STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

VOL 20 / ISSUE 39 / 04 OCTOBER 2018 / £4.49

SHARES

WE MAKE INVESTING EASIER

THE 25 MOST IMPORTANT COMPANIES IN THE WORLD

Why they matter and how you can invest

PLUS

OUR STOCK PICKS OF THE YEAR **OUTPERFORM THE MARKET**

ALTERNATIVES TO **FUNDSMITH'S** NEW GLOBAL SMALLER COMPANIES TRUST

WHY THE OIL PRICE IS AT A **FOUR-YEAR HIGH**

Can mining ever be seen as an ethical investment?

Resource companies are being judged on more than asset quality

We're currently in the middle of Good Money Week, an annual event aimed at raising awareness of responsible investment. Its purpose is to highlight how we can use money to benefit society and protect the environment.

While much of the focus has been on the range of companies and investment funds which have a green or ethical slant, my interest has been piqued by the mining sector which is probably the last industry you'd associate with being ethical.

At face value, many people would summarise miners as companies that go to a place of natural beauty and ruin the land in the quest for natural resources. They run dirty, great big machines which pollute the atmosphere and the businesses take most of the rewards in the form of profits for themselves.

This view is certainly open to debate. Ask the government of a resources-rich African country what they think of mining and they'll probably say such companies should pay higher taxes and local communities should have a greater share of the wealth.

Ask the boss of a mining company for their view and they'll probably say the local community has significantly benefited from the development of a mining operation compared to days gone by. That's certainly the view of Dan Betts, managing director of gold miner **Hummingbird Resources (HUM:AIM)**.

AGENTS OF CHANGE

Betts argues that mining companies are 'agents of change' by creating employment and teaching skills which can be transferred to different industries once a mine has been depleted. 'We help local communities by funding health services, schooling and more,' he comments.

Hummingbird sponsors teachers and nurses in Mali near its mine and it also supports a market garden project where people in the local community can create a viable, sustainable business and one that can also improve the nutrition of families in the community.

Also in defence of the mining sector is the fact that many companies are teaching proper safety standards to locals who used to go it alone. Numerous commercial mines are surrounded by artisanal operations where individuals mine by hand, often in unstable pits and using dangerous explosives which present a risk to life.

Commercial mines will often employ artisanal miners and enable them to develop the mining craft in a safer working environment. Hummingbird says local people account for 90% of its workforce.

Ultimately a good mining operation should provide significant economic benefits to communities and help ensure locals have a higher standard of living. Yet there remain variable standards in the mining industry; those who simply tick the boxes to get environmental and operating permits, and those who go above and beyond.

ESG FOCUS

Investors are playing close attention, much more they've ever done, to how mining companies act from an ethical, social and governance (ESG) perspective – and that includes fund managers who are picking mining stocks. A miner may have plenty of riches in the ground, but ultimately the way they do business is just as important as the underlying asset.

What still needs to improve is how so many companies are solely driven by economic returns, with ESG issues being a token afterthought. The old model of filling a depleted open pit with water and saying you've helped the environment by creating a lake isn't enough. Miners need to think more about social engagement and enhancement as they could be the better companies in the long-term from both an ethical and investment perspective. (DC)

Untrend spotting

You can't outperform if you do the same as everyone else. That's why Orbis takes a contrarian approach.

We actively avoid trendy stocks to seek unfashionable potential elsewhere. Our Funds deviate from the crowd. And so does our performance.

Orbis

Invest Differently

As with all investing, your capital is at risk. Past performance is not a reliable indicator of future results.

Orbis Investments (U.K.) Limited is authorised and regulated by the Financial Conduct Authority

Contents

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

DISCLAIMER

IMPORTANT

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

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

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

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

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

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

F&C Investment Trust – pioneering 150 years ago, pioneering today.

Whatever your investment goals contact us to help you achieve them. As with all investments, the value can go down as well as up and you may not get back your original investment.

To find out more:

- Call F&C Investments **0800 915 6016** quoting 18PFC/1 (weekdays, 8.30am – 5.30pm). Calls may be recorded.
- Contact your usual financial adviser
- Visit **fcit150.co.uk**, or search for 'Foreign & Colonial'.

Please read our Key Features, Key Information Documents and Pre-sales cost disclosures before you invest. These can be found at fandc.co.uk/literature.

F&C Investment Trust – the world's oldest collective investment fund.

BMO

F&C Investment Trust
CELEBRATING 150 YEARS

© 2018 BMO Global Asset Management. All rights reserved. Issued and approved by BMO Global Asset Management, a trading name of F&C Management Limited, which is authorised and regulated by the Financial Conduct Authority. CM15222 (05/18) UK.

Time to sell Royal Mail shares as the once-attractive dividend looks unsustainable

We reluctantly turn bearish on the transport group as a major setback changes the investment case

Investors who have been drawn to **Royal Mail's (RMG)** shares as a source of generous income may soon be in for a shock unless the business sees a radical improvement with its efficiency plan.

A major profit warning on 1 October has seen the share price fall by 23% to 368p over two days. Analysts have had to significantly downgrade earnings forecasts because of lower than expected productivity gains and cost savings.

The reduction in profit is expected to result in lower free cash flow, thus questions are now being asked over whether it can afford to pay dividends at current levels.

Prior to the profit warning the shares yielded a prospective 5.2% yield based on a 477.1p share price and consensus forecast 24.87p dividend payment for the year to March 2019.

The prospective yield now stands at 6.8% based on the same dividend forecast. That looks too high given its situation. Liberum analyst Gerald Khoo says management committed to dividend growth on a conference call following the profit warning. Khoo has reduced his dividend forecast to 24.4p to show token growth of 1.5% per year.

'Even at this level, we see the payout being barely covered by earnings and cash flow this year, admittedly with adverse timing distortions on cash flow this year, and underlying cover deteriorating in later years.

'Management has stated that it would not pay dividends out of increases in debt, so we see the dividend as highly vulnerable to any further deterioration in trading.'

Royal Mail say its UK productivity performance is 'significantly' below plan at 0.1% in the six months to 23 September, down from a target of approximately 3%.

Unfortunately, this has had a knock-on impact on cutting costs with the target cut from £230m to £100m in 2018-2019.

Productivity improvements are vital for Royal Mail's future as it needs to drive earnings and fight back against fierce competition.

In a triple whammy of bad news, addressed letter volumes have dropped 7% amid declining marketing mail as structural decline, business uncertainty and GDPR data protection rules made an impact.

Royal Mail has a unique market position in the UK and its overseas business is growing fast. Unfortunately its near-term future from an investment perspective is clouded by margins and cash flows coming under significant pressure.

For those latter reasons, we reluctantly switch to a 'sell' rating on the stock in anticipation that the shares have little chance of recovering until management can provide evidence of higher productivity gains. (DC/LMJ)

Airline sector still in the danger zone as cost and operational pressures intensify

Shares in the airline sector have been poor performers this year

Dark clouds have been gathering over the airline industry this year amid rising costs, pricing pressures and disruption from various strikes including air traffic Table1, cabin crews and pilots.

Some companies like **EasyJet (EZJ)** are managing to overcome these problems, yet others such as **Ryanair (RYA)** are clearly struggling.

Ryanair said earlier this week that widespread strike action had made passengers think twice about flying with the airline, putting traffic and fares under pressure.

The strike action had a knock-on impact of suppressing demand for advance tickets covering the October half-term holiday and the Christmas period.

Chief executive officer Michael O'Leary wasn't able to reassure investors that strikes would come to an end soon despite attempting to resolve the dispute with unions.

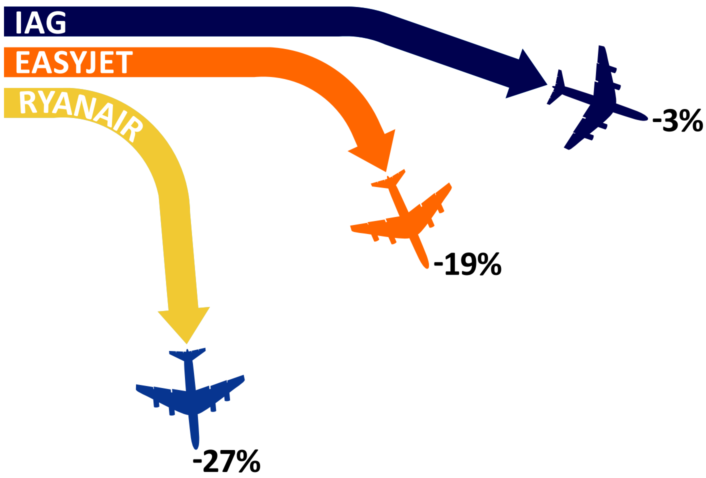
In contrast to Ryanair, EasyJet has enjoyed a stronger performance this year due to decent demand for seats. The company upgraded annual pre-tax profit guidance from £530m to £580m to a new range of £550m to £590m in July.

This is quite impressive when you consider French air traffic controller strikes caused thousands of flights to be cancelled earlier this year and cost the airline £25m.

EasyJet has been taking advantage of the collapse of rivals Air Berlin and Monarch, as well as profiting from hundreds of cancellations at Ryanair, which helped offset bad weather and strike action.

Last week the airline confirmed it would hit the upper range of its previous profit guidance at £570m to £580m.

SHARE PRICE CHANGES OVER THE LAST 12 MONTHS



Source: SharePad

However, we note that investment bank Bernstein has just downgraded EasyJet from 'market perform' to 'underperform,' claiming earnings are expected to drop 40% year-on-year in 2019.

Bernstein argues significant new capacity of short-haul flights to Europe and surging oil prices are unlikely to be offset by EasyJet's pricing power.

Keep an eye on the sector as there will soon be more news flow. For example, British Airways owner **International Consolidated Airlines (IAG)** reports its third quarter earnings on 26 October. It missed analysts' consensus forecast for second quarter operating profit because of disruption from the French air traffic controller strikes.

Wizz Air (WIZZ) reports its half year results on 7 November and EasyJet reports full year results on 20 November. (LMJ)

What Shurgard's €2.4bn IPO means for UK self-storage plays

We look at how the valuation implied by the upcoming float compares with London-listed rivals

Europe's largest self-storage player Shurgard Self Storage is to float on the Euronext Brussels stock market and raise €575m, with trading in the shares expected to commence on 15 October. This is relevant to UK investors for several reasons.

Some of the funds raised by Shurgard, an affiliate of US-based real estate investment trust Public Storage, will be used for the planned acquisition of a store in Kensington – thus increasing its position in the UK – as well as paying down borrowings and using cash for future growth.

The numbers from the IPO (initial public offering) provide an interesting read-across on valuation for the London-listed storage plays **Big Yellow (BYG)**, **Safestore (SAFE)** and our top pick in the space **Lok'n Store (LOK:AIM)**.

Self-storage for households and businesses has been a growth area in recent years driven by smaller homes, a more mobile population, hoarding and the growth of smaller internet-based businesses. Encouragingly for Shurgard this market is less

developed in continental Europe.

Based on the top valuation implied by its IPO pricing range of €2.4bn and last reported earnings before interest, tax, depreciation and amortisation (EBITDA) of €135m, Shurgard trades on 17.8 times earnings. That is cheaper than several UK-quoted rivals.

For example, Lok'n Store trades on 18.6 times EBITDA, a premium justified in our view given our faith in its ambitious expansion plans; Big Yellow trades on 19.5-times and Safestore which trades on a multiple of 15.2 using the same metrics. (TS)

Housebuilders hit by foreign buyers' tax plan

PM announces new policy at Conservative Party conference

THE HOUSEBUILDING sector is under renewed pressure amid new Government plans to impose a tax on foreign buyers of property in the UK.

Prime Minister Theresa May outlined plans for a 3% stamp duty surcharge for buyers of UK property who do not pay tax in Britain at the Conservative Party conference on 30 September.

The negative stock market reaction, with London operator **Berkeley (BKG)** worst hit, reflects the disproportionate impact this move is likely to have on the high-end market in the capital where wealthy overseas investors have helped support the market.

Several of Berkeley's peers also fell including most notably **Barratt Developments (BDEV)** and **Taylor Wimpey (TW.)** as the news implies the supportive regulatory environment, represented most notably by the Help to Buy scheme, looks like it could be on the turn. (TS)

Ocado, Just Eat, Rightmove and others selected for new 'reliable growth' list

Growth scarcity sees eight UK firms in Berenberg's new Nifty Fifty

An increasing scarcity of companies capable of delivering sustainable, quality growth has led analysts at investment bank Berenberg to revisit the *Nifty Fifty* concept popularised in the 1960s and 1970s.

There are eight London-listed stocks that have made the cut to feature on the bank's European contemporary list: **Ocado (OCDO)**, **Hargreaves Lansdown (HL.)**, **Just Eat (JE.)**, **NMC Health (NMC)**, **Rightmove (RMV)**, **Dechra Pharmaceuticals (DPH)**, **St James's Place (STJ)** and **Sage (SGE)**.

The *Nifty Fifty* was originally a select group of US stocks. They qualified on the basis that they were able to produce consistent growth even during times of market distress and uncertainty, earning them a reputation as 'one decision' stocks, meaning you buy them and never sell.

Concerns have started to build for investors over recent months thanks to rising interest rates on both sides of the pond, economic worries in the Eurozone and emerging markets, Brexit confusion and share price valuations.

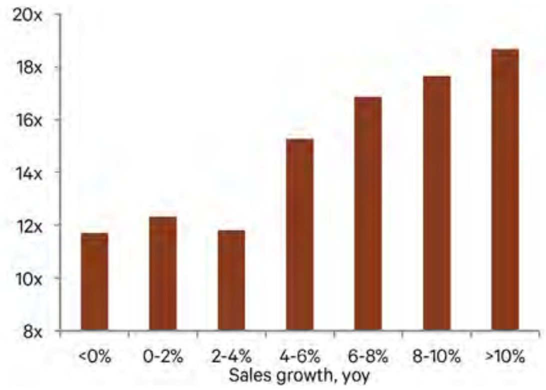
This has led to claims of polarisation of stock performance, with a relatively small number of strong performing share prices driving the lion's share of stock market returns, particularly in the US. The S&P 500's five largest companies – Apple, Alphabet, Amazon, Facebook and Microsoft – account for around 16% of the entire index.

Berenberg's latest analysis suggests that revenue growth is a more reliable guide to future share price returns than earnings. This is largely because of the potential for earnings to be manipulated, such as unsustainably cutting operational costs to bolster earnings per share figures.

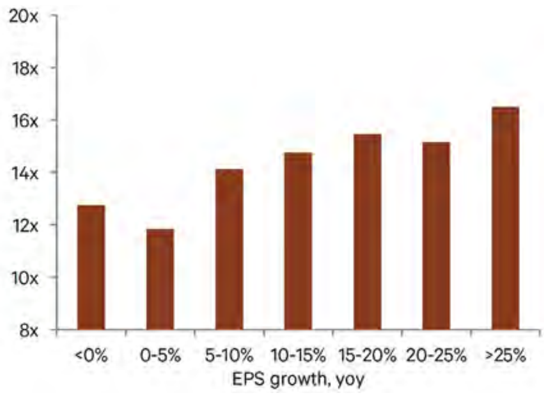
'In particular, companies re-rate when they deliver over 4% revenue growth, the minimum to cover inflation in input costs and in product or service functionality,' says Berenberg.

REVENUE GROWTH OF MORE THAN 4% IS A MORE SIGNIFICANT DRIVER OF VALUATION THAN EPS GROWTH WITHIN EUROPE

Median PE vs sales growth: Stoxx 600



Median PE vs EPS growth: Stoxx 600



Source: Berenberg research, Bloomberg

Aston Martin and Funding Circle endure shaky starts after floating on the stock market

It looks like a case of both companies being overvalued

Two very different high-profile IPOs (initial public offerings) in London have experienced similar teething problems after making their stock market debuts.

Peer-to-peer (P2P) platform **Funding Circle (FCH)** saw nearly of a fifth of its value wiped off in conditional trading on 2 October.

'This is highly unusual, as typically the banks which bring a company to market are able to at least stabilise a share price during this period,' says AJ Bell investment director Russ Mould.

The shares remained under pressure on 3 October as unconditional trading got underway, down a further 2.7% at 360p.

Luxury car manufacturer **Aston Martin (AML)** fell 4.7% to £18.12 on its market debut (3 Oct).

Both companies saw their issue prices come in at the lower end of the guided range, in Funding Circle's case at 440p.

A SELECTION OF IPOS IN 2018

Company	IPO date	Performance since IPO
Integrafin	02-Mar	83.2%
ASA International	18-Jul	53.0%
JTC	14-Mar	34.5%
Energean Oil & Gas	21-Mar	32.1%
Avast	15-May	20.3%
TheWorks	19-Jul	5.0%
Quilter*	25-Jun	-6.9%
Amigo Holdings	01-Jul	-11.3%
Vivo Energy	10-May	-18.2%

Source: London Stock Exchange, Company Reports, Google Finance, based on issue price.
*Demerger from Old Mutual.

WHY ARE THEY STRUGGLING?

The market reaction suggests there are serious concerns over the valuation of both companies. Funding Circle generated revenue of £94.5m in 2017 and chalked up a pre-tax loss of £36.3m, incurring heavy marketing costs of £38.7m.

With marketing costs expected to rise and a tarnished reputation for the P2P sector, it is perhaps little surprise investors are giving Funding Circle the cold shoulder.

Aston Martin made a profit last year and does have a strong brand, synonymous with the *James Bond* films, but it has endured seven bankruptcies since its inception in 1913 and even at current levels trades at a significant premium to Italian sports car giant Ferrari.

At the current market cap of £4.13bn and using last year's net profit figure of £77m the shares are on a trailing price-to-earnings multiple of 53.6 times compared with Ferrari at just over 40 times.

A look at the performance of other IPOs in 2018 show the right stories are still attracting interest from investors. For example **JTC (JTC)**, a provider of services to asset managers, has increased by 34.5% in value since March, while microfinance specialist **ASA International (ASAI)** has also done very well. (TS)

New Fundsmith Fund

SHARE OFFER CLOSES 12TH OCTOBER 2018

Small &
Mid Cap
Investments
That
Have
Superior
Operating
Numbers

Smithson
Investment Trust

Apply online at www.smithson.co.uk **Or through your stockbroker**

This advertisement is issued by and has been approved for the purposes of section 21(2)(b) of the Financial Services and Markets Act 2000 by Fundsmith LLP ("Fundsmith"), a limited liability partnership registered in England and Wales with number OC354233 which is authorised and regulated by the Financial Conduct Authority. Its registered office address is 33 Cavendish Square, London, W1G 0PW. This advertisement is not a prospectus and investors may only subscribe for or purchase any shares in Smithson Investment Trust plc ("SSON") on the basis of the information in the prospectus published by SSON. The prospectus and key information document are available at www.smithson.co.uk.

Fundsmith only acts for the funds to which it provides regulated investment management and transaction services and does not act for or advise potential investors in connection with acquiring shares in SSON and will not be responsible to potential investors for providing them with protections afforded to clients of Fundsmith. Prospective investors are strongly advised to take their own legal, investment and tax advice from independent and suitably qualified advisers. The value of investments may go up as well as down and you may not get back the full amount of your investment. Past performance is not a guide to future performance.

Great chance to buy top notch FTSE 100 stock Ferguson for a nice price

Market has overreacted to one month's slowdown in sales growth

Full year results from FTSE 100 plumbing and heating distributor **Ferguson (FERG)** caused a bit of a share price wobble on 2 October as investors worried about a slowdown in growth. We think the market overreacted, presenting an opportunity to buy shares in a superb company at a cheaper price.

While the business formerly known as Wolseley isn't very glamorous, it is growing fast and throwing off large amounts of cash. The aforementioned slowdown only referred to one month's trading and, importantly, Ferguson continues to take market share.

Its biggest market is the US, which generates 80% of sales and 90% of operating profits, so the strong US economy has been a boon with Ferguson's sales growing by 11% in the last year (10% on a like-for-like basis).

As well as selling plumbing fittings, Ferguson provides water-related products to utility companies and their contractors through its Waterworks unit – which accounts for 16% of group revenue.

Strong earnings enable Ferguson to re-invest in its business to grow market share. It does this by expanding its branch network and through low-cost bolt-on acquisitions.

FERGUSON BUY
(FERG) £60.83
Stop loss: £48.66

Market cap: £15.1bn

As well as strengthening its presence in the US it has branched out into Canada, which is growing strongly and contributing nicely to profits.

After investing in the business, Ferguson aims to grow dividends in line with underlying earnings and if excess cash builds up it likes to pay it out to shareholders promptly.

This year, as well as lifting the normal dividend by 20%, the company paid out a special dividend of $1bn or $4 (300p) a share in June off the back of selling its Nordics business.

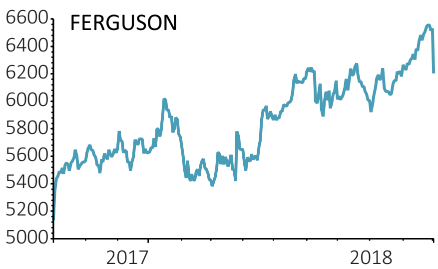
The weakest part of Ferguson's business is the UK where sales were down in the last financial year as was the contribution to earnings. The infrastructure unit is performing well but sales to UK trade customers have struggled, so the company has closed branches, reorganised its logistics and exited the low-margin wholesale business completely.

The net effect has been to reduce margins further as costs are taken upfront but the benefits of a more streamlined operation should flow through in coming quarters.

The latest full-year results (sales up 7%, operating profits up almost 15%) were met with apathy by analysts but we recommend long-term investors focus on the strong fundamentals.

At £60.83 the shares trade on 14.6 times forecast earnings for the 2019 financial year which looks too cheap compared with 20-times for smaller US distributor WW Grainger.

The long-term value creation track record is superb with Ferguson delivering shareholders with a 312% total return (capital gains plus dividends reinvested) over the past decade versus 77% from the FTSE All-Share index. (IC)



9.3% p.a.

4 YEAR TOTAL RETURN*

THE REIT OF CHOICE FOR PRIVATE INVESTORS

For investors seeking high and stable dividends from well-diversified UK real estate.

- COMMERCIAL PROPERTY
- REGIONAL PORTFOLIO
- DIVERSE INCOME
- LOW GEARING
- LOW VOLATILITY
- 4 YEARS OF DIVIDEND GROWTH

Custodian REIT (CREI) provides a diversified portfolio of regional UK commercial real estate, diversified by sector, location, tenant and lease term.

Managed portfolio with further potential for capital growth.

Investment properties of £2million to £10million.

6.55pps prospective dividend (fully covered by earnings).

High exposure to industrial, retail warehousing, retail, leisure and others. Low exposure to offices.

Suitable for: SIPP/SSAS, ISA & wealth management.

custodianreit.com

*average share price total returns March 2014 - March 2018

Custodian REIT plc is managed by Custodian Capital Limited who is authorised and regulated by the Financial Conduct Authority. Custodian REIT plc is registered in England and Wales at Companies House. Our registered office is 1 Penman Way, Grove Park, Enderby, Leicester. LE19 1SY and our registration number is 8863271.

The value of investments and the income from them can fall as well as rise and investors may not get back the full amount invested. Past performance is not a guide to the future. Any investment decisions should be taken with advice, given appropriate knowledge of the investor's circumstances.

Custodian
REIT PLC

Time is right for LoopUp's remote meetings revolution

Audio conferencing play has highly impressive growth potential

Now with the MeetingZone acquisition bolted on, remote meetings platform **LoopUp (LOOP:AIM)** has the scale to really make the most of what we believe is a significant growth opportunity. Revenue is expected to jump by 80%-plus over the next couple of years (from this year's anticipated total of around £34m).

This should translate into soaring earnings that will effectively slash the price to earnings (PE) multiple to below 20, on a 2020 financial year view, from this year's 60-plus rating.

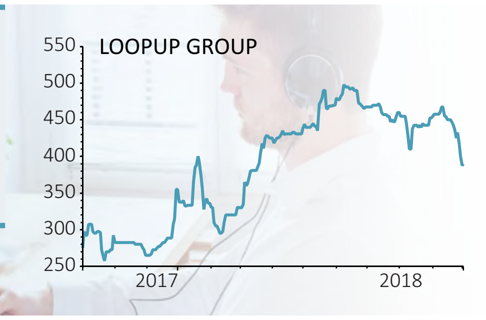
LoopUp's patented and cloud-based remote meetings software is designed to drag audio conferencing into the 21st Century. LoopUp's key advantage is a streamlined service for both hosts and participants that not only works well but is intuitive and easy to use.

That makes its package attractive for corporate users versus rival services from deep pocketed rivals, such as Microsoft's Skype for Business, Amazon Chime, Google Hangouts, AT&T plus more recent start-ups, such as GoToMeeting, JoinMe and the UK's Powwownow.

LoopUp had in excess of 2,000 customers before it bought MeetingZone in a £61.4m deal earlier this year, and it is in the process of bringing on board those new clients to the core LoopUp platform.

LOOPUP BUY
(LOOP:AIM) 390p
Stop loss: 312p

Market cap: £214m



IMPRESSIVE RETURN ON INVESTMENT

One of the most exciting data points is that for every £1.00 of one-off investment in its sales and distribution it reaps 75p back a year. Every year. Churn, the measure of customers leaving the service, is negligible and is entirely offset by upselling into existing clients.

Established operations in the UK and US are now being rapidly expanded via its local sales teams, or Pods. These are semi-autonomous units geared to hit ambitious growth targets, and incentivised as such.

Two of the nine Pods it currently runs were virtual start-ups that will take a few months to get up to speed. That explains while first half (to 30 June) organic revenue growth of 22% looked slow compared to previous periods.

And LoopUp hopes to use its now set-up Australia Pods as a launchpad into Asia in the future.

With revenues almost exclusively of a reliable, software-as-a-service, recurring nature, the company has a firm grip on future revenues. It also means that the LoopUp business model is naturally cash generative. More than 70% of earnings before interest, tax, depreciation and amortisation (EBITDA), adjusted for one-offs, are converted into operating cash flow. We would expect that percentage to improve further in time.

The stock has previously hit highs of 500p, after joining the market at 100p in August 2016, but analysts predict even better to come. The two brokers that cover the stock (Panmure Gordon and Numis) see the share price hitting 590p or 600p over the next 12 months or so, implying more than 50% upside. (SF)

KEEPING WATCH FOR HIGH GROWTH UK COMPANIES.

The **Baillie Gifford UK Growth Fund PLC** is an investment trust which brings our long-term growth philosophy home to the UK.

As high conviction active managers we are looking for firms with sustainable competitive positions and strong corporate cultures. Companies that we believe can deliver superior earnings growth over many years.

This is a best ideas portfolio investing in what we consider to be the most exciting businesses listed on the domestic stock market.

Please remember that changing stock market conditions will affect the value of the investment in the fund and any income from it. Investors may not get back the amount invested. If in doubt, please seek financial advice.

If you're looking for growth from a flagship UK fund, call **0800 917 2112** or visit us at **www.bgukgrowthfund.com**

BAILLIE GIFFORD

A Key Information Document is available by contacting us.

Long-term investment partners

Your call may be recorded for training or monitoring purposes. Issued and approved by Baillie Gifford & Co Limited, whose registered address is at Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN, United Kingdom. Baillie Gifford & Co Limited is the authorised Alternative Investment Fund Manager and Company Secretary of the Company. Baillie Gifford & Co Limited is authorised and regulated by the Financial Conduct Authority (FCA). The investment trusts managed by Baillie Gifford & Co Limited are listed UK companies and are not authorised and regulated by the Financial Conduct Authority.

CARNIVAL
(CCL) £48.18

Loss to date: 4.2%

Original entry point:
Buy at £50.33, 19 October 2017

CRUISE OPERATOR **Carnival (CCL)** has gained positive momentum after reporting annual net revenue yields are expected to rise 3.5%, up from previous guidance of 3%.

Shares in Carnival have advanced 9.6% to £48.18 since our last update in June. Net revenue yield offers insight into how much money Carnival is making across its fleet, taking into account the number of rooms and the length of the cruise season.

Looking ahead, the company maintained its forecast annual earnings per share of $4.21 to $4.25 in the year to 30 November. Investors are likely to be relieved the guidance isn't any lower after it was trimmed in June.

'The key to the investment case is whether the industry can continue to deliver robust yield growth against the backdrop of accelerating capacity growth,' comments Shore Capital analyst Greg Johnson.

SHARES SAYS:

We believe trading at Carnival remains robust and are not overly alarmed by the headwinds poised by higher oil prices and currency fluctuations, factors out of the company's control. The stock will drop out of the *Great Ideas* portfolio soon as we only run them for 12 months, but we still rate it as a buy. (LMJ)

CVS
(CVSG:AIM) 948.5p

Gain to date: 2.4%

Original entry point:
Buy at 926.5p, 23 August 2018

OUR 'BUY' call on veterinary services provider **CVS (CVSG:AIM)** is modestly in the money and we're staying positive on the stock.

Resilient full year results (27 Sep) and management's positive overall outlook for the business are reassuring, although challenges with retaining and recruiting vets may continue to weigh on investor sentiment.

Solid results for the year ended 30 June revealed 20.4% top line growth to a record £327.3m and 7.1% growth in adjusted pre-tax profit to £36m, with the cash generative veterinary industry consolidator also declaring an 11.1% hike in the dividend to 5p.

Robust like-for-like growth of 4.9% was boosted by an exceptional performance from online drugs arm *Animed Direct*, while the jump in group sales reflected last year's acquisition of 52 surgeries.

Vet staffing is proving a significant challenge for CVS, yet industry-wide salary pressures should necessitate price increases to pass on increased costs. We believe concerned pet owners should readily accept these price increases, potentially boosting CVS' organic revenue growth through the year.

SHARES SAYS:

Near-term staffing challenges notwithstanding, we're staying positive on this cash-generative and compelling long-term consolidation story. (JC)

Small is beautiful

SENECA INVESTMENT MANAGERS

Seneca Global Income & Growth Trust plc

Our smaller size allows us to explore all investment opportunities.

The Seneca Global Income & Growth Trust plc is designed for investors seeking a quarterly income with long- term capital growth and low volatility. The Trust employs a proprietary Multi-Asset Value Investing approach. The core principle of value investing, buying good quality assets when they are under-valued, is applied to every investment decision we make.

We also think that small is beautiful. The industry is full of asset gatherers when it could be full of asset managers. Larger funds have a reduced investment universe because they find it more difficult to invest in smaller assets. This impairs the ability to generate returns. Our smaller size allows us to explore all investment opportunities including ones our competitors cannot access. The less crowded areas of the market are a fertile hunting ground for under-valued assets.

In the UK equity market, we invest primarily in mid-caps, an area which has demonstrated long term outperformance, as many good quality assets are under-valued due to a lack of coverage.

Elsewhere, our size enables us to access a range of specialist investment trusts focused on property (REITs), infrastructure, leasing and other forms of finance, as well as private equity, many of which are too small or illiquid for larger funds to manage actively.

We use third party fund managers for overseas equities who like us, invest in smaller or mid-cap stocks in various global equity markets, where we believe the best opportunities lie.

Small is indeed beautiful!

Growth, Income and Low Volatility

- Our multi-asset expertise and approach have delivered successful outcomes for investors over the last five years*.
- The Trust pays quarterly dividends, offering a current yield of circa 3.8%[1]. Over its last five financial years to April 2018 the Trust has grown its dividend at a compound rate of 4% per annum, ahead of CPI every year.**
- Over a typical investment cycle[2], we aim for the Trust to achieve a total return of at least CPI plus 6% after costs, with low volatility. In addition, we aim to grow aggregate dividends at least in line with inflation.
- Over the five years to end August 2018, the Trust delivered an NAV return of +48.2% with volatility circa two thirds that of the major equity indices[3]. Details of the Trust's returns can be found in the performance tables below.

Cumulative performance (%) to 31.08.2018	3 months	6 months	1 year	3 years	5 years
Trust share price	-0.4	1.4	0.5	36.5	64.7
Trust NAV	-0.4	0.8	0.2	32.7	48.2
Benchmark[4]	1.5	3.9	8.0	16.7	25.2

Discrete annual performance (%)	31 August 2018	31 August 2017	31 August 2016	31 August 2015	31 August 2014
Trust share price	0.5	19.2	14.0	6.0	13.8
Trust NAV	0.2	17.2	13.0	3.0	8.5
Benchmark[4]	8.0	4.3	3.6	3.6	3.5

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

Things To Be Aware Of

[1]Current yield: the yield calculation is based on the latest quarterly dividend, annualised, compared against the month end share price.
[2]Seneca Investment Managers Ltd defines a typical investment cycle as one which spans 5-10 years, and in which returns from various asset classes are generally in line with their very long term averages. There is no guarantee that a positive return will be achieved over this or any other period.
[3]Annualised volatility of returns over five years versus FTSE World ex-UK and FTSE All Share.

[4]Benchmark: CPI plus 6% from 06.07.17. Previously LIBOR GBP 3 Months plus 3%, all after costs for the period ending 31.08.2018 a forecast CPI is used.
* The Trust has outperformed its benchmark over the last five years and has grown its dividends in excess of inflation over each of the last five financial years. It has delivered these returns with materially lower volatility than equity markets over the last five years.
** There is no guarantee that dividends will continue to increase or grow ahead of CPI.
Performance and dividend data sources: Seneca Investment Managers Ltd, Bloomberg & Morningstar. Share prices calculated on a total return basis with net dividends reinvested. NAV returns based on NAVs excluding income and with debt valued at par. Returns do not include current year revenue.

Past performance should not be seen as an indication of future performance. The information in this article is as at 31.08.2018 unless otherwise stated. The value of investments and any income from them will fluctuate, and investors may not get back the full amount invested.

Seneca Investment Managers Ltd does not offer advice to retail investors. If you are unsure of the suitability of this investment, take independent advice. Before investing you should refer to the Key Information Document (KID) for details of the principle risks and information on the trust's fees and expenses. Net Asset Value (NAV) performance may not be linked to share price performance, and shareholders could realise returns that are lower or higher in performance. The annual investment management charge and other charges are deducted from income and capital. The KID, Investor Disclosure Document and latest Annual Report are available in English at www.senecaim.com Seneca Investment Managers Limited is the Investment Manager of the Trust (0151 906 2450) and is authorised and regulated by the Financial Conduct Authority and is registered in England No. 4325961 with its registered office at Tenth Floor, Horton House, Exchange Flags, Liverpool, L2 3YL
All calls are recorded. FP18 270

SAVANNAH PETROLEUM
(SAVP:AIM) 33.2p

Gain to date: 25%

Original entry point:
Buy at 26.6p, 6 September 2018

OUR POSITIVE call on **Savannah Petroleum (SAVP:AIM)** is off to a good start boosted by strong oil prices and continuing operational excellence in Niger.

The company has drilled four successful wells in this location in 2018 and has identified 120 potential structures to drill, demonstrating the scale of the opportunity it is chasing in the African country.

Alongside half year results on 28 September, Savannah unveiled a new $50m debt facility which should enable it to accelerate activity ahead of first output from Niger in 2019. It also flagged imminent results from its fifth well of the current drilling programme, Zomo-1.

The only real disappointment is a further delay in the completion of the Seven Energy acquisition in Nigeria.

The company now says this transaction, which will add material natural gas production to the portfolio mix, will complete before the end of the year.

Broker Cantor Fitzgerald comments: 'The company has made great strides in a short period of time, and 2019 should prove transformational with first production in Niger and completion of the Seven Energy deal.'

SHARES SAYS: ↗
Exciting times at Savannah, keep buying. (TS)

Introducing the AVI Japan Opportunity Trust (AJOT)

AVI
Asset Value Investors

Japan is a highly attractive market
- AVI launches its first dedicated vehicle to capitalise on this opportunity

Extraordinary under-valuations in cash-rich and over-capitalised companies
- Initial portfolio to have more than 70% of market cap covered by net cash and investment securities

Corporate governance reform & shareholder activism to unlock long-trapped value
- Pressure from domestic institutions and highest levels of government
- Foreign activists empowered to seek change

Avoid value traps and zombie companies
- High quality companies with growing operating businesses
- Get paid to wait – highly cash-generative companies

Under-researched and inefficient
- Poor sell-side coverage, and lack of international investor base provides inefficiently priced opportunities

This advertisement is a financial promotion by Asset Value Investors Limited, which is authorised and regulated by the Financial Conduct Authority (Firm Reference No. 119270). You should note that your capital is at risk with this investment. Past performance should not be seen as an indication of future performance. The value of shares and the income from them is not guaranteed and can fall as well as rise due to stock market and currency movements. When you sell your investment you may get back less than you originally invested. The price of shares in the Company is determined by market supply and demand and may be different to the net asset value of the Company. Investments in the Company are also subject to risks associated with investments in the Japanese equities market. Please refer to the Prospectus for full details of the Offer, risks and charges. Registered office: 4th Floor, Reading Bridge House, George Street, Reading RG1 BLS, England.

FIND OUT MORE

www.ajot.co.uk

AJ Bell includes AJ Bell Holdings Limited and its wholly owned subsidiaries. AJ Bell Management Limited and AJ Bell Securities Limited are authorised and regulated by the Financial Conduct Authority. All companies are registered in England and Wales at 4 Exchange Quay, Salford Quays, Manchester M5 3EE

Third quarter update for our picks of the year

Disappointing recent performance from one of our earlier star turns takes the sheen off our annual selection

Nine months into 2018 and we're still outperforming the market with our top picks of the year. Nonetheless, a 3.1% average gain versus 0.3% loss from the FTSE All-Share only calls for a celebratory orange juice and lemonade rather than high quality champagne.

Earlier gains have been reduced thanks to notable weakness in **Alliance Pharma (APH:AIM)** in recent weeks plus **Dixons Carphone's (DC.)** losses becoming greater.

Alliance Pharma has moved from a 58% gain at the half year stage to now only being 10.5% in profit. A spokesperson for the company said there was no clear reason for the share price decline. However, looking at its share price chart, the sell-off was clearly triggered by half year results on 19 September.

The results included one-off costs from stricter regulations and Brexit preparations. It also plans to increase stockholdings ahead of these events coming into force, which will have a negative impact on cash flow.

Investors may also be worried about Alliance Pharma's shifting focus on the International Star portfolio away from its Bedrock products, as the former may require extra investment in relative terms to drive growth. We think the share price sell-off has been overdone and that now is a good time to buy more stock.

SHARES' 2018 PORTFOLIO

Company	Entry price (p)	Price now (p)	% gain / loss
Charter Court Financial Services	251.88	337.8	34.1
AB Dynamics	942.5	1230	30.5
Future	394.88	482	22.1
Johnson Matthey	3066	3591	17.1
Alliance Pharma	61.38	67.8	10.5
DotDigital	97	98	1.0
Biffa	253.38	254	0.2
Dixons Carphone	190.35	170.9	-10.2
Sage	785.5	583.2	-25.8
Dignity	1691.5	863.5*	-49.0
AVERAGE			**3.1**
FTSE All-Share	**4146.97**	**4135.42**	**-0.3**

Entry prices taken 19 Dec 2017
Latest prices taken 1 Oct 2018
*Exited trade 29 March 2018

START PERFORMERS

Charter Court Financial Services (CCFS) is quietly getting on with the job and its share price is slowly ticking up accordingly.

Half year results published in August showed the company made £93.1m pre-tax profit in six months, fast approaching the £111.7m it made in the entire 12 months of 2017.

Chief executive Ian Lonergan said Charter Court had delivered against or exceeded all of its targets in the period. Shareholders are being rewarded with their first dividend.

News flow has been very thin from **AB Dynamics (ABDP:AIM)** since we updated three months ago, although we now finally know who is going to be its next chief executive. James Routh started on 1 October, having previously held senior management roles at FTSE 250 firms **Chemring (CHG)** and **Diploma (DPLM)**. There should be a trading update any day now, if it hasn't already been published as we finalise this edition of *Shares*.

LOSING MOMENTUM

Shares in publishing group **Future (FUTR)** have lost some momentum since the company carried out a £105m rights issue to fund the takeover of US tech and science magazine publisher Purch. We're still sitting on a 22.1% profit and we remain fans of the company's strategy of integrating titles within a transferable licensing, e-commerce and digital advertising platform.

Although Purch is on a different scale to other assets it has acquired, we were still encouraged enough to recommend in July that investors should take up their rights in the three-for-four issue.

Someone investing £5,000 at the time of our original 'buy' suggestion in December 2017 and taking their full rights issue allocation this summer, would now be sitting on around 2,211 shares acquired at an average price of 356p, and at 482p the shares are currently trading 35% above this level.

ON THE REBOUND

Multi-channel digital marketing business **DotDigital (DOTD:AIM)** seems to have put the market's doubts about the impact of new data legislation to bed, which has at least returned the share price to their starting point after a weak period.

The challenge now is to re-energise investors for what is still, in our view, a very strong growth story driven by its *dotmailer* digital marketing platform.

A recent research note by stockbroker Peel Hunt flags the potential for increased personalised marketing to 'captive audiences' using artificial intelligence. Interestingly, DotDigital's chief financial officer Paraag Amin is a former Peel Hunt analyst himself.

Waste management group **Biffa (BIFF)** is performing well as a business and now has a new leadership team. Chief financial officer Michael Topham last week moved to the chief executive role and former **Associated British Foods (ABF)** sugar division finance director Richard Pike has joined as the new numbers man.

WHAT ABOUT THE LAGGARDS?

We crystallised our losses on **Dignity (DTY)** earlier this year after a shock change in business strategy with significant price cuts. The share price did make a small recovery in May but has barely moved since June.

Our bullish call on high street retailer Dixons Carphone is 10.2% in the red, with sentiment poor since a May profit warning and subsequent damaging cyber-attack.

Subdued consumer spending on computing and mobile markets are near-term headwinds, but we're still hopeful new CEO and digital specialist Alex Baldock has the nous to reinvigorate the market leading electrical-to-telecommunications titan's like-for-like sales and compete with rivals including Amazon.

If **Sage's (SGE)** lacklustre growth progress wasn't disappointing enough, the shock resignation of previously highly-rated chief executive Stephen Kelly in August really stings. It was his job to help the FTSE 100 accountancy and enterprise software firm accelerate growth gears after years running at around the 6% organic revenue mark.

He was meant to get Sage's cloud computing act together, and reading between the lines, it looks like his failure to do so cost him his job. With a new boss unlikely until the New Year this stock looks set for aimless drifting for the time being.

Dixons Carphone's shares have been weak but we are hoping to see an improvement under its new CEO

Should I overpay my mortgage or invest the cash?

We run the numbers to compare the different scenarios

You find yourself with spare cash at the end of the month – are you better off saving the money or using it to pay down your mortgage debt?

It's the question that homeowners are faced with: to save a pot or relieve themselves of debt sooner. Typically the adage is to pay down any debt before you save money, but mortgages are often considered different to typical debt. Here we attempt to answer the conundrum.

WHAT ARE YOU SAVING FOR?

Firstly, if you have money to spare each month you need to make sure that you use it to pay off expensive debt, such as clearing credit card bills or store cards charging high interest rates.

Once you've cleared that – or if you didn't have any debt in the first place – you then need to build up a cash buffer to cover your expenses if an unexpected event happened, such as illness or losing your job.

The rule of thumb is to have between three and six months' essential expenses covered, such as your mortgage, heating and food bills.

Assuming you've sorted all of this, you then face whether it's better to save or make extra payments towards your mortgage. In part, it really depends on what you are hoping

to do with your savings.

If you have a particular goal that you want to achieve, such as buying a new car in two years because yours is going to conk out, or saving for school fees when your child starts their education in three years' time, then you are probably better off saving money for that, rather than locking it up in your mortgage.

If you've already met those savings goals – or you've got spare cash even after saving for them – then you can consider overpaying your mortgage.

First, you need to check that your mortgage company allows you to overpay some of your mortgage. Most will allow you to repay up to an extra 10% of the mortgage amount each year, but anything above this may result in an early-repayment charge that often makes it cost prohibitive.

Some, such as Tesco Bank, allow you to repay 20%, while others allow unlimited repayments (although these are rare and you may end up paying a higher interest rate on your mortgage in return for this flexibility). Definitely check whether your mortgage company allows early repayment, and how they calculate the 10% figure.

Another important factor to check is that your repayments go towards reducing your mortgage debt, rather than reducing your monthly payments.

HOW THE SUMS ADD UP

Whether you're better saving the cash and investing it depends on your mortgage rate. Rates are at historic lows at the moment, making borrowing incredibly cheap for homeowners. The actual rate you pay depends on the amount you borrow versus the value of your home (or your loan-to-value ratio), your credit rating and whether you have shopped around for a better rate.

We'll assume you are a savvy homeowner who has locked in a low rate. For a £200,000, 20-year repayment mortgage on a £250,000 property you would pay around 2.2% for a five-year fixed rate or 1.5% for a variable rate, which rises when the Bank of England's base rate increases.

We'll also assume that your provider allows you to repay 10% of your mortgage amount each year – starting at £20,000 – and that by doing so you cut your mortgage debt, not your repayments.

After seven years (with the above £200,000 mortgage and assuming a constant interest rate of 2%) you could have reduced the mortgage balance to £63,715 via the overpayment route.

We assume you have budgeted £20,000 each year for the overpayment, even though the mortgage overpayment amount will decrease each year as you're paying 10% of the outstanding balance – so you pay less as the mortgage balance falls. For example, in year two you pay £17,179 and then £14,710 the following year.

Any unused money from your £20,000 annual budget is put in a cash savings account each year earning 2.5% interest. After seven years this cash balance plus interest is worth £67,010. This money is used to clear your mortgage (and we assume you don't have to pay any early repayment charge).

This would cut 13 years off your mortgage term and would save you £27,743 in interest payments, compared with a scenario where you made no overpayments.

Any cash you would normally have used for mortgage repayments could, from this point, go towards your pension or other savings.

CASH SAVINGS TO CLEAR MORTGAGE AS PART OF OVERPAYMENT STRATEGY

Balance at start of the year	Contribution	+2.5% interest	Total
1	£0	£0.00	£0
2	£2,822	£70.54	£2,892
3	£5,290	£204.55	£8,387
4	£7,447	£395.83	£16,229
5	£9,328	£638.94	£26,196
6	£10,967	£929.09	£38,093
7	£12,392	£1,262.12	£51,747
8	£13,629	£1,634.39	£67,010
Total	**£61,875**	**£5,135**	**£67,010**

Source: AJ Bell

OVERPAYING YOUR MORTGAGE BY 10% A YEAR

Balance at start of the year	Without Overpayment	With Payment	Annual Overpayment
1	£200,000	£200,000	£20,000
2	£191,785	£171,785	£17,179
3	£183,404	£147,100	£14,710
4	£174,854	£125,532	£12,553
5	£166,131	£106,717	£10,672
6	£157,232	£90,328	£9,033
7	£148,153	£76,079	£7,608
8	£138,891	£63,715	£6,372
9	£129,442	£53,008	£5,301
10	£119,801	£43,759	£4,376
11	£109,966	£35,791	£3,579
12	£99,933	£28,946	£2,895
13	£89,697	£23,086	£2,309
14	£79,253	£18,089	£1,809
15	£68,599	£13,848	£1,385
16	£57,730	£10,269	£1,027
17	£46,641	£7,270	£727
18	£35,329	£4,780	£478
19	£23,787	£2,740	£274
20	£12,013	£1,110	£111
21	£0	£0	£0

Source: AJ Bell

INVEST RATHER THAN OVERPAY MORTGAGE

What do you end up with if you'd invested the entire mortgage overpayment money instead? Determining the return you're likely to get from investing is tricky, and depends on how risky your investment is and how long you're invested.

On average, according to Barclays' Equity Gilt study, you can expect to get returns of 5.6% over the long term from the stock market – although this figure is 'inflation adjusted' and so is lower than the headline figure would be.

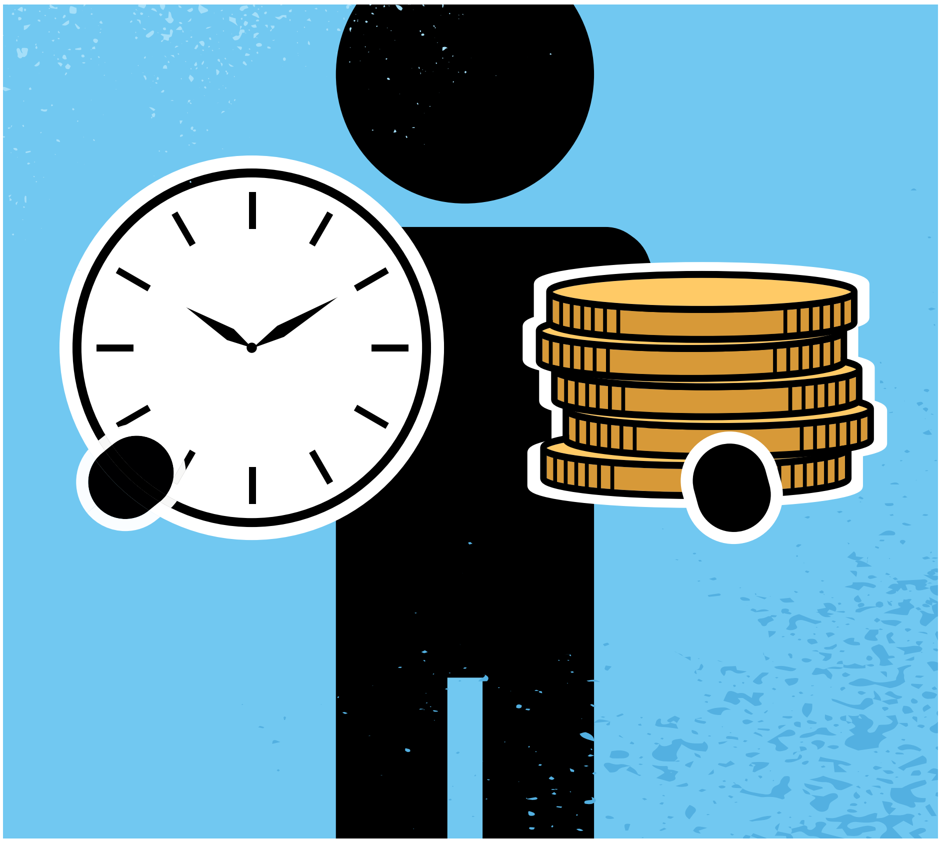
If you invested that same £20,000 each year, assuming an annual growth rate of 5%, you would end up with just over £167,000 at the end of the seven-year period you would have been overpaying on your mortgage.

This would be made up of deposits of £140,000, with around £27,000 of interest on top. In this scenario you would have been slightly better off overpaying on your mortgage, as the interest saved on the mortgage is greater than the money generated by investing.

WHAT ABOUT TARGETING HIGHER RETURNS?

If you were willing to put the money in higher risk investments, and we assume a 7% return, you would end up with almost £180,000 at the end of the same period – with £40,000 of that being profit. In this scenario you would end up more than £12,000 better off by investing.

However, investing clearly involves some risk, and you could lose money during this period. If you were more risk averse and wanted to deposit the money in a bank account you could expect to get around 2.7% at the moment on a five-year fixed-rate bond. Assuming this as a constant rate for the seven years, you would have just over £154,000 – a £14,000 gain and so you'd be worse off than overpaying your mortgage.



ALTERNATIVES

Cut your term – If you're certain you won't need that spare cash for anything else, you could consider shortening your mortgage term next time you remortgage. By doing so your monthly repayments will increase and you are effectively permanently overpaying on your mortgage and cutting the total interest you pay. This relies on you knowing that you won't need access to that money for anything else.

Use an offset mortgage – An offset mortgage counts any money you have in an associated savings account against the amount you owe on your mortgage. This effectively reduces your outstanding loan, but still gives you the flexibility to access the savings money if you need it. Fewer providers offer offset mortgages and you are likely to pay a higher mortgage rate in return for the flexibility.

OVERPAY MORTGAGE AND INVEST

What about if you hedged your bets and put half the money into your mortgage and half into investments? By overpaying by £10,000 a year on the same mortgage scenario as above you'd end up paying off your mortgage after 10 years, and would save £21,060 in interest.

Alongside that, your £10,000 annual investment would generate £29,160 profit at a 5% rate after 10 years, or £43,349 at a 7% annual return. Because the money is invested for longer, the returns are compounded for longer, significantly boosting your pot.

By taking this approach you'd end up around £8,000 better off in the 5% investment scenario, or £22,000 better off at 7% returns. It's worth noting that because you're paying in for 10 years you need to put in more money than in the previous scenario.

WHAT ABOUT SAVING FOR LONGER?

It's fair to assume that even after you've paid off your mortgage, you're going to have cash to spare that you could save and invest. So what about if we worked the figures out over 20 years?

Someone who saved that £20,000 a year over 20 years would end up with a pot of £679,000 assuming a 5% rate – having earned £279,000 profit. At a 7% interest rate this would rise to £450,678 profit. In the cash scenario they would have generated £129,000 of interest.

If that same person had spent the first seven years overpaying their mortgage, and ultimately paying it off, and then invested the cash, they would have profit of £103,783 at a 5% rate, or £157,929 at 7%. In the cash scenario they would have £51,051 interest.

If you add that to the £27,743 you would have saved in mortgage interest by paying off your mortgage early, you still don't come near the returns from the investment scenario.

Laura Suter, personal finance analyst, AJ Bell

ARE YOU MISSING OUT?

WE PUBLISH NEWS AND FEATURES ON OUR WEBSITE IN ADDITION TO CONTENT THAT APPEARS IN THE WEEKLY DIGITAL MAGAZINE.

STORIES THIS WEEK INCLUDE:

SHARES IN REVOLUTION BARS TAKE ANOTHER KNOCK AMID CORPORATE DRAMA AND ADVERSE WEATHER

HOW SCS IS DEFYING THE RETAIL GLOOM, BEATING PROFIT FORECASTS AND SPARKING UPGRADES

WWW.SHARESMAGAZINE.CO.UK/NEWS/SHARES

This content is FREE to read and will help you stay up to date on the latest stock market news and events relevant to investing.

SHARES
INVESTOR EVENINGS

30 OCT 2018

etc.venues - St Paul's
200 Aldersgate
London
EC1A 4HD

Sponsored by
AJBell Youinvest

INVESTMENT TRUSTS FOR GROWTH

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

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

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

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

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

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

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

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

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

Event details

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

Registration contact

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

WIN A HAMPER

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

EVENT CHAIR

Daniel Coatsworth
Editor
Shares Magazine

Why the oil price is at a four-year high

We weigh up the reasons behind the commodity price spike and what could happen next

The price of Brent crude oil is at its highest level in four years above $85 per barrel as traders react to impending US sanctions on major oil producer Iran and news of a breakthrough in trade talks between the US, Canada and Mexico.

WHAT IS HAPPENING WITH THE OIL PRICE?

In the last 12 months the black stuff has enjoyed a strong recovery and it is now at levels last seen in November 2014, around the time producers' cartel OPEC turned a sell-off in the oil market into a fully-blown rout by failing to curb production.

Strong growth in the output from US shale created a supply glut and, led by Saudi Arabia, OPEC fought an ultimately unsuccessful battle for market share with these new shale producers before capitulating two years later in November 2016. The cartel teamed up with other major producer Russia and cut production for the first time in eight years.

WHAT IS FUELING THE RISE?

For the most part oil is now rising on supply issues, the concerted action by OPEC and Russia which helped to stabilise prices, and then a series of production issues for major producers like Venezuela and Nigeria contributed to its ascent.

Most seriously, Iran, thought to account for around 3% of global oil production, faces renewed sanctions from the US thanks to its deteriorating relationship with the Trump administration over its nuclear ambitions. This is expected to have a material impact on the world's supply of oil when the sanctions take effect on 4 November.

As broker Cantor Fitzgerald observes: 'Several major buyers in India and China have signaled that they will cut purchases of Iranian shipments, with China's Sinopec saying it halved loadings from OPEC's third largest producer in September.'

COULD PRICES HIT $100 PER BARREL?

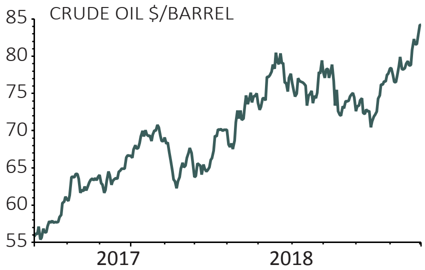
Cantor notes the number of traders taking bets on prices hitting $90 is on the rise, so all eyes may soon be on $100 per barrel.

A key consideration is that Saudi Arabia, the only global producer thought to enjoy any spare capacity, may not have sufficient reserves to completely plug a growing supply gap.

If it fails to do so then oil could return to three figures for the first time since August 2014. This would provide a short-term boost to profit and cash flow at the likes of **BP (BP.)** and **Royal Dutch Shell (RDSB)**.

WHAT ABOUT DEMAND?

Global trade tensions are already raising concerns over the health of the world economy and the increased transportation costs associated with $100 oil just adds to this negative picture. It could be that the best cure for high oil prices is demand falling in a weaker economic environment, although that may not be a positive backdrop for investors. (TS)



THIS IS AN ADVERTISING PROMOTION

Janus Henderson INVESTORS

Catching the waves on Europe's rolling IPO market

Ollie Beckett, fund manager of TR European Growth Trust, shares some of the Trust's recent success stories from Europe's IPO market and explains why investors seeking growth might find Europe's small and mid-cap space attractive.

AFTER A STELLAR 2017, the momentum behind Europe's economic growth slowed as expected in 2018, but the first two quarters of the year saw another encouraging period of initial public offerings (IPOs) that should reassure growth-seeking investors.

In the first six months of 2018, there were 162 IPOs in Europe totaling $23.7bn, according to data from Bloomberg. Given our focus on finding small and medium-sized companies in Europe with high-growth potential, we at TR European Growth Trust (TRG) are excited to find out which of these new listings will give us the opportunity to grow our shareholders' capital.

It's important to note that a private company becoming publicly traded is by no means a guarantee of growth and it's very easy to lose money in the IPO market, but there can be some handsome rewards when you get it right. Participating in Europe's IPO market has been fruitful for investors: between 2013 and August 2018, IPOs in Europe have delivered a total return of 33.6% on average (since the date of listing).

The numbers are good reading if you're a growth-seeking investor, but it's important to ask certain questions before participating in an IPO because it's a very different prospect to investing in a stock that has a trading history and archives of earnings data. You have to ask yourself why is the company going public?

There are many reasons why a company would list on a stock exchange, and many

companies sell shares as a means to raising capital to fund future business growth. That is a good incentive for investors, but an asymmetry of knowledge exists between the buyer and seller in an IPO because the buyer often doesn't have the same level information about the company as the seller, who in many cases is also the founder and/or involved in the day-to-day running of the business.

As investors, that means we must carry out extra due diligence to equip ourselves with as much information as possible before deciding to invest or not. One key factor is the amount of

Yoox.com was a profitable addition to our portfolio

equity the seller wants to retain in the company – a high percentage is a good sign, but a low percentage must raise further questions about their motivation to sell.

That also means we have to meet the management team and evaluate their ability to grow the company in a sustainable way. This can be challenging because the management team of a private company can be inexperienced when it comes to speaking and presenting to investors, which can result in miscommunication. Sometimes, though, the company will bring more experienced talent in to lead the company through the floatation. Our job is to extract as much information as possible, such as their ability to communicate with the market and their day-to-day understanding of the business – and there is no science to this.

Europe's IPO market has been fertile ground for TRG and below are three examples of IPOs we have participated in that have delivered fantastic growth for our shareholders. As I said, it's easy to get it wrong in the IPO market but if you carry out due diligence and ask the right questions, it is possible to find good growth companies that will deliver attractive returns over a reasonable holding period.

YOOX.COM (YOOX IM)

In December 2009, Italian online high-end fashion retailer Yoox Group listed on the Borsa Italiana at €4.30. The IPO raised €105m, which was significant at the time considering it was the first listing in Italy for 18 months and the country's economy was on its knees. Yoox.com launched in 2000 and had already expanded into the US and Japan by the time of the IPO and was poised to enter China. We liked their business model and their niche within the market: aiming to be the online retail partner for leading fashion and design brands, so it felt like a good investment at the time.

The company continued to expand and we held the stock right through its 2015 merger with UK online retailer Net-A-Porter.com. In June this year, the parent of Net-A-Porter, Richemont, bought 95% of the available shares in Yoox Net-A-Porter Group (YNAP) at about €37 per share. That's a value increase of about 780% and a

Janus Henderson INVESTORS

wonderful example of the growth opportunities in Europe.

STABILUS (STM)

German hydraulics specialist Stabilus dates back to 1934 but floated on the Frankfurt Stock Exchange in 2014 at €23 per share. We liked the company for its niche within the automotive industry, as well as its management team and the company's strong global footprint. The share price rose as high as €88 earlier this year and we decided to take profits. We've bought back into the company since then because the valuation came back down on fears surrounding the autos market, owing to Trump's trade war rhetoric.

The company's primary business is the manufacturing of gas spring systems that you will find in cars, office chairs and industrial equipment, for example; with a market share of approximately 70% in the automotive industry. The company is a global leader at what it does, but it is still a medium-sized company and one we believe has the capacity to grow even further.

FINECOBANK (FBK)

Investing in Italian banking might not sound wise, but sometimes there is a diamond in the rough, if you know where to look. We found that diamond when FinecoBank floated on the Borsa Italiana in 2014 at about €4 per share. It has been around the €10 mark for most of this year and has the potential to keep rising.

Borne out of domestic bank Capitalia, which was bought by UniCredit in 2007, the company began life as an online brokerage platform but has since developed its offering to include banking and share dealing – all online. It doesn't carry the legacy issues that has plagued the sector and has branched out into several jurisdictions, building a diversified international customer base. UniCredit remains the majority shareholder and we are encouraged by the parent company's supporting role. We think the company has a very bright future having already doubled its IPO share price value.

These examples demonstrate the real growth opportunities on the continent and why we enjoy investing in smaller companies. IPOs can be exciting and very rewarding for investors with a long-term horizon, and the Trust has been a beneficiary in recent years. Not all IPOs will work so well but overall they have been beneficial to the trust and give us exposure to the 'new economy'.

Last year was a fantastic year for the Trust overall, with net asset value (NAV) and share price total returns of +54% and +75.5%, respectively. This year has seen investors take profits but the fundamentals for the region's growth remain intact and we think the future is looking bright.

TRG was trading at a premium of more than 3% in November 2017, but you could buy the Trust at a discount of about 11% relative to the NAV in August – such is the market's sensitivity to media noise and disappointing short term performance. For long-term outperformance and real total returns, we remain confident that our approach will continue to deliver for our shareholders over the long term.

Before investing in an investment trust referred to in this article, you should satisfy yourself as to its suitability and the risks involved, you may wish to consult a financial adviser. Past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. Nothing in this article is intended to or should be construed as advice. This document is not a recommendation to sell or purchase any investment. It does not form part of any contract for the sale or purchase of any investment.

Issued in the UK by Janus Henderson Investors. Janus Henderson Investors is the name under which Janus Capital International Limited (reg no. 3594615), Henderson Global Investors Limited (reg. no. 906355), Henderson Investment Funds Limited (reg. no. 2678531), AlphaGen Capital Limited (reg. no. 962757), Henderson Equity Partners Limited (reg. no.2606646), (each incorporated and registered in England and Wales with registered office at 201 Bishopsgate, London EC2M 3AE) are authorised and regulated by the Financial Conduct Authority to provide investment products and services.

© 2018, Janus Henderson Investors. The name Janus Henderson Investors includes HGI Group Limited, Henderson Global Investors (Brand Management) Sarl and Janus International Holding LLC.

THE 25 MOST IMPORTANT COMPANIES IN THE WORLD

Why they matter and how you can invest

There are many ways to build a list that ranks the most important companies to people. In its most straightforward sense, for investors that are still in work, your employer or own business is almost certainly the most important company to you since they provide your source of income and contribute to your pension savings too.

Those in retirement might equally argue the case for the holder of their pension funds, or the fund managers with whom the bulk of their savings sit.

You could even make a firm case for the suppliers of certain products that fill your kitchen and bathroom cupboards or cabinets. Brands such as Domestos, Fairy, Heinz or Colgate would support claims for **Unilever (ULVR)**, Proctor & Gamble, Kraft Heinz and Colgate-Palmolive respectively.

What about the suppliers of core electricity, gas and water services, the operator of the trains that get you to work every day, your mobile phone network or perhaps, for some, the brewer of your favourite pint?

More typical ways to rate the relevance of the world's top companies tend to concentrate on other factors; they might judge by market value, brand strength or sales revenue, and all of these are bona fide ways to rank the importance of businesses.

US publication *Fortune* even produces a list of the world's most *admired* companies. Apple, Amazon and Alphabet (Google's parent) occupied the top three positions in the 2018 vote, with Starbucks and FedEx also in the top 10, which might raise an eyebrow or two.

WHO IS IMPORTANT TO SHARES READERS?

Every year *Fortune* puts together a separate list of the top 500 global companies based on how much revenue each generates. Only 20 UK companies featured in 2017's edition, down from 24 in the previous year, in a list predictably dominated by US (126) and Chinese companies (111), with Japan (52), Germany (32) and France (28) also prominent.

We've had to think globally to produce our list of the world's best companies, picking 25 enterprises that we think have sweeping influence on the day-to-day lives of UK investors, and Brits in general. Our methodology is inclusive of some traditional metrics, such as scale and value, but with some subjectivity thrown into the mix.

Each selected company has been assessed on a number of factors and placed into what we believe is the most relevant grouping. There are three core sets – Mainstays, Enduring Brands and Disruptors.

Mainstays are companies that have been around for years providing services or goods that we can't live without, and are likely to need in the years to come. These are not necessarily exclusive suppliers but they do, in our view, exert the most influence over people in the UK within a certain area.

Enduring Brands can be best described as supplying us with instant familiarity, where we know what we are getting immediately. Nike and Walt Disney are great examples where the name alone tells you pretty much everything you need to know. Perhaps McDonald's is the best illustration, a restaurant chain where you could take a 10-year old child and they will know instantly what's on offer.

Disruptors are companies that are either transforming existing business models, changing established practices, or are carving entirely new industry niches to exploit.

Think how Amazon has revolutionised buying stuff easily and cheaply online, or how Uber and Airbnb are turning urban mobility and the rooms for rent space on their heads.

Twenty years ago few people maintained friendships and connections on the internet (we'll give a modest nod here to Myspace, remember it?). Now you can barely escape Facebook, which virtually invented social media as we know it today, and a million similar platforms.

20 LONDON-LISTED COMPANIES IN FORTUNE'S TOP GLOBAL PLAYERS BY REVENUE

Company	2017 position	2016 position
BP	8	12
Prudential	49	56
HSBC	90	88
Tesco	102	92
Aviva	143	90
Vodafone	158	149
Legal & General	172	49
Lloyds	189	121
SSE	265	269
Rio Tinto	278	316
GlaxoSmithKline	290	273
Sainsbury	303	310
Centrica	318	286
Barclays	336	284
BT	377	346
Compass	413	387
Anglo American	449	N/A
British American Tobacco	453	N/A
IAG	460	435
BAE Systems	498	452

Source: Fortune

A FUN PEEK INTO THE FUTURE

There is a final bunch of companies on our list under the category of Tomorrow's World. We've stuck our necks out by predicting a handful of potential superstar influencers for the decade ahead. These are all privately owned, venture capital-backed businesses so access for retail investors today is limited, although we have tried to provide names of funds that do own stakes where relevant.

To state the obvious, this is anything but a comprehensive collection of the world's most important companies. A list 10 times as long would still struggle to cover all bases. Some may be prominent stock picks in your own portfolio, or held by funds or investment trusts you hold. Others may seem completely irrelevant to you.

In either case, why not send us some of the companies that are most important to you, via email at **editorial@sharesmagazine.co.uk** with the subject line 'Best Companies'.

SHARES' TOP 25 COMPANIES IN THE WORLD

MAINSTAYS

- HSBC
- JOHNSON & JOHNSON
- ROYAL DUTCH SHELL
- SAMSUNG
- VISA
- WALMART

DISRUPTORS

- AIRBNB
- ALPHABET
- AMAZON
- FACEBOOK
- SPACEX
- TENCENT
- UBER

ENDURING BRANDS

- APPLE
- COCA-COLA
- LVMH
- MCDONALD'S
- NIKE
- TOYOTA
- WALT DISNEY

TOMORROW'S WORLD

- 23ANDME
- BABYLON HEALTH
- DARKTRACE
- MONZO
- XYLEM

We haven't included Netflix on the list of the world's best companies because we don't think its proposition is unique enough and we're not sure where it goes next strategically, beyond signing up more subscribers. A move into music streaming would be a natural extension, but Amazon has already beaten it to this game.

The streaming market is evolving and competition is likely to intensify. Netflix is burning cash and has significant financial liabilities, plus there are no barriers to stop customers cancelling their subscriptions.

It has managed to sweep up masses of new customers because the price point is low. At some point it will have to be more aggressive with pricing or accept advertising which may be a big turn-off for a large chunk of its audience. (DC)

MAINSTAYS

HSBC

The world may be changing at a rapid pace but all of us still need some form of banking service. As well as being Europe's largest bank, London-listed **HSBC (HSBA)** is also heavily exposed to faster growing markets in Asia. Operating across areas from high street to investment banking as well as wealth management, 90% of global GDP, trade and capital flows are covered by the company's footprint. (TS)

ROYAL DUTCH SHELL

Fossil fuels still play a crucial role in the global economy and London-listed **Royal Dutch Shell (RDSB)** is one of the world's largest oil and gas producers as well as being actively involved in the marketing and sale of petroleum products.

Since its £47bn acquisition of BG the company has a leading position in the rapidly growing liquefied natural gas market and has targeted natural gas more generally as part of its long-term strategy. (TS)

VISA

Payment processing giant Visa, listed on the New York Stock Exchange, is arguably so central to modern life that you hardly even notice it. Visa processes more than 100bn transactions every year in more than 200 countries. Contactless payments mean the company is now picking up a bigger share of the small purchases which until recently would typically have been paid for in cash. (TS)

JOHNSON & JOHNSON

With well-known products such as Johnson's baby wipes and Listerine mouthwash, we are confident Johnson & Johnson will always be an integral part of everyone's lives.

The company also develops medical devices and treatments to tackle the likes of cancer, infectious diseases and cardiovascular conditions. Its shares are listed in New York and can be bought through most UK investment platform providers or stockbrokers. (LMJ)

SAMSUNG

The South Korean electronics giant is best known for its Galaxy smartphones and flash TVs. Owning its shares is great way to cover loads of different electronics bases in a single company.

It isn't resting on its hands as competition is tough from Chinese smartphone makers like Xiaomi and Huawei. The vast, if lesser-known, computer chip business is ultimately propping up overall revenue growth and profit.

Investors can get exposure via a multitude of funds or directly via its London-listed GDRs, **Samsung (SMSN)**. (SF)

WALMART

Founded in Arkansas by Sam Walton in the 1960s as a small discount retailer, New York-listed Walmart has become the world's biggest retailer, operating thousands of stores in the US and internationally. It also operates e-commerce websites including Jet.com and Flipkart, a majority stake purchased for nearly $16bn to take on arch-rival Amazon in India.

Walmart's 'Every Day Low Price' mantra is the cornerstone of a successful strategy that has powered 45 consecutive years of dividend increases. Outside of the US, Walmart's international business operates a staggering 6,360 stores spanning Africa and Brazil to Canada, Central America, Japan and China. (JC)

ENDURING BRANDS

APPLE

The Apple juggernaut continues to defy sceptics even in the face of global smartphone saturation, the key driver of profits today.

The world's first trillion dollar company, it is increasingly driving its applications-based services business, such as Apple Pay, Apple Music and a vast collection of other value-added initiatives across its app store to power earnings in the future.

A host of tracker, global growth and technology funds offer a route to ownership, or the Nasdaq-listed stock can be bought easily over any half decent investment platform in the UK. (SF)

LVMH

LVMH Moet Hennessy Louis Vuitton is the world's biggest luxury group, a colossal whose enduring brands span *Louis Vuitton*, one of the world's top luxury labels by sales, *Christian Dior*, *Krug* champagne and *Hennessy* cognac.

The Paris-headquartered luxury conglomerate, guided by the suave Bernard Arnault, ranks among the best ways to play the rise of the super-rich across emerging markets including China. Its shares trade on Euronext and can easily be bought on UK investment platforms. (JC)

COCA-COLA

New York-listed beverages behemoth Coca-Cola boasts the best known brand in the world and the most popular soft drink in history. It is also an organic tea, premium juice and sports drinks business.

Its recent buying spree includes the proposed acquisition of coffee chain Costa, and the purchase of a stake in sports drink brand *BodyArmor*; the drinks titan is also extending its push into healthier beverages including sparkling waters as consumers move away from sugary fizzy drinks. (JC)

MCDONALD'S

The golden arches synonymous with the McDonald's fast food chain, whose shares trade on the New York Stock Exchange, now occupy countries all over the globe. A key selling point of the brand is that customers know exactly what they are getting, whether they are at a McDonald's in Paris or Peru. The strength of its brand allows it to increasingly operate as a franchise model, reducing costs. (TS)

ENDURING BRANDS

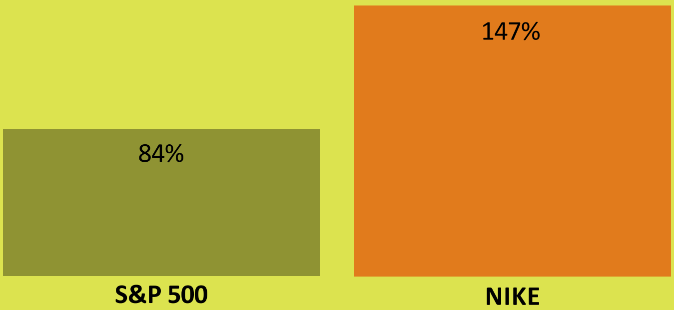
NIKE

Hogging headlines lately for its controversial Colin Kaepernick ad campaign, athletic footwear, clothing and accessories designer Nike is a globally renowned enduring brand.

Its 'Just Do It' slogan is instantly recognisable and the world's largest sportswear maker's sneakers continue to be coveted the world over by the youth demographic.

Scale, an intangible brand asset and key sponsorships are competitive advantages driving high returns on capital for this global growth star turn. (JC)

NIKE STOCK PERFORMANCE VS S&P 500*
FISCAL YEARS 2014-2018



*Performance of the S&P 500 and Nike stock is calculated by comparing the total returns of each assuming the reinvestment of dividends over the time period of 31/5/2013 to 31/5/2018

TOYOTA

The undisputed king of Japan's auto industry, Toyota is the world's largest by volume thanks to hugely popular models such as the *Camry* and *Prius*, the latter an indicator of how the company is preparing for a hybrid or fully electric vehicle future.

Toyota this year pumped $1bn into fast-growing Asia-based ride-hailing company Grab (an Uber rival) while also spending $2.8bn alongside several auto parts suppliers to create a new company focused on self-driving cars. Toyota's shares can be bought either via its London or New York listing. (SF)

WALT DISNEY

New York-listed Walt Disney has rapidly been buying up content in recent years, underpinning its status as an enduring brand.

We would argue there's not a single global entertainment group which can compete with Disney on both quality of content and its ability to extract value through merchandising, particularly since it acquired the *Star Wars* and *Marvel* franchises. It also recently agreed the $52.4bn takeover of 21st Century Fox's media assets. (TS)

DISNEY-FOX DEAL TO SHAKE UP THE MOVIE INDUSTRY
DOMESTIC BOX OFFICE MARKET SHARE OF THE SIX MAJOR FILM STUDIOS FROM 1995 TO 2018*

DISRUPTORS

AIRBNB

Airbnb is disrupting the hotel industry as it allows people to rent their homes, rooms, apartments – or even castles and treehouses – to visitors through its online platform. We believe its growth potential is significant.

Founded in 2008, Airbnb has enjoyed staggering growth with approximately 2m people every night staying at places listed on the site. The online platform allows accommodation providers to boost supply in popular areas at a more attractive price for cash-conscious travellers.

Airbnb is currently unlisted and is planning to float on an undisclosed stock market in 2019.

Retail investors keen to gain exposure in advance of this event can get exposure via investment trust **Scottish Mortgage (SMT)**, although Airbnb only accounts for 0.3% of the entire portfolio. (LMJ)

AMAZON

Having become the second trillion dollar company this year (after Apple), Amazon's transformation of online retail is old hat now, yet investors are eyeing expansion into hi-tech physical stores, healthcare disruption and more.

The most rapid growth is coming from Amazon Web Services (also known as AWS), its cloud computing services arm.

Amazon invests massively to carve out market domination and cement future revenue and profit grow. This strategy has created vast wealth for shareholders and poses the question: is this the best growth company in the world?

There are a large number of funds and investment trusts holding the stock, making it easy to get exposure. The alternative is for interested investors to buy the Nasdaq-listed stock directly via their UK investment platform provider. (SF)

ALPHABET

Alphabet is the product of a rather confusing name change a while back but this is Google as far as investors need be concerned. That to 'google' something has entered the everyday vernacular as a verb to search the internet says it all about how the company dominates the online universe, and importantly, advertising spend.

Its tentacles cover YouTube and the Android smartphone operating system. It is also looking at capturing tomorrow's technology growth opportunities through its Google Ventures blue sky investment arm.

Despite coming under fire from regulators (it was fined $2.7bn by European watchdogs last year), Alphabet's revenues and profits are still growing in double-digits, and the share price continues to perform well. (SF)

FACEBOOK

Facebook has endured a rocky ride through 2018. The social networking giant has been mired in multiple controversies, including a data selling scandal with Cambridge Analytica that had CEO Mark Zuckerberg testify at two Congressional hearings.

In spite of intense political criticism and unflattering media attention Facebook's business has continued to grow at pace, largely driven by online advertising.

Investors are being drawn to the stock by the implied potential for Facebook to harness its vast data network, through machine learning and artificial intelligence. It will face ongoing oversight by regulators but there is little evidence that Facebook's growth days are ending. (SF)

DISRUPTORS

SPACEX

While SpaceX isn't sending people into space yet, Tesla boss Elon Musk's 'other' baby is already on a path to transform space flight operations and economics. This is largely thanks to its own Falcon 9 re-useable rocket (well, part of it can re-land), technology that is truly disrupting SpaceX projects.

SpaceX runs many of Nasa's projects and has Mars and beyond in its sights. A new Falcon Heavy rocket, designed to carry goods and people between Earth and the red planet, could be a step forward, but it's a growing satellites industry that is likely to drive profitability, when it comes.

SpaceX remains privately-owned but Google and Fidelity Investments have poured more than $1.6bn of growth funding into the company. A stock market float isn't out of the question in the medium to long term. (SF)

TENCENT

Often compared to Facebook, in truth Tencent has built an ecosystem in its China backyard that is far wider and deeper than its US peer. At the heart of this network is a wealth of messaging and social networking platforms, namely WeChat and QQ.

WeChat is a phenomenon and one of the world's fastest growing social apps. Released in 2011, the platform combines messaging, social communication and lots of mobile games, all in a single easy-to-use app that has more than 1bn monthly active users.

Online payments, shopping and leisure activities are also wrapped into the platform, meaning users barely need to go anywhere else.

QQ.com is China's largest local language portal integrating news, interactive communities, entertainment products and widely-used basic services. Vast growth potential remains in China but Tencent is also eyeing overseas expansion.

UK investors can buy the Hong Kong-listed stock via most UK investment platforms or they could get exposure by a variety funds and investment trust such as **Martin Currie Asia Unconstrained (MCP)**. (SF)

UBER

The business has completely disrupted the taxi market and has aspirations to be a much broader transport group. Uber wants its app to be a one-stop-shop for ride hailing, bike and scooter sharing, car rentals and public transport.

It won't be a smooth ride as Uber faces regulatory, cultural and competitive hurdles. Yet significant progress on the taxi side would suggest it has the vigour to overcome problems.

Uber is expected to float on a stock market in 2019. Morningstar valued it at $110bn in July and forecasts profitability in 2022. 'We project that Uber's net revenue will grow at a 27% average annual pace over the next 10 years to $82.4bn,' it adds. (DC)

UBER: ESSENTIAL STATS

- 75 MILLION RIDERS AND 3 MILLION DRIVERS
- 4 BILLION TRIPS COMPLETED WORLDWIDE
- 65 COUNTRIES AND 600+ CITIES WORLDWIDE
- 15 MILLION TRIPS COMPLETED EACH DAY

Source: Uber

TOMORROW'S WORLD

23ANDME

23andMe identifies how genetics can influence risks for certain diseases and if you are a carrier of inherited conditions such as breast cancer and Parkinson's disease.

This information can then be used to help carriers be aware of conditions that they may pass on to children, so they can be closely monitored, or even to make changes to their own lives.

23andMe recently dominated headlines after revealing exclusive a four-year collaboration with pharmaceutical colossus **GlaxoSmithKline (GSK)** for customer data to help the latter discover drug targets.

Various news outlets speculate the business is currently worth $1.8bn. There is no news on a stock market flotation, but this is certainly a name to keep watching. (LMJ)

DARKTRACE

It may not be a household name, but cybersecurity firm Darktrace is now worth $1.65bn – not bad for a five-year-old firm.

It uses machine learning and artificial intelligence tools to alert customers when their systems have been infiltrated.

Its software learns the patterns of normal behaviour inside a computer network, so it can spot anomalies when they occur and stop problems from escalating into a crisis. The downside for investors is that it has no current plans to float on the stock market. (DC)

BABYLON HEALTH

Digital health business Babylon Health is aiming to reduce the strain on healthcare services by helping people interpret symptoms via its artificial intelligence and direct them to a human doctor if medical care is needed.

The company also connects patients with doctors via phone calls or video chat on their mobile, so they can receive medical advice and potentially a prescription.

Babylon currently has operations in the UK and Rwanda, but plans to expand into China, the US, Canada and the Middle East. (LMJ)

WHY BERKSHIRE HATHAWAY DOESN'T MAKE OUR LIST

Berkshire Hathaway wholly owns numerous companies including Fruit of the Loom

It may be worth nearly half a trillion dollars and the annual shareholder letter from chairman, CEO and largest shareholder Warren Buffett, remains required reading for investors but Berkshire Hathaway does not find a place in our list of the world's most important companies.

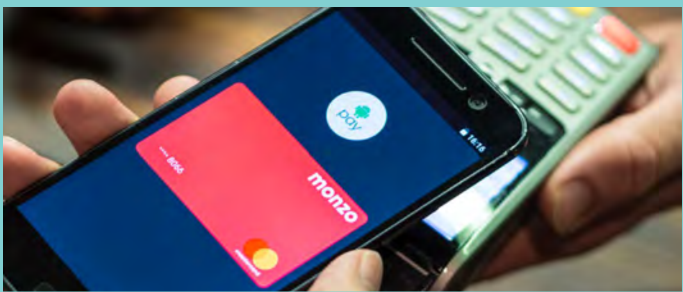
Berkshire is a holding company not an individual business which has an impact on our day-to-day lives. It does however invest in highly influential and important companies, including some which are constituents of our list such as Apple and Coca-Cola. (TS)

TOMORROW'S WORLD

MONZO

Britain biggest start-up digital bank launched in 2015 and now has more than 1m customers, more than half of whom are thought to be under 30 years old. Customers do everything via a mobile app including identity verification using their phone's camera. The only physical element is a card to make transactions.

Monzo is expected to attract a valuation of up to $1.5bn at its next financing round, potentially in late 2018. Media reports suggest retail investors may be able to take part via crowdfunding platform Crowdcube, as per a previous fundraise in 2016. (DC)



XYLEM

The worldwide water sector is among the most exciting of sustainable long-term investment trends. Among the relevant companies is Xylem, a $14.5bn water technology expert offering a broad range of equipment, analytics, products, and services to transport, treat and test water for utilities, industry and agriculture.

Xylem's portfolio of products and services address the cycle of water, from collection, distribution and use to the return of water to the environment.

It is the top holding in investment fund **Pictet Water (B516BZ3)** and also sits within **Bankers Investment Trust's (BNKR)** portfolio. Xylem's shares are listed in New York. (JC)

ShareSoc

UK Individual Shareholders Society

ShareSoc Investor Events - Come and Join Us!
ShareSoc is a not-for-profit membership society created by investors for investors. Our aim is to help our members become better investors and to defend their interests.

Visit www.sharesoc.org for more

LONDON - SEMINAR
10 October 2018

- Haynes (HYNS)
- Bioventix (BVXP)
- Volition RX (VNRX)
- Supermarket Reit (SUPR)

REGISTER FOR THIS EVENT

MANCHESTER - SEMINAR
16 October 2018

- HarbourVest (HVPE)
- Inspiration Healthcare (IHC)
- LMS Capital (LMS)
- Northbridge Industrial (NBI)

REGISTER FOR THIS EVENT

BIRMINGHAM - VISIT
24 October 2018

- Companies to be announced

These events are open to all and are a great opportunity to talk to the directors of presenting companies.

REGISTER FOR THIS EVENT

All you need do is complete the registration form for your chosen event on our website. Go to www.sharesoc.org for more about ShareSoc.

Why US equities seem to be passing the stress test (for now)

Lessons to be learned from rising interest rates

Last month's (26 Sept) interest rate increase from the US Federal Reserve was the third this year and the eighth for the upcycle that began in December 2015.

The headline Fed Funds rate now stands at 2.25% and the Federal Open Markets Committee seems intent on one more increase this year and three next year, judging by the 'dot plot' of the committee members' future interest rate expectations.

That would take us to 3.25% by December 2019, the highest rate since January 2008, and this has bond markets understandably rattled.

The 2-year US Treasury yield has surged from a summer 2016 low of 0.56% to 2.82% and 10-year yields from 1.36% to 3.05%.

This immediately begs three questions:

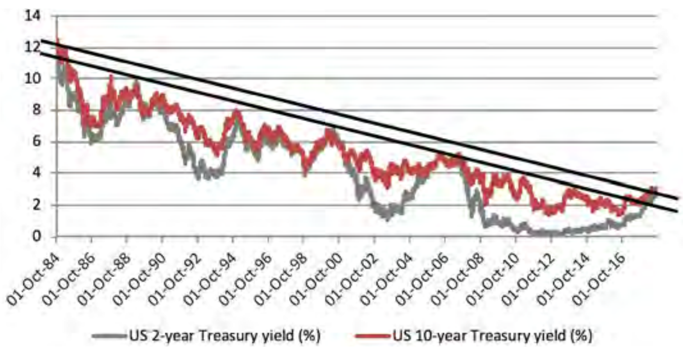
1. Is the bond bull market over?
2. Is the surge in US Treasury yields and interest rates a threat to the US economic upturn?
3. Is the rise in US government bond yields a threat to the equity bull market?

BOND MARKET BLITZ

US 10-year Treasuries have fallen in price by 14% since yields bottomed (and prices peaked) two-and-a-half years ago, inflicting nasty capital losses on anyone who bought then.

This column prefers to focus on fundamentals rather than technical, but chart-watchers will tell you that if the US 10-year breaks above 3.05% then yields could go a lot higher still, as that breaks a 35-year-plus downtrend. The 2-year yield already looks to have broken out.

CHARTS SUGGEST US TREASURY YIELDS ARE POISED TO BREAK OUT TO THE UPSIDE



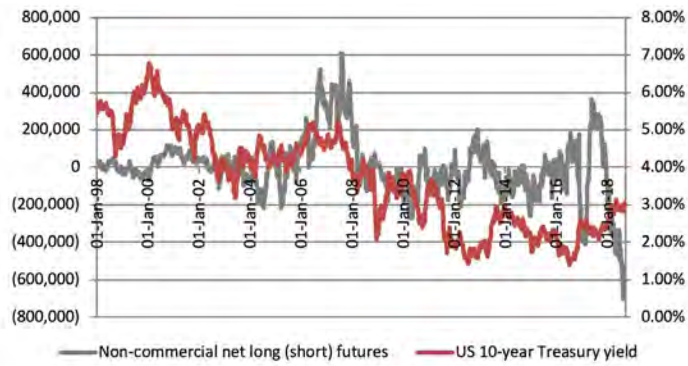
Source: Thomson Reuters Datastream

Wage growth is picking up and unemployment is low, so the US non-farm payrolls and average monthly earnings figure due out on Friday 5 October could be particularly influential when it comes to Fed policy.

But Treasury yields are by no means certain to surge. It may be that the prospect of a 2.8% yield over two years, and around 3.0% over 10, to be banked in the world's reserve currency starts to appeal to more risk-averse investors (and for that matter pension funds with liabilities to meet).

In addition, data on traders' dealings in futures markets from America's COMEX reveals that speculative short positions against US 10-Treasuries (or bets that yields will rise and prices will fall) already stand at record highs, at some 684,712 contracts of $100,000 apiece. This wave of short-selling may, at some stage, turn into a buying spree if and when the shorts decide to cover.

SHORT-POSITIONS AGAINST US 10-YEAR TREASURIES STAND AT RECORD LEVELS



Source: Thomson Reuters Datastream

EQUITY ALTERNATIVE

Investors with substantial exposure to US equities will be wondering what the Fed's policies mean for them. It is possible that the prospect of a 2.8% certain return in dollars (in nominal terms) over two years or 3.05% over 10 starts to look tempting relative to riskier stocks (even if equities offer greater potential capital upside).

Note that the eight post-1970 peaks in the S&P 500 have been preceded by an average rate rise of just over two percentage points (or 2.75% if you exclude 1990 when rates were going down). We are already at 2.25% in this cycle, with four more quarter-point increases possible by the end of 2019.

We are therefore entering a delicate phase, although bulls of US stocks will take solace from the wide range of rate increases over prior cycles and how even a 3.25% Fed Funds rate by next Christmas would not take us to borrowing cost levels that have characterised prior stock market peaks.

STRESS TEST

Equity market accidents tend to happen when interest rates are rising (as now), valuations are full (which is debatable) and earnings and the economy disappoint. There is no sign of the last-named, thankfully, but one quick way to check this could be the Chicago Fed's National Financial Conditions index and the St. Louis Fed's Financial Stress index. If rising rates are creating problems it should show up in these indicators fairly quickly.

The good news is that neither reading has followed through on a spike in the spring. In the past a score of 0.00 on the National Financial Conditions index and a reading of 1.00 on the St. Louis Fed's indicator have warned of trouble ahead for stocks, compared to the latest readings of -0.87 and -1.29, so there is no sign (yet) of a spill-over from rising rates into the US economy and thus corporate earnings.

By Russ Mould, investment director, AJ Bell

SINCE 1970 IT HAS TAKEN AN AVERAGE RATE RISE OF 2.00 AND 2.25 PERCENTAGE POINTS TO HALT A US EQUITY BULL RUN

Date	S&P 500	Fed funds rate	Change in Fed Funds cycle	Change in Fed Funds cycle
11 Jan 1973	120	5.50%	3.50% to 5.50%	2.00%
21 Sep 1976	1,008	5.50%	4.75% to 5.50%	0.75%
28 Nov 1980	141	15.00%	4.75% to 15.00%	10.25%
10 Oct 1983	173	9.38%	8.50% to 9.38%	0.88%
25 Aug 1987	337	6.63%	5.88% to 6.75%	0.88%
16 Jul 1990	369	8.00%	9.81% to 8.00%	(1.81%)
24 Mar 2000	1,527	6.00%	4.75% to 6.00%	1.25%
09 Oct 2007	1,565	4.75%	1.00% to 4.25%	3.25%
Average		**7.59%**		**2.18%**
Average excl. 1990				**2.75%**
Average excl. 1980				**1.03%**

Source: Thomson Reuters Datastream, US Federal Reserve

Alternatives to Fundsmith's new global smaller companies trust

We look at existing top performing funds in the small and mid-cap space

The high-profile launch of a new investment trust from star manager Terry Smith has turned investors' attention to global smaller companies.

Smith's new trust, **Smithson**, will focus on companies across the globe that are too small for his flagship **Fundsmith Equity (B41YBW7)** fund to invest in. He says the under-researched businesses, which typically have fewer investors watching them, provide a wealth of opportunities of which to take advantage.

But this is old news to the investment trusts and funds already focused on the sector; a handful of managers have been watching this part of the market for years and have already been reaping the rewards.

HIGH PROFILE LAUNCH

The fact is, that while the big names of the stock market – Amazon, **HSBC (HSBA)**, **GlaxoSmithKline (GSK)** and Facebook, to name just a few – get much of the spotlight, the bottom 15% of the global market in terms of market capitalisation actually accounts for around 70% of the publicly-listed companies in the world. Yet, while there are around 22 investment analysts for each of the blue-chip companies, there are just six for each of the investable small-caps.

Terry Smith's Smithson trust will aim to raise £250m from investors when it launches on 19 October, with the veteran investor putting into £25m of his own money at the outset. But should investors rush to follow suit or is it worth considering funds which already have a track record of investing in this space?

NO RUSH TO BUY NEW TRUST

Ben Yearsley, director at Shore Financial Planning, says: 'I don't see the point of rushing in and buying the new Smithson trust. Smith has a superb track record in the Fundsmith Equity fund but that focuses on large, global companies, not small and mid-cap ones. Why rush in when there are already a number of very talented fund managers available?'

Among them is the **Invesco Perpetual Global Smaller Companies (BJ04HJ2)** fund, which launched in 1984 and has returned 81% over the past five years. Almost a third of its assets are in US stocks including luggage manufacturer Samsonite and Take-Two Interactives which

> Smaller companies are often more dynamic, focused and entrepreneurial than larger ones

Fevertree features in Standard Life's portfolio

owns video games publisher Rockstar Games, proving that small-cap investing doesn't limit managers to companies you've never heard of. The fund has further holdings in Japanese, UK and French equities too.

John Botham, product director at Invesco Perpetual, says: 'The UK small-cap market looks interesting to us at the moment and we are finding opportunities in sectors such as financials as well as certain energy and industrial companies, which are less popular with the majority of investors.'

A BREXIT DISCOUNT

Many UK small-caps have largely been out of favour since the EU referendum in 2016, largely due to concerns about how a bad deal or no deal Brexit could affect the economy. Big blue-chips on the FTSE 100 are relatively insulated from this risk because around three-quarters of their earnings come from overseas so are actually boosted when the pound is weaker.

Botham adds: 'In our view, some investors "over-discount" the risks. In a similar vein, certain Asia companies have been affected by the perceived risks around trade tariffs and tensions.'

A newer addition to the small-cap space is the **Standard Life Global Smaller Companies (B7KVX24)** fund, which launched in 2012. A top performer in the global sector, it has returned a hefty 123% over the past five years. In its relatively short life, the fund has attracted almost £1.5bn of investors' money.

Manager Alan Roswell says: 'It's a rich universe, full of high-quality companies. Global smaller companies provide real diversification for your investment portfolio, they outperform larger companies and they are not as risky as you might think.'

WEIGHING UP THE RISKS

There are risks to investing in this space. Smaller companies are typically less liquid than their larger counterparts, meaning there might not always be a buyer or seller for the other side of your trade. Meanwhile, their less-established business models can make them more volatile or susceptible to failure. But this is also the part of the market from which the stars of tomorrow emerge.

Botham adds: 'Smaller companies are often more dynamic, focused and entrepreneurial than larger ones. For long-term investors, the extra risks have historically been well compensated by higher returns.'

Roswell has a good record of picking small companies which go on to become large-scale successes, which he is then no longer able to invest in under the remit of the fund. Japanese online fashion retailer Start Today and UK-listed Dubai-based hospital operator **NMC Health (NMC)** are two recent examples.

US FOCUS

Currently, the Standard Life fund has some 40% of its assets in US firms including fast food delivery app GrubHub and home security company Alarm.com, and 15% in UK stocks including sportswear retailer **JD Sports (JD.)** and mixer drinks maker **Fevertree Drinks (FEVR:AIM)**.

Yearsley at Shore adds: 'I'm a fan of small-cap investing and I think it's a key component of a well-diversified investment portfolio. But investors would do well to look at the many excellent funds and trusts with talented managers, which already have a proven track record investing in this space.' (HB)

SHARES

Do you have the SHARES advantage?

Only SHARES magazine subscribers benefit from an investment toolkit that gives them the edge and helps them make the very best investing decisions.

- Live share prices
- Customisable live watch list
- Portfolio manager
- Fund selector and prices
- Intraday and historic charts
- Latest broker forecasts with alerts
- Latest director deals with alerts
- Fundamentals and investor tools
- Online discussion forum
- Priority booking for investor events
- Educational and company videos
- ...and of course, the weekly digital Shares magazine with the latest news and views from the Shares experts

Don't miss out! Try SHARES today for just £1 for the first month, and then just £12 a month.

NEW SUBSCRIBER OFFER
Try Shares today for just £1 for the first month, and then just £12 a month.

SHARES
YOUR INVESTMENT HUB

Digital magazine | Online Toolkit | Investment Ideas

* The £1 for 1 month and then £12 a month offer is only available to new subscribers. Your first payment will be £1 and thereafter subscriptions will automatically continued, billed at £12 per month unless cancelled. Subscriptions can be cancelled at any time by calling 020 7378 4424 between 8am - 4.30pm on Monday to Friday. No refunds are offered during the cancellations period but all outstanding issues and services will be fulfilled. For enquires contact us at support@sharesmagazine.co.uk

Venture capital trusts offer significant tax benefits but are they suitable for all investors?

We look at how these products work and some success stories from the sector

The new venture capital trust (VCT) offer season is now in full swing where investors are able to apply for new shares and enjoy immediate tax benefits.

Recent offers from Amati AIM VCT, Octopus AIM VCT and Hazel Renewable Energy VCT have already closed, having hit their subscription target. Others are filling up quickly.

Each year VCTs seem to attract money faster than the previous year, meaning interested investors need to act fast once offers go live.

This article will explain all the essential points about why and how to invest in VCTs, plus the important points to note if you want to lower the risk of losing money.

VCTs often invest in early-stage businesses where a talented group of individuals are trying to commercialise a bright idea

WHY WOULD YOU WANT TO INVEST IN A VCT?

Venture capital trusts are funds that allow investors to claim up to 30% income tax relief on up to £200,000 invested in a VCT per year. You need to hold the investment for at least five years, but any dividends will be tax free and you will have a capital gains exemption on disposal.

The tax benefits are essentially compensation for taking on the extra risks of investing in growth companies, some of which could be early-stage businesses.

WHO IS BEST SUITED TO INVESTING IN A VCT?

Individuals on higher-rate or additional rate tax bands are naturally drawn to VCTs because of their tax benefits.

VCTs can also be of interest to someone who wants to invest in early stage growth companies or individuals who have maxed out allowances on various wrappers such as ISAs and hit or exceeded the £1.03m pension lifetime allowance.

These funds are popular among individuals seeking to supplement their income because dividends and returns from selling down capital are tax free.

Stuart Veale, managing partner at asset manager ProVen, says VCTs are not simply the domain of high net worth individuals, noting that the average investment size in its products is £12,000 and that many investors opt for its minimum £5,000 subscription.

Hugi Clarke, a director at VCT provider Foresight, says there are two obvious candidates for the VCT market. One is someone trying to resolve a persistent tax problem; the other is someone with a one-off exceptional tax

VCTs aren't always about investing in the next big thing. Sometimes they can include stakes in businesses growing at a slower pace like garden centres

charge as you can use the 30% relief to reduce your tax bill.

'It is becoming quite common for people to face lifetime allowance issues,' says Clarke, referring to the limit on the amount of pension benefit that can be drawn from pension schemes and paid without triggering an extra tax charge.

'Individuals in this situation may have either built up a sizeable pension pot, or they've transferred out of a defined benefit scheme with a substantial sum of money.'

One solution for anyone in this situation who is still saving for retirement is to put further contributions into a VCT rather than a pension as it is more tax efficient in such circumstances. It is very important to understand the risks if taking this route.

LONG-TERM BENEFITS

VCTs can also benefit individuals who haven't hit the pension lifetime allowance, assuming they are happy to let their money grow and don't need to access it in the near-term.

For example, a 40 year old could invest money into a VCT and get 30% tax relief. After five years they can reinvest the proceeds of that first VCT into a new product and get another 30% tax relief. If they repeat this pattern, the individual could have invested in five VCTs back-to-back in five year batches and enjoyed considerable tax relief by the time they turn 65.

They could then take this money as a tax free lump sum in retirement or keep the money invested in a VCT and draw tax free dividends as an income.

The downside of the latter strategy is that VCT investments may be too risky for someone of that age. And don't forget that you shouldn't invest in something for the tax breaks alone.

WHO SHOULDN'T INVEST IN A VCT?

VCTs should be avoided if you need to access your money in less than five years and if you don't have the stomach or patience for exposure to early-stage businesses.

Selling before five years is up will require you to pay back the 30% tax relief to the taxman. You also have to consider there isn't always a liquid market for VCTs as most people only buy them in an offer period and don't trade them on the market. That said, some VCT providers do offer to buy back shares at a 5% to 10% discount to net asset value.

'Someone who is equity market risk averse shouldn't invest in a VCT,' says David Stevenson, fund manager at Amati. 'The tax benefits would be outweighed by the fact they can't sleep soundly at night.'

Stevenson suggests other people not suited to VCTs are those who are under-invested in a pension, don't have a pension at all, or are a non-taxpayer.

HOW DO YOU BUY THEM?

You should buy VCTs direct from the fund manager or a specialist VCT broker during the offer periods to get all the tax benefits.

You can buy VCTs on the open market (also known as the secondary market) but you would lose the 30% income tax relief.

CURRENT VCT OFFERS
Baronsmead Second Venture Trust
British Smaller Companies 1
British Smaller Companies 2
Calculus VCT
Foresight 4
Hargreave Hale AIM VCT
Maven Income & Growth VCTS 1 & 5
Octopus Titan
Pembroke VCT B Shares
Puma 13
Seneca Growth Capital VCT B Shares
Triple Point 11 - Venture Fund

Source: Bestinvest

THE DIFFERENT TYPES OF VCTS

There are three different types of VCTs, each suitable for different types of investors: Generalists, AIM VCTs and Limited Life VCTs.

'Generalists are classic venture capital businesses looking for the next big thing,' says Eliot Kaye, a director at Puma Investments. 'They need to win big and it can take years to find and realise a successful investment.'

AIM VCTs invest in AIM-quoted companies either when they join the stock market, participating in their IPO offer, or taking part in fundraising. Fund managers can only buy shares when a company is seeking new money, not simply picking up existing stock on the market in the way a normal investor would buy shares.

Limited Life VCTs are products that aim to preserve your capital – you're likely to only make money from the tax relief component. They are deemed to be lower risk than Generalist and AIM VCTs.

GENERALIST VCTS

The traditional venture capital model is to back pre-revenue or pre-profit companies. These companies may have a strong idea and spend a lot on research and development, but still be lacking scale. 'A venture capital manager should expect half of their investee companies to fail,' says Hugi Clarke at Foresight.

'Your average investor may not be used to thinking that one out of every two investments will fail, but it isn't unrealistic for the VC market.

'Against the failures, a venture capital trust could have two or three investments which succeed very big, such as 10 to 40 times return on capital.'

Private equity-style venture capital trusts will invest in revenue-generating companies where the failure rate is lower, says Clarke. 'The trade-off is that your winners won't be as big, perhaps three to six-times return. It is a less bumpy ride, so total return might not be as spectacular but nor are your potential losses.'

Foresight is among the private equity-style venture capital experts seeking to raise new cash; in this case its Foresight 4 VCT wants to raise £50m for new investments and had so far secured £13.1m at the time of writing.

The current portfolio includes stakes in computer graphics card manufacturer Datapath and prepaid electronic payment service Ixaris Systems.

LOOKING FURTHER AFIELD

Foresight differentiates itself from much of the competition by having offices across the UK, rather than simply being concentrated on the London and South East market which Clarke says is highly competitive for new investments.

'We wouldn't invest when there is only a bright idea like a business selling hot dogs and champagne. It is better to invest when there is a proven business model.

'For example, we backed Mowgli Street Food. The founder is a barrister who grew frustrated at the quality of Indian food in the UK, full of butter and fat. It was profitable with three locations when we came across the business. The founder wanted to add more sites in the UK but didn't have capital to expand, hence how we were able to help.'

Calculus VCT, Pembroke VCT, Seneca Growth Capital VCT and Maven Income & Growth are among the Generalist VCT products with live offers at present.

THE STRATEGY BEHIND OCTOPUS TITAN

The biggest VCT player in the Generalist segment of the market is Octopus whose Titan product is currently seeking to raise £120m. 'We seek to invest in high growth businesses, typically UK-based ones that are trying to

Octopus Titan VCT was one of the early investors in discounted luxury holiday seller Secret Escapes address global markets,' says Jo Oliver, fund manager for Octopus Titan VCT. 'The management are looking to solve big problems and we hope these businesses could eventually be worth in the hundreds of millions of pounds, or even billions.

'We invest in some very early stage companies that are pre-revenue but the majority of the portfolio companies in Titan tend to be pre-profit.'

Oliver says he typically invests a small amount and then does follow-on investments if the business is performing well. 'We hope for 10-times return potential but we have achieved 80-times in the past.'

Titan currently has 65 companies in its portfolio including WaveOptics which the fund manager describes as arguably the world leading technology for augmented reality.

'Does Octopus Titan deserve its titan title? Certainly,' says Alex Davies, chief executive of VCT broker Wealth Club. 'Not only is it the biggest VCT, it has had numerous high-profile successes such as Secret Escapes, Swift Key, Graze and Tails.

'With its investment in Zoopla it is also the first VCT to have spawned a billion-pound company. So far, its performance has been excellent and the team has been extremely shrewd in picking tomorrow's winners – which at the time of investment is always far from obvious. There are caveats, however, and past performance is not a guide to the future. In addition, because Titan is now so big, it will require frequent and significant successes to generate mega returns for investors.'

OCTOPUS TITAN: FIVE-YEAR PERFORMANCE

Year to 30 April	2014	2015	2016	2017	2018
Annual total return	9.6%	11.4%	7.2%	4.7%	4.3%
Annual dividend yield	5.6%	5.4%	9.2%	5.2%	5.3%

Source: Octopus

AIM VCTS

Many individuals are drawn to AIM VCT because they are already familiar with stocks on London's junior market. Unlike Generalist VCTs which are full of unquoted companies, AIM VCTs feature stocks which are more transparent in terms of corporate updates and their latest valuation.

Unicorn, Hargreave Hale, Octopus and Amati are among the asset managers with AIM VCTs, although not all of them are accepting applications for new investments at present.

David Stevenson at Amati says his firm often has an ongoing AIM VCT offer, such is the demand. However, investors may be disappointed to find its latest offer recently closed. 'We only ever raise as much money as we feel comfortable investing over the next 12 to 18 months,' he says.

Amati's VCT portfolio includes **Keywords Studios (KWS:AIM)**, a stock held since the computer game services group joined the stock market in 2013. Another holding is **Water Intelligence (WATR:AIM)**, a leak detection business with a large opportunity in the US market. 'It has a leading position in a strong growth market. It also has pricing power which you don't often get with small companies,' comments Stevenson.

Among the live offers, Hargreave Hale is seeking to raise up to £30m for its AIM VCT which targets a 5% annual dividend from a portfolio of 83 companies. The portfolio currently includes **Learning Technologies (LTG:AIM)**, whose share price has gone up by 200% in the past year, and successful gambling sector technology provider **Quixant (QXT:AIM)**.

LIMITED LIFE VCTS

Limited Life VCTs can be a suitable option for anyone who simply wants to take advantage of the tax benefits and have the lowest possible risks associated with how their money is invested via VCTs.

The fund managers' goal is capital preservation, namely trying to ensure your investment doesn't fall in value over a five-year period. Limited Life VCTs typically wind themselves up after five years to return cash to investors, hence why they are also sometimes known as Planned Exit VCTs.

One example is Puma VCT 13 which targets investments in companies that are expected to be revenue generating with limited external debt. One example of a current portfolio holding is Pure Cremation, a business which runs cremations without ceremonies.

'This is an extremely disruptive company,' says Puma's Eliot Kaye, referring to how Pure Cremation is offering an alternative to a very traditional industry. Direct cremations will reach or exceed 10% of UK deaths by 2030, predicts Dignity Funerals. (DC)

24 OCT 2018

Novotel Tower Bridge
London
EC3N 2NR

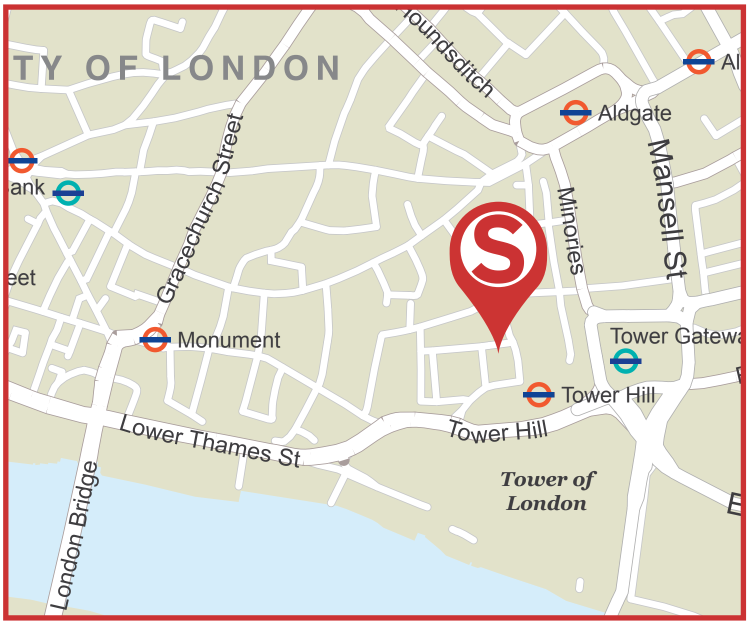
SHARES
INVESTOR EVENINGS

Sponsored by

AJBell Youinvest

Are you looking for new companies to invest in?

REGISTER TODAY FOR NEW INVESTMENT IDEAS



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

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

COMPANIES PRESENTING

CORO ENERGY (CORO)
Speaker: Fiona Macaulay, CEO
Is an oil and gas exploration company focused on delivering long-term production of natural gas. Coro Energy's aim is to become a mid-tier, south east Asian focused exploration and production company.

FULHAM SHORE (FUL)
Speaker: David Page, CEO
Fulham Shore is a group of distinct growth restaurant businesses operating in the UK, each driven by skilled and incentivised restaurant entrepreneurs. We will increase shareholder value by purchasing restaurant investments, improving the offer where we can and then increasing the sites within each brand.

XPEDIATOR (XPD)
Speakers: Stephen Blyth, CEO & Stuart Howard, CFO
Xpediator is a well-established international provider of freight management services. Established in 1988 by CEO Stephen Blyth, the Group's International network of offices provides road, sea and air freight services, together with logistics and warehousing in the UK and Romania.

Event details

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

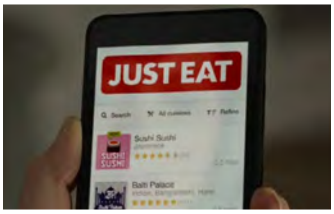
Register for free now
www.sharesmagazine.co.uk/events

Contact

Lisa Frankel, Events Coordinator
Lisa.Frankel@sharesmagazine.co.uk
020 7378 4406

KEY

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



KEY ANNOUNCEMENTS OVER THE NEXT SEVEN DAYS

Full Year Results

11 Oct: WH Smith.

Half Year Results

8 Oct: Angling Direct. **10 Oct:** Walker Greenbank, Vertu Motors, Telford Homes. **11 Oct:** Hargreaves Lansdown, N Brown.

Trading Statements

8 Oct: RPC, Codemasters. **9 Oct:** Greggs. **10 Oct:** PageGroup, Marston's. **11 Oct:** Dunelm, Hays, Mondi, Moneysupermarket.com, Quiz.

LAST CHANCE FOR FREE TICKETS

Live in, or near, Manchester? Come to our investor evening on 10 October including presentations from **Destiny Pharma**, **Phoenix Global Mining** and **PowerHouse Energy**.

www.sharesmagazine.co.uk/events

WHO WE ARE

EDITOR: Daniel Coatsworth @SharesMagDan

DEPUTY EDITOR: Tom Sieber @SharesMagTom

NEWS EDITOR: Steven Frazer @SharesMagSteve

FUNDS AND INVESTMENT TRUSTS EDITOR: James Crux @SharesMagJames

SENIOR REPORTER Ian Conway

REPORTER: Lisa-Marie Janes @SharesMagLisaMJ

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

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

CONTACT US:
support@sharesmagazine.co.uk

All charts' data sourced by Refinitiv unless otherwise stated

PRODUCTION
Head of Design: Darren Rapley
Designer: Matt Ely

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

All Shares material is copyright.

Reproduction in whole or part is not permitted without written permission from the editor.