does seem odd that stock markets should be so calm, given America's tariff attack on its largest trading partner; the US Federal Reserve's determination to increase interest rates and withdraw quantitative easing (QE); a bubbly oil price; a stronger dollar; surging global indebtedness; and the cracks that have already appeared in riskier arenas such as cryptocurrencies, emerging/frontier markets and richly-valued technology stocks.

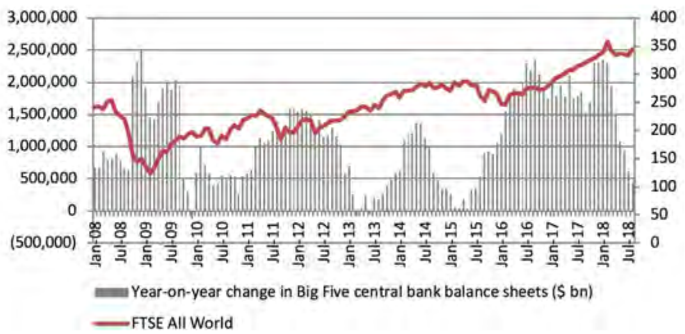
Perhaps those cracks explain why more developed Western markets are holding up, as money retreats from the periphery to the core and to a narrowing selection of assets, geographies, sectors and stocks that are perceived to be 'safer'.

Equities also appear to be taking the view that central banks still have their back as cheap liquidity leaves oceans of cash sloshing around looking for a decent (risk-adjusted) return.

Many market participants may still favour stocks, given the lowly interest rates available on cash and the historically modest yields offered by (Western) government, corporate and high yield bonds, relative to the risks involved.

It is easy to see why, looking at how the balance sheets of the US Federal Reserve, European Central Bank, Swiss National Bank, Bank of England and Bank of Japan have swollen since 2008 thanks to the QE, asset-buying schemes.

THE BIG FIVE CENTRAL BANKS' BALANCE SHEETS ARE ABOUT TO START SHRINKING



Source: Bank of England, Bank of Japan, European Central Bank, FRED - St. Louis Federal Reserve database, Swiss National Bank, US Federal Reserve

Every time they have tried to ease back on the stimulus, stocks (and even economies) have wobbled and central banks have turned the taps back on, providing the liquidity in which asset valuations could bathe.

Perhaps the test will come in 2019, as the Fed sterilises QE all the faster and the Bank of England and European Central Bank stand pat, with the result that liquidity will be withdrawn on a net basis.

And if that is accompanied by greater equity index and share price volatility, that could be one early warning signal that investors might like to ponder.

By Russ Mould, investment director, AJ Bell

Alfa Financial has a lot to prove after disastrous start to life on the stock market

Visibility limitations are clear but we think change could come rapidly once the tide turns

In little more than a year **Alfa Financial Software (ALFA)** has gone from cherished FTSE 250 technology luminary to virtual stock market leper.

In a similar vein to Sir Richard Branson's quip about how to become a millionaire (start with a billion, then buy an airline), owning shares in Alfa Financial have, thus far, been a ticket to the poor house.

Founded by executive chairman Andrew Page in 1990, Alfa Financial provides an enterprise software system for the asset and consumer finance industry. It joined the stock market on 1 June 2017 with a 325p share price that implied a market valuation of around £975m.

The company is today worth less than half that, the stock changing hands at 153.4p. That puts the market capitalisation at £460m.

WHAT DOES IT DO, AND WHY HAVE THINGS GONE WRONG?

We'll get to the nitty gritty of events that have shaped this valuation collapse in a bit. First, it is worth understanding what the company does for a living.

Alfa has designed and supplies a browser-based, Java-developed platform that provides tools for financing organisations; computerised new business and agreement management functionality, with workflow and analytics capabilities among other aspects.

Mercedes-Benz, Toyota, Siemens, **Barclays (BARC)** and Bank of America are all existing clients. Alfa has 10 offices worldwide with more than 250 staff.

Alfa makes its money by first winning pitches to install a solution. This is complex stuff that typically means working closely with a client to assess exactly what is required, and tailoring its platform to fit. This is called software implementation and can take several years to complete.

Clients must take out an accompanying maintenance contract with Alfa once they go 'live', which provides online and on-call support, a second line of revenue. Finally, ODS income, or ongoing development services, provides upgrades, new features and customisation.

> **Owning shares in Alfa Financial have, thus far, been a ticket to the poor house**

ALFA'S PERFORMANCE IN 2017

£87.8m Revenue

Increased 20% from £73.3m in 2016

£41.2m Adjusted EBIT

Increased 26% on 2016

47% Adjusted EBIT margin

Increased from 45% in 2016

26 Countries

32 Customers

329 Employees

Source: Alfa

It is important for investors to get to grips with this income cycle to understand why delays to a few software implementation projects have crushed profits and put investors in a very dark mood.

Results for the six months to 30 June 2018 showed a currency-adjusted 21% fall in revenue to £32.9m, including a 48% slump in software implementation sales (to £13.2m). But because of the knock-on effect to maintenance and ODS, operating profits collapsed by 53% to £8.7m.

Putting that into perspective, analysts at Numis are forecasting Alfa to achieve approximately £20m of operating profit for the full year 2018, yet in early March they had estimates in the market for £47.4m. That's a massive downgrade by anyone's standards but adding salt to the wounds is that bad news has trickled out over several months rather than in a single blow.

Operating profits collapsed by 53%

HOW LIKELY IS A CHANGE FOR THE BETTER?

The big question overhanging Alfa Financial and its share price now is not one of management capability. Chief executive Andrew Denton has almost as many years with the company as chairman Andrew Page (23 versus 28) while non-executives such as Richard Longdon and Robin Taylor have heaps of UK technology industry experience.

Nor is there a problem in principle with the growth opportunity. That's largely because of the continued dominance of legacy IT systems often developed by large organisations in-house.

With the demand for increased digitisation and new functionality, many of these systems are fast becoming outdated. With a rapidly developing cloud infrastructure, it means organisations are increasingly open to the idea of outsourcing to Alfa's best in class suite of tools.

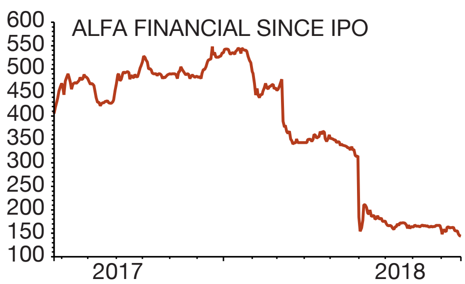
Rob Warensjo, of the Megabuyte software industry analysis boutique, has previously stated his belief that Alfa has only scratched the surface of the market opportunity so far.

It is almost worth saying that even against such poor recent trading, cash conversion remains impressive, a mark of a quality company. Operating cash flow of £9.9m in the first half equals 115% of operating profit.

No, the big issue facing the company and investors is one of visibility, with management (let alone analysts or investors) unable to predict near-term implementation workloads with any real confidence.

Alfa's reliance on large deals to meet expectations clearly represents a significant ongoing risk. Yet this cuts both ways. If new or delayed projects come through more quickly than now being forecast there is real scope to reverse the market's current mood and lift the negative cloud swirling over the company. And that could spark a sudden and substantial re-assessment of Alfa's nearer-term prospects.

There is positive news, such as an upgrade with a retail bank. Alfa also talks of a 'healthy' pipeline of new business bids while there is an order book worth £106m (in total contracted value). This suggests to us that at current share price levels, there is substantially more share price upside potential than down. (SF)



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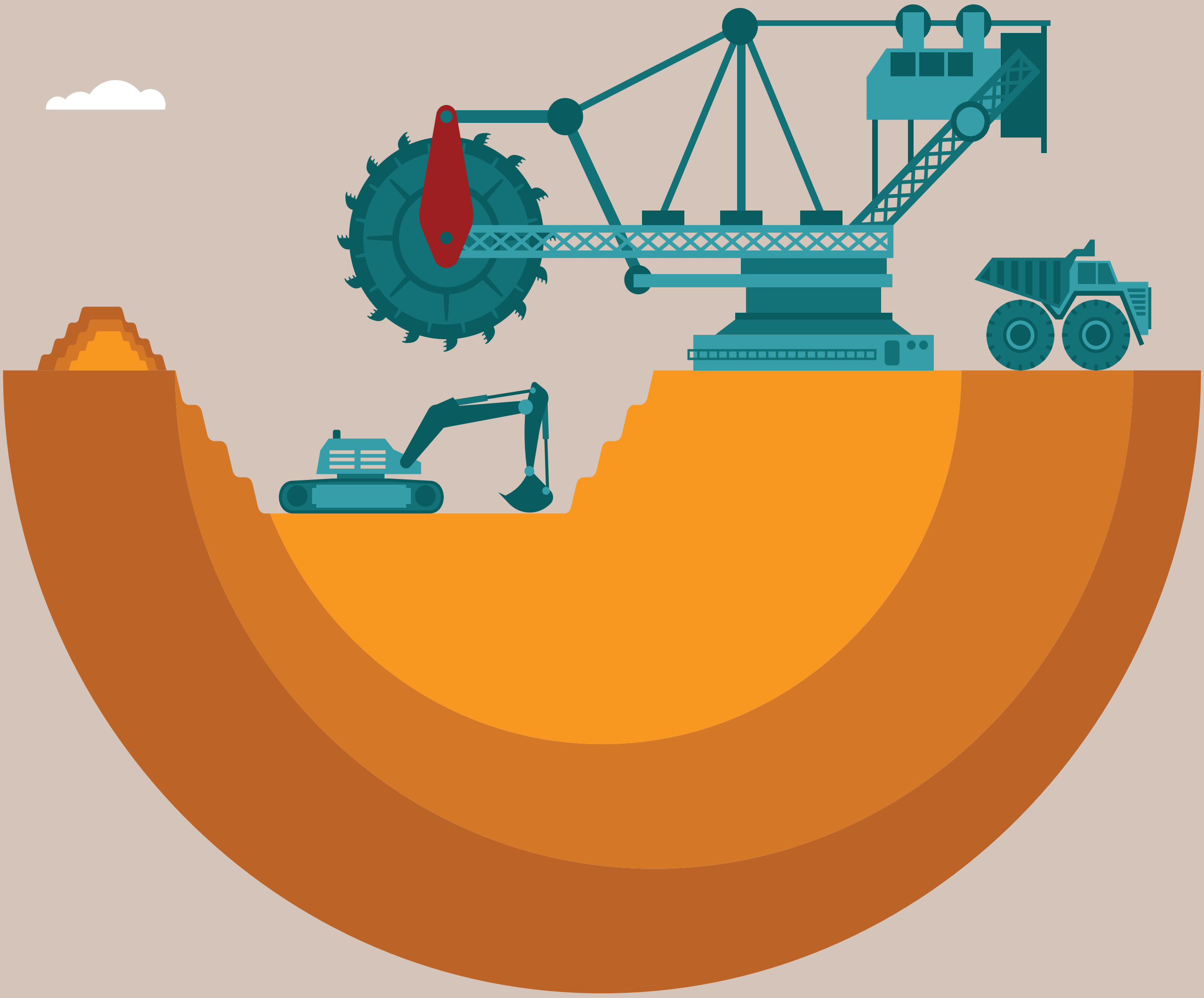


SEPTEMBER 2018

INCLUDES COMPANY PROFILES, COMMENT AND ANALYSIS

Introduction

Welcome to Spotlight, a bonus magazine which is distributed eight times a year alongside your digital copy of Shares.

It provides small caps with a platform to tell their stories in their own words and this edition is dedicated to the natural resources space.

The company profiles are written by the businesses themselves rather than by *Shares* journalists.

They pay a fee to get their message across to both existing shareholders and prospective investors.

These profiles are paid-for promotions and are not independent comment. As such, they cannot be considered unbiased. Equally, you are getting the inside track from the people who should best know the company and its strategy.

Click here for details of upcoming events and how to register for free tickets.

Previous issues of *Spotlight* are available on our website.

Understanding the Lithium market

'Recently, the development of salar brines from South America has expanded rapidly. Recycling of lithium has also grown notably since Japan opened its first lithiumion battery recycling plant in 1992.'
Charles Gibson, Edison Investment Research director of mining

IS THE DEMAND FOR LITHIUM GROWING?

Lithium has shown itself to be a strongly performing commodity, with growing demand for the metal required in battery manufacturing, mostly off the back of electric car sales. The International Energy Agency (IEA) reported that global electric vehicle (EV) sales topped one million in 2017, a 54% increase from 2016.

That said, demand has not remained stable globally, with Chinese EV production peaking in December last year. More recently, China's new EV subsidies have played havoc with the market, creating a level of uncertainty that has led Chinese lithium spot prices to plummet over fears of an oversupply.

WHY IS THERE A RISK OF OVERSUPPLY?

There is growing concern in some quarters that lithium has become a speculative bubble and that EV adoption will not meet expectations – potentially creating an oversupply as lithium producers develop projects to service a market that may ultimately fail to mature quickly enough. In the short term, lithium demand is expected to outstrip supply over 2018. However, it is in the longer term that certain influential financial figures worry about oversupply.

Among those ringing the warning bells, Morgan Stanley forecast that the price of lithium carbonate will suffer a considerable fall by 2021. Wood Mackenzie warned that supply will start to outpace demand in 2019 and Merrill Lynch predicted "severe oversupplies" in the lithium market within the next few years. That said, if EV production reaches forecast figures, many analysts see supply rising to meet demand rather than overshooting it.

HOW MANY NEW LITHIUM PLANTS ARE BEING BUILT?

In 2017 large lithium companies have promised an additional

20 lithium production sites, in addition to the 16 sites currently in operation.

Many small ventures have also attempted to break into the lithium market, but of the 39 small lithium ventures tracked by commodity consultants CRU, only four have firm commitments to supply lithium, while another 10 are rated as probable.

HOW IS LITHIUM MINED?

Lithium is predominantly mined in one of two ways. The first is extraction from mineral ores like spodumene, petalite, and lepidolite. Until now, lithium contained in micas has been, at best, only marginally economic to mine for battery applications, but Lepidico's L-Max technology is now also opening these ores up to extraction as well.

The second extraction method, brine production, is more cost efficient than mineral extraction, but tends to produce lower-purity lithium and has high lead times of 1.5 to three years.The brine, commonly seawater or groundwater laced with lithium, is pumped to the surface and placed in a settling basin, where the lithium is concentrated via evaporation.

WHERE IS LITHIUM MINED?

Significant quantities of petalite and lepidolite are found in Afghanistan, Australia, Brazil, Madagascar, North Carolina and California. Australia stands as the world's largest producer of lithium and increased its production in 2017. Chile comes in second, producing lithium mostly from its brine operations. The South American country saw a shortfall in production last year because of adverse weather conditions affecting solar evaporation in its facilities.

Bad weather also affected Argentina, the second member of the 'lithium triangle', alongside Chile and Bolivia, which in 2017 posted a production decrease from the previous year because of heavy snowfall. Finally, China, once a small lithium producer, has been increasing its production capabilities, becoming the fourth largest lithium supplier in 2016.

WHICH ARE THE BIG PLAYERS IN THE LITHIUM MARKET?

For many years, the world's lithium was supplied by three large firms: formerly state-owned Sociedad Quimica y Minera de Chile (SQM), Albemarle and FMC Lithium. Although these companies still produce the majority of lithium today, the market is much more fragmented than it once was. This is partly due to the rise of China's Ganfeng Lithium and the growing Chinese market. However, the precipitous drop in spot prices in China has also already forced Desert Lion Energy to cease operations in Namibia, which serviced the Chinese market.

That said, there has also been some fragmentation in supply owing to a number of smaller players developing new projects. Among these, Rock Tech Lithium operates a project along the Georgia Lake in Ontario and Nemaska retains the Whabouchi mine in Quebec. Rock Tech also holds the Nogalito lithium brine operation in Sonora, Mexico, which it acquired in February 2018.

Galaxy Resources, which recently partnered with Lepidico, is also a developing player with its James Bay lithium project in Quebec and the Mt Cattlin mine at Ravensthorpe in Western Australia. Another is Neo Lithium Corp, which has begun negotiating for the construction of a US$490m Argentinean mine.

This article is based on a report produced by Edison Investment Research.

Coro kicks off ambitious SE Asia growth strategy

Website: www.coroenergyplc.com

Formerly called Saffron Energy, a transformational change in the first half of 2018 saw the appointment of a new board following the merger of Saffron with the Italian production and exploration licenses of **Sound Energy (SOU:AIM)**. The introduction of two institutional cornerstone investors and a rebranded name change as **Coro Energy (CORO:AIM)** set the scene for the instigation of new South East Asian growth strategy.

GAP IN THE MARKET

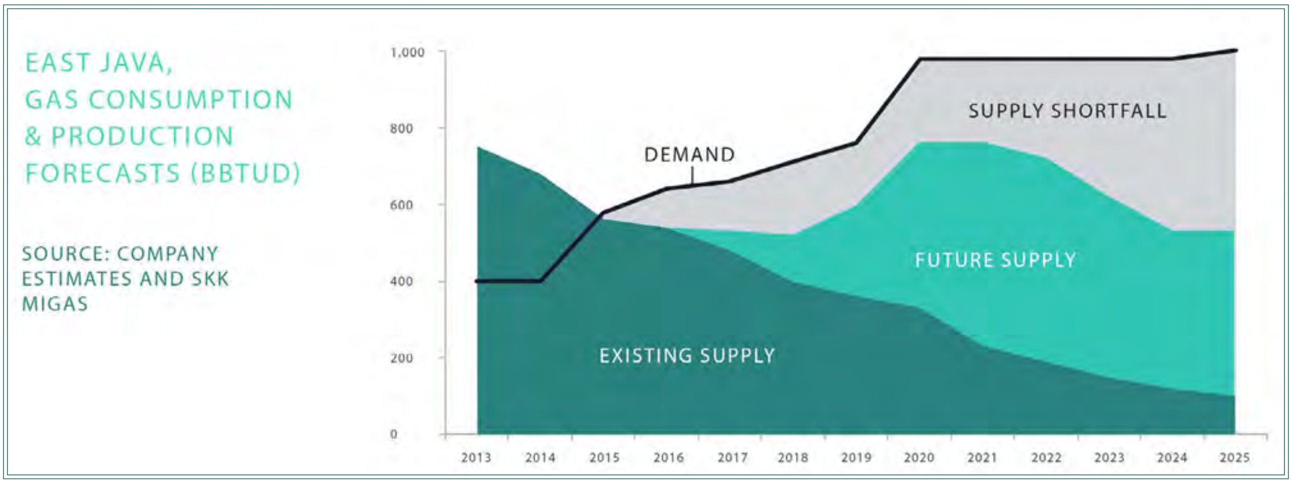
The company has recognised an industrial need and gap in the market for independent upstream players in South East Asia to unlock latent value in smaller oil and gas fields and discoveries by developing a business focused on finding and commercialising oil and gas resources.

INTRODUCING... CORO ENERGY

AN INDEPENDENT FULL CYCLE UPSTREAM OIL AND GAS EXPLORATION AND PRODUCTION COMPANY EXECUTING AN AMBITIOUS GROWTH STRATEGY IN SOUTH EAST ASIA.

Coro believes that the region possesses some of the world's fastest developing economies where demand for gas currently significantly outstrips supply. This, combined with increasing GDP rates, commensurate growth in energy demand and the increasing shortage of gas in the major markets, provides a compelling investment proposition for investors at this point in the cycle.

The company's strategy is focused on targeting high graded countries, which includes Indonesia, Malaysia and Vietnam, where they see significant 'yet-to-find'



hydrocarbon resources as well as numerous fallow discoveries which represent opportunities for commercialisation and development.

The company has a preference for gas over oil, but is evaluating opportunities for both products in order to build a diversified portfolio of assets in the region. Coro believe that shareholder value can be created through each phase of the life cycle including exploration stage assets, where value can be added through technical de-risking and the drill bit; appraisal stage assets, where they can identify low technical risk and potential for smart, low cost development options; and production assets, where it facilitates exploration and appraisal upside and has financial synergies with the wider business.

SIGNIFICANT PORTFOLIO

Consequent to the merger of the two Italian portfolios, the company now has a significant portfolio of production and development assets in Italy, where they operate five production concessions, four exploration permits and four exploration permit applications.

In addition to a wider asset footprint, the merger resulted in an enlarged operational team with extensive oil and gas experience in Italy and wider territories.

This European business has been operating in Italy for over 20 years and provides cash flow to the company as well as an accomplished operating track record, providing the initial spring board for the company to propel itself into its new target geographies.

> **Average market prices are in range $5.5 - $8.0 /MMbtu**

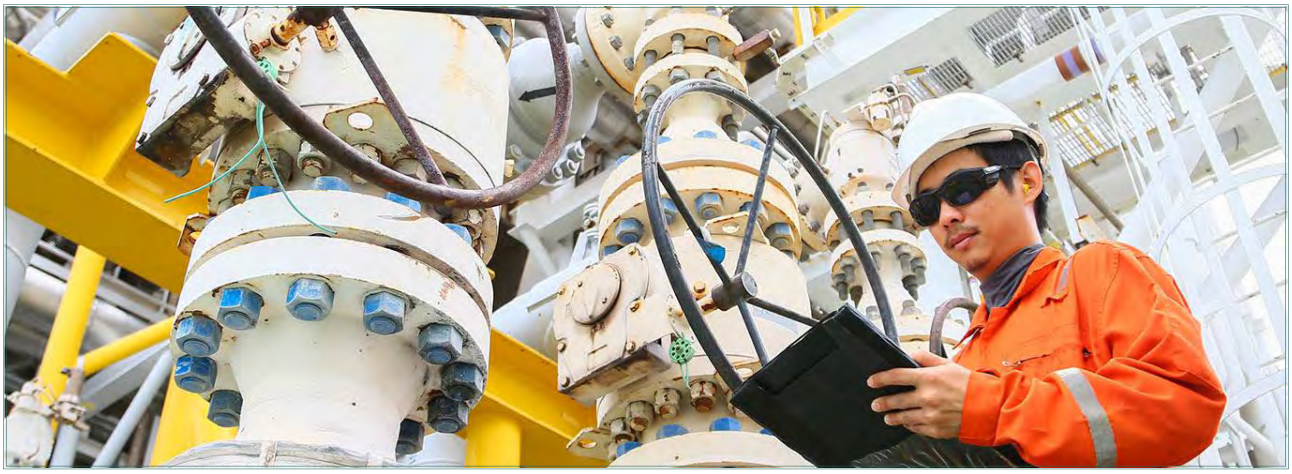
Recently Coro announced its maiden transaction in South East Asia, acquiring a 42.5% interest in the Bulu PSC, offshore East Java Indonesia, which contains the Lengo gas field. This initial entry into the region resulted in the acquisition of 152 billion cubic feet (bcf) of net 2C contingent resources for a total consideration of up to $12m, comprising up to $4m in new Coro shares and $8m in cash, representing a low cost acquisition price of circa $0.11 per mmbtu (million British thermal units) ($0.63 per barrel of oil equivalent) on a 2C basis.

COMPELLING PROJECT ECONOMICS

The company estimates that development costs range from $0.80 to $1 per mmbtu and with regional gas prices of $5.50 to $8 mmbtu and a recoverable cost pool of $100m, the project economics are seen as compelling.

The Bulu PSC already has a Plan of Development approved by the Indonesian authorities, which includes four wells from a small unmanned platform, tied back to shore with a 60km 20 inch pipeline.

The project has already signed a memorandum of understanding with a gas buyer and further options continue to be evaluated, with the gas being marketed to multiple buyers in the Tuban and Gresik industrial zones of East Java where the gas is likely to be



consumed by petrochemical, power generation or gas aggregation companies.

The execution of a gas sales agreement could be expected in the coming months, with first production expected to come onstream in the second half of 2020.

The company states that this initial deal is a strategic deal, with low investment risk and asymmetric risk to the upside both technically and commercially and therefore excellent value.

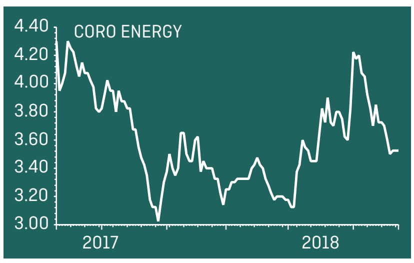
Coro also confirm that they are evaluating and continuing to progress a number of other material opportunities in South East Asia as it moves rapidly and decisively in establishing a portfolio of high impact assets.

STRONG BOARD

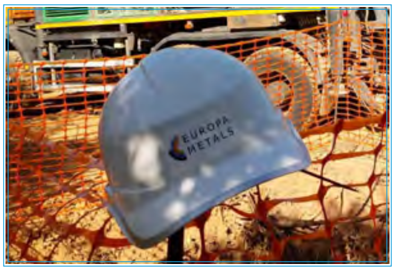
The board houses some notable names: James Parsons, currently CEO of Sound Energy, is non-executive chairman; and Fiona MacAulay, currently CEO of **Echo Energy (ECHO:AIM)**, serves on the board as a non-executive director. Marco Fumagalli represents the interests of cornerstone investor **CIP Merchant Capital (CIP:AIM)** and Ilham Habibe, an Indonesian national, also sits on the board as a non-executive director.

In May of this year, James Menzies joined the company as chief executive officer. He previously founded Salamander Energy, a South East Asian focused E&P company, which was listed on the LSE main board before being sold in a trade sale to **Ophir Energy (OPHR)** in 2015.

He has extensive experience in the region and deep connectivity which will be invaluable to Coro as it executes its business development activities and scales up to become a mid-tier player. The board share many years of oil and gas experience between them and have a track record of creating shareholder value in the industry.



Europa Metals looking to shine in Spain



Website: www.europametals.com

Europa Metals (EUZ:AIM) is a turnaround situation which, following board changes, cost reduction and a corporate restructuring, is now focused on identifying and developing economically viable metals assets within the EU.

Executive directors of the company are Laurence Read and Myles Campion. Read has 18 years of experience in natural resources including advising on the $806m London Mining sale of the company's Brazilian redevelopment asset.

With more than 20 years in mining exploration and finance, Campion was part of the discovery team for the Emily Ann Nickel Sulphide Mine and has worked at Barclays Capital and as a resources fund manager.

Colin Bird, who successfully developed Jubilee Metals and sold the Kiwara copper-nickel group for $260m, is non-executive chairman of the company.

CORE ASSET

Europa's core asset, acquired into the portfolio is the wholly owned Toral lead, zinc and silver project in Spain.

With a significant amount of historic work committed to the project in the past 30 years, including over 441,000 metres of diamond drilling, Europa has prosecuted a highly cost effective programme that culminated in the announcement of a maiden JORC (2012) Resource estimate in January 2018.

The resource was then subsequently updated in September of the same year with significant increases in contained metal to 19Mt@6.9% zinc equivalent (including lead credits) and 24g/t silver in January 2018. The project has an estimated metal content of 720,000 tonnes of zinc and 570,000 tonnes of lead in addition to 13 million troy ounces of silver. The resource does not factor in current drilling programmes underway, extension and planned infill, Scoping Study progression and metallurgical testing. Current workflow in progress and planned includes the publishing of a scoping study in order to demonstrate first economics to key industry groups and stakeholders, extension and then infill drilling into the center of the established resource.

There is also the potential for geotech/metturlugical drilling and ongoing resource re-evaluation as further data is updated into the JORC model.

INTRODUCING... EUROPA METALS

A EUROPEAN FOCUSED LEAD-ZINC EXPLORER WITH ITS PRIMARY ASSET IN SPAIN.

PERMISSIONS SOUGHT FOR FULL DEVELOPMENT

Europa believes work currently underway on mineralogy and metallurgy could also be of significant interest to larger lead-zinc companies in terms of discerning the saleable concentrate product types and the zinc recoveries. The company has also taken the decision to begin the permissions process for full mine development.

Essentially Europa is looking to determine a deliverable lead, zinc and silver production

INFERRED MINERAL RESOURCES FOR TORAL PROPERTY

Cut Off Zn Eq (PbAg)%	Tonnes (Millions)	Density	Zn_Eq (Pb)%	Zn Eq (PbAg)%	Zn %	Pb %	Ag g/t	Contained Zn Tonnes (000s)	Contained Pb Tonnes (000s)	Ag Troy Oz (Millions)
Total										
6	10	2.8	8.7	9.3	4.8	4	30	490	420	10
5	14	2.8	7.7	8.3	4.4	3.5	26	620	490	12
4	19	2.8	6.9	7.4	3.9	3.1	24	720	570	14
3	23	2.8	6.2	6.7	3.5	2.8	22	800	630	16
Transitional Oxide Material										
4	1.8	2.4	5	5.5	2.6	2.5	25	45	44	1.4
Unweatherd Fresh Rock										
4	17	2.8	7	7.6	4	3.1	23	680	530	13

Summary of Inferred mineral resources for the Toral property reported at a 4.0% Zn equivalent cut-off grade (including Pb and Ag credits) and estimated grade and tonnages at the various cut off grades. Numbers are rounded to reflect the accuracy of the estimate and as such totals may not agree.

project with strong margins in an aggressive time frame. Grade, ease of processing, scale and location within a politically stable jurisdiction with rail, road and power all within 5km of the project (a domestic smelting operations) are all key components under examination at Toral, combined with the full ownership of the project.

As a mine Toral will be underground with minimal locational impact. The province of Castilla y Leon has a long history of mining in the region, and specifically within the local area of Toral (The Antonina lead-zinc mine located in the adjacent licence area), and the company has built strong relationship with the local government, demonstrated by the investigational permit renewal granted to Europa in 2017 for three years.

STRATEGIC APPROACH

To date, Europa's strategic approach has been typified by returning to primary data sources - the new management was one of the first in a significant time period to identify and visit the actual historic core held at the Spanish national core library, located in Andalucía - and use independent consultants to work from first principles, verifying data sets and carrying out independent test work.

This initial workflow resulted in the identification of silver credits; which were subsequently incorporated into the JORC resource, and a new understanding of the mineralisation that has formed the foundation of the 2018 Phase I and Phase II work programmes.

Both phases of the work programme have the potential to demonstrate a highly economic project with a high-grade production core that can be built out from.

PEER GROUP COMPARISON

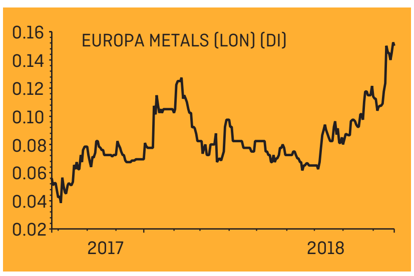
A Turner Pope research report published in 2018 on peer group comparisons comments:

'Comparing the company against a listed peer group of primarily zinc E&P companies highlights several indicators of relative value for Europa. In particular, when compared against its small cap peers in the sub-$50m market capitalisation category, Europa is trading on a comparatively low Enterprise Value (EV) to Resources (Mt) multiple.

'Although Alta Zinc and Consolidated Zinc both possess a proportion of indicated $50m market capitalisation category, Europa is trading on a comparatively low Enterprise Value (EV) to Resources (Mt) multiple.

'Azure Minerals and Erris Resources are currently in the earlier stages of exploration activities and do not yet have the resources to ascribe an EV ratio. However, both companies possess substantial cash resources to expedite their ongoing exploration activities.

Central Asia Metals (CAML:AIM) trades on a substantially higher EV/Mt ratio than the wider peer group. However, it should be noted that this company has substantial copper production in Kazakhstan implying that a direct comparison with its smaller zinc exploration peers should be made tentatively at best given the breadth of its considerably larger asset portfolio.'



Kodal Minerals emerges with top 15 lithium project globally after declaring maiden JORC Resource

Bernard-Aylward, Chief Executive Officer – Kodal Minerals PLC

Website: www.kodalminerals.com

AIM-quoted **Kodal Minerals (KOD:AIM)** arrived on the scene with its Bougouni Project in Mali two years ago. The company recently announced its maiden JORC resource declaration of 17.3Mt at 1.20% Li_2O in the inferred category, placing it in the top 15 projects globally.

With the key drivers of the continued growth of the lithium market remaining dominant in both the media and investors' minds, including the increasing demand for electric vehicles, battery storage and the growth in use of personal electric products, together with escalating government regulations relating to environmental sustainability, Kodal believes it is well positioned to capitalise on the critical need for this strategic commodity.

RAPID PROGRESS

After acquiring the project, which hosted known lithium pegmatite occurrences, in September 2016, CEO Bernard Aylward, explains that the exploration team quickly set out to discover the size, scale and geological setting of these lithium occurrences, and he was not disappointed.

Diamond drill core showing abundant Pegmatite veining

Within weeks of arriving on site, a comprehensive exploration campaign had been planned, comprising reconnaissance drilling, geological sampling and trenching – all of which highlighted the project's prospectivity for high grade lithium mineralisation.

INTRODUCING... KODAL MINERALS

A LITHIUM FOCUSED DEVELOPMENT AND EXPLORATION COMPANY PROGRESSING THE DEVELOPMENT OF ITS BOUGOUNI LITHIUM PROJECT IN SOUTHERN MALI.

Work initially concentrated on the Ngoualana prospect, where the highest value grades were discovered, but additional prospects including Sogola-Baoule and Boumou soon surfaced and delivered similarly encouraging results. These three prospects form the basis of Kodal's maiden resource, however Aylward has been clear in his assertion that additional resource ounces are likely at these prospects, in addition to the five other target areas which have been identified so far across the 500 square kilometre Bougouni Project.

OUTSIDE INVESTMENT

Such consistently positive results attracted the attention of international lithium end users, including Suay Chin, a Singapore registered trading company formed to supply the Chinese lithium market, from acid producers to lithium carbonate producers and to the final lithium-ion battery manufacturer.

Suay Chin has strong support from Shandong Mingrui Chemical Co Ltd, a long-term supplier to existing lithium carbonate producers in the Shandong Province China.

Suay Chin demonstrated its support of Kodal Minerals through the direct investment of £6m, via two subscription agreements, providing the firm with a 29% interest in Kodal, and also agreed an off-take term sheet relating to between 80% and 100% of the spodumene product produced at Bougouni for a minimum period of three years.

Aylward is keen to stress that Suay Chin's involvement has extended further than simple financial backing, with the Suay Chin team providing invaluable support and expertise as Kodal advances critical elements of development work such as metallurgical testwork.

Its involvement in arranging the testing of Kodal's spodumene rich pegmatite samples by existing lithium carbonate producers in China, proved highly significant for Kodal and the board believe that this strong technical contribution from Suay Chin will continue as Kodal advances towards first production at Bougouni.

With first production at the forefront of the Kodal board's mind, the team has adopted a fast-track strategy

to achieve this in as short timeframe as practicable, by simultaneously working on multiple work flows. This has enabled the development of initial optimised pit models and processing flow sheets, together with indications of potential financial and production projections.

The Kodal team is currently gearing itself towards production of 130,000 tonnes per year of spodumene concentrate grading at about 5.5% Li_2O, which it believes fits with what they have been advised end-users require. With these parameters in place, Aylward has speculated that the likely cost of production would be in the region of $400 per tonne, which would deliver a very healthy margin against current sales prices of between $800 and $900 per tonne.

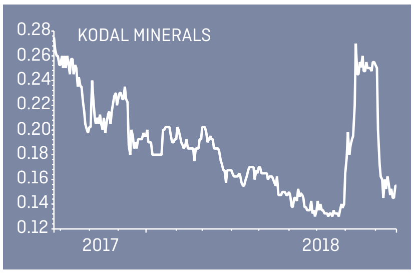
KEEPING A LID ON PRODUCTION COSTS

Kodal is confident on these low production costs due to the relatively straightforward metallurgy, but also the simple and well-understood geology of the project. Bougouni benefits from wide high-grade intervals of surface and pegmatite outcropping – which is expected to result in simplified exploitation methods.

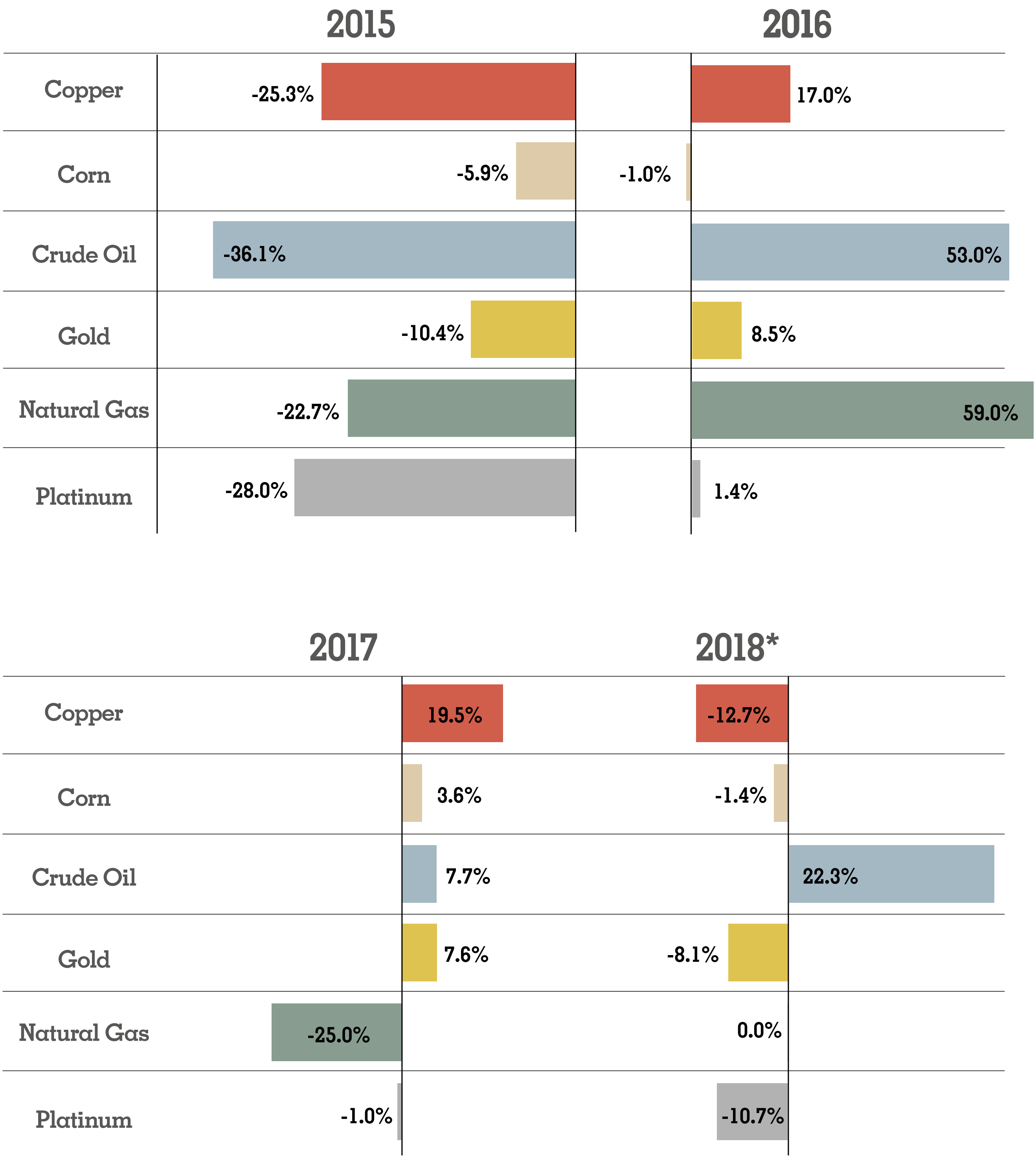
The team is currently well underway with the extraction of a 5,000t bulk sample designed to provide Kodal with key mining and processing data as well as the initiation of environmental review and monitoring to assist with the mining licence application next year; a process which the board believe will be forthcoming. Mali has a long tradition in the mining industry, boasting some of the world's most prominent miners and more than 30 years of continuous gold production, but, keen to diversify into new commodities, a burgeoning lithium industry is developing and Kodal is keen to be at the forefront.

HIGH IMPACT NEWS

With all systems and work programmes calibrated to delivering production in the near term, the Kodal team has achieved a significant amount in the two years since initially acquiring the project and a pipeline of high impact news is expected to continue through the remainder of 2018 and throughout 2019.

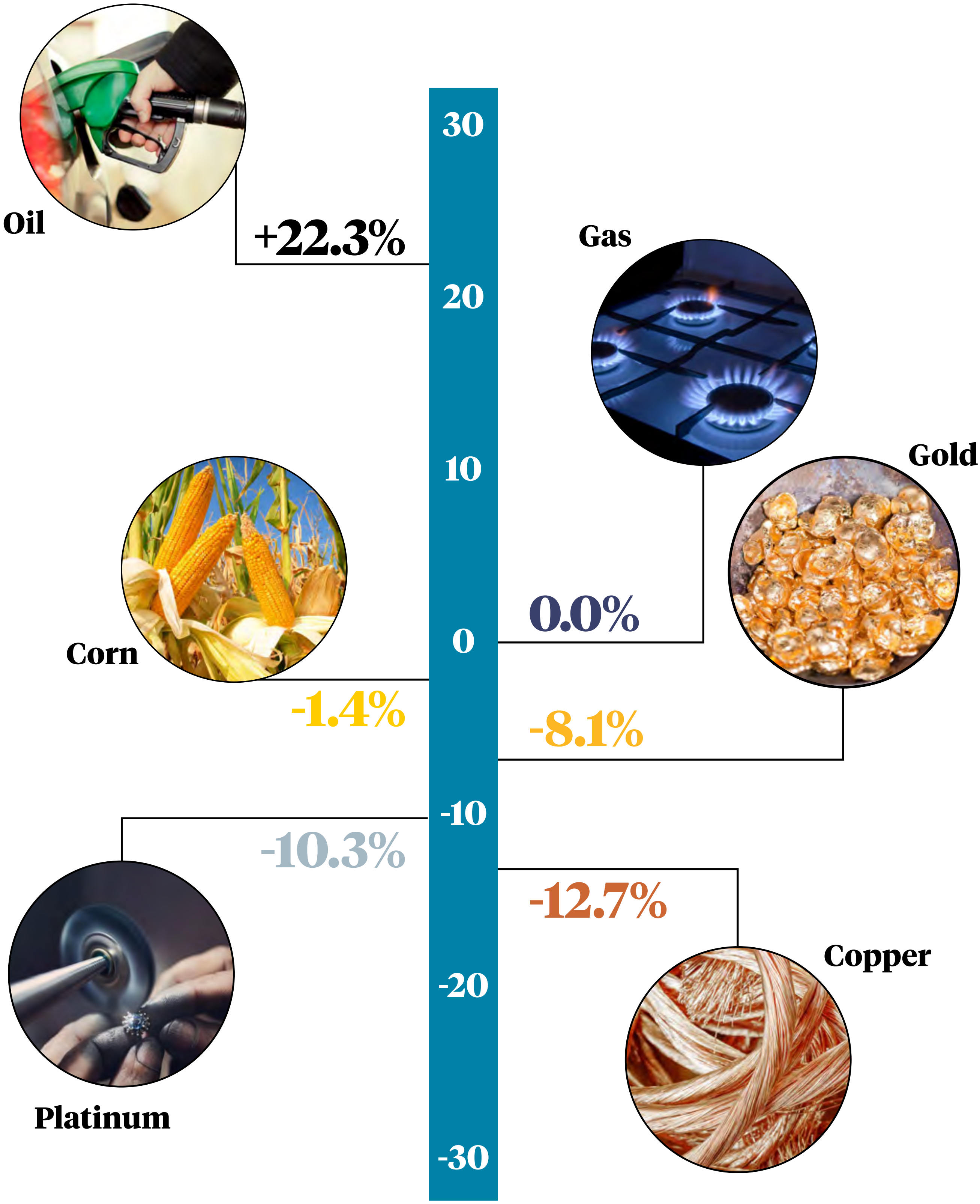


Databank – Commodity price performance 2015-2018



Source: *Shares*, Thomson Reuters Datastream
*Year to date (25 September 2018)

Databank – Gain / loss so far in 2018



Source: Thomson Reuters Datastream.