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SHARES

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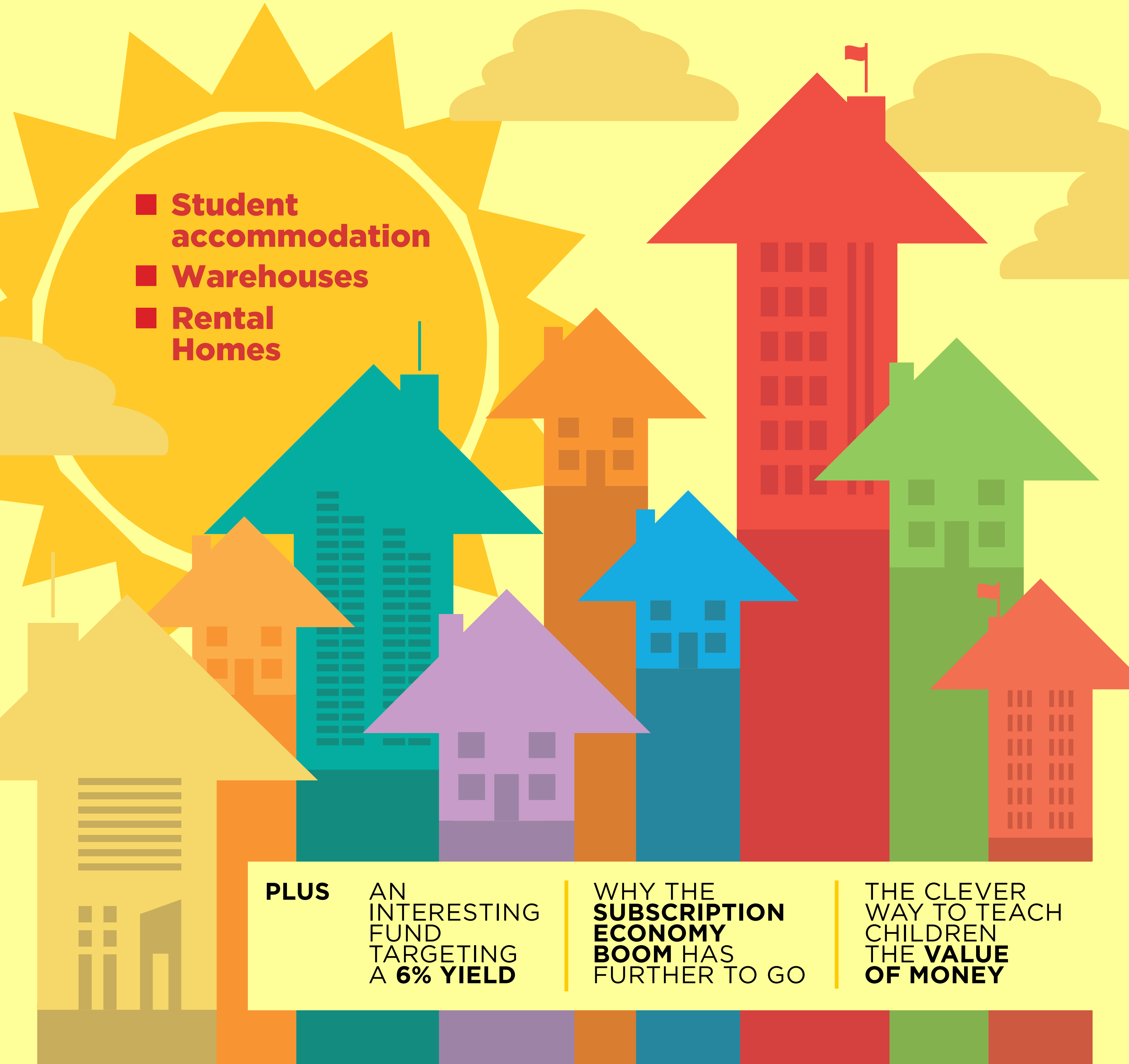

PLUS

AN INTERESTING FUND TARGETING A **6% YIELD**

WHY THE **SUBSCRIPTION ECONOMY BOOM** HAS FURTHER TO GO

THE CLEVER WAY TO TEACH CHILDREN THE **VALUE OF MONEY**

Four simple steps to educating children about saving and spending

Financial education doesn't have to be confined to the classroom

Rising debt levels, struggles with getting on the housing ladder and inflation rising faster than pay reinforces the need for better financial education to help individuals better manage their money.

The education push ultimately needs to start from a young age, so as to engrain a savings habit in individuals and prepare them for the financial pressures of later life.

Financial education isn't a ticket to making you rich. Instead, it is arming you with the skills to a) prepare for tougher times or financial hurdles through saving money; and b) understand how to avoid getting into unnecessary debt, or minimising the severity, by having greater control over your spending.

Simon Woods, chief investment officer at wealth manager Mattioli Woods, believes he has one answer. He uses a savings model with his own children and with clients which dictates how pocket money is spent. A few simple rules can teach children the value of money plus help to develop healthy savings habits.

He says parents or grandparents should stipulate that pocket money is put into four buckets – the percentages are the same whether the child gets £3 a week or £15 a week.

- 10% charity – this might be making a donation to animal protection or an earthquake relief fund.
- 30% something special – such as wanting new roller skates outside of a birthday or Christmas.
- 30% long-term savings – don't specify what the money is for; just communicate that it is for important items when they are older. In reality this might help children with money towards a house deposit when they are an adult, for example.
- 30% 'anything you want' spending – this is money to be used for life's casual pleasures such as a new toy or a magazine. Even then, the child may have to save for a couple of weeks to have enough to pay for the item.

Giving money to charity teaches children the value of helping others who have less than them. The 'something special' bracket could help to educate children about the need to save first, buy later – rather than borrow money to buy now. Hopefully this will make them not want to rely on credit cards or loans when they become an adult.

The long-term savings segment will give them a pot of money for important life events, and also get them used to putting aside cash on a regular basis – which essentially means they have developed a pensions saving habit from an early age.

And the last bit refers to money they can spend as and when they want. A child may spend like crazy at the start, but they could soon appreciate what their money can buy and whether the product or service is worth it. That in turn could lead to more considered purchases in the future.

This plan looks so simple yet with the potential to be highly effective. I'm certainly going to give it a go with my own children. (DC)

Contents

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Why soaring US Treasury yields are driving down stocks around the world

Bearish signal for stock markets while analysts get more nervous

As we write UK stocks have stabilised after a hairy few days prompted by spiralling yields on US Treasury (government bond) yields.

Yields rise when the price of Treasuries is falling. Having exceeded 3% for the first time in four years in May, the yield on 10-year Treasuries hit 3.25% on 9 October, its highest level since 2011.

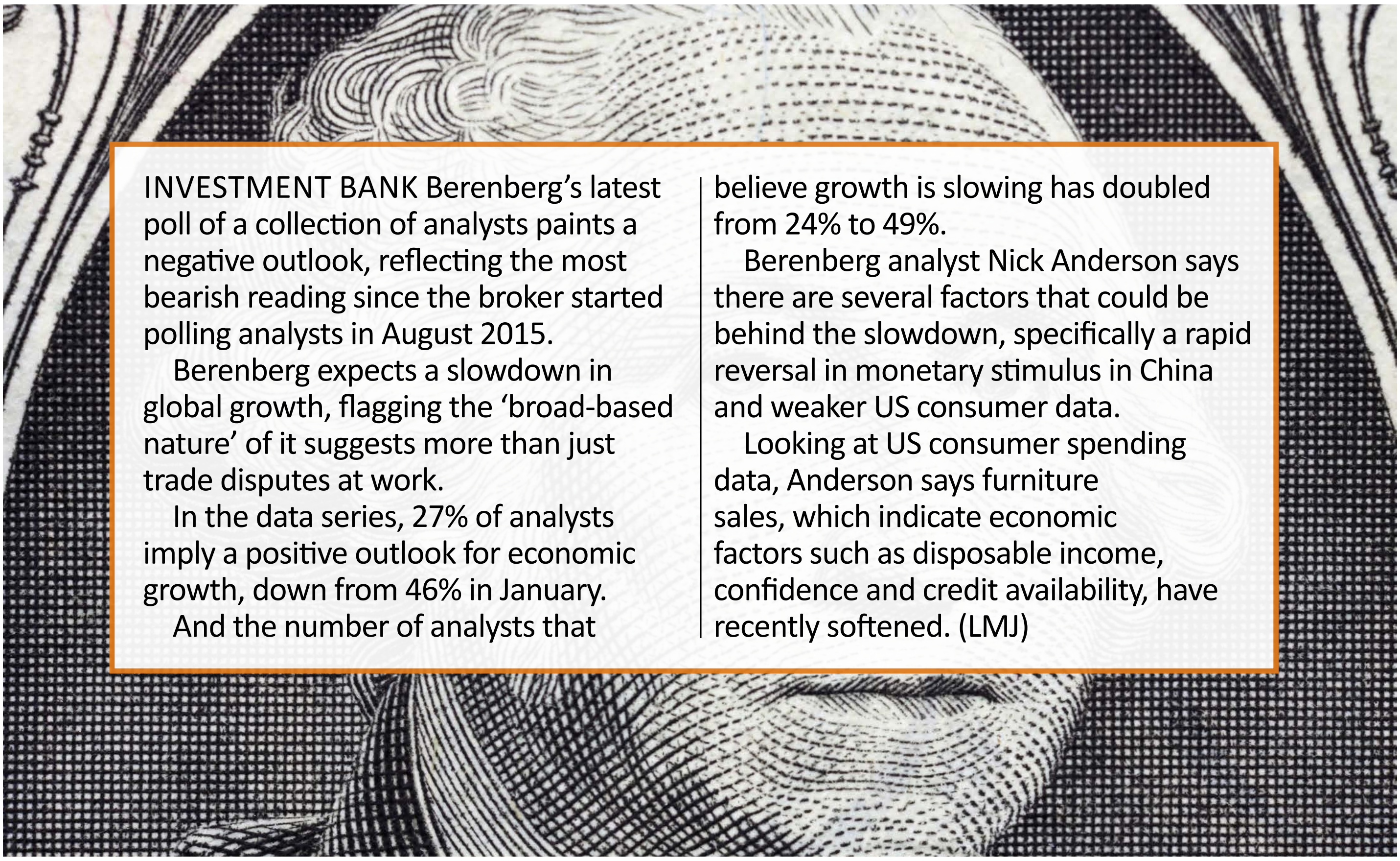
Increased expectations for inflation in a strong US economy have been spooking holders of bonds as rising prices erode the 'real' value of the fixed payments from a bond. This has prompted a sell-off, driving down prices and driving up yields.

The rise in yields also reflects expectations for faster increases in US interest rates; the Federal Reserve increased rates to a range of 2% to 2.25% at the end of September – a level not seen since April 2008.

Rising Treasury yields negatively impact stock markets as the income available from relatively lower risk government debt becomes more attractive than that from higher risk equities.

As they also reflect higher costs of borrowing, they could put pressure on business and consumer spending.

If people are buying fewer products and services or if investment within businesses declines then estimated cash flows for many listed companies will likely fall and this will typically result in lower share prices. (TS)



INVESTMENT BANK Berenberg's latest poll of a collection of analysts paints a negative outlook, reflecting the most bearish reading since the broker started polling analysts in August 2015.

Berenberg expects a slowdown in global growth, flagging the 'broad-based nature' of it suggests more than just trade disputes at work.

In the data series, 27% of analysts imply a positive outlook for economic growth, down from 46% in January.

And the number of analysts that believe growth is slowing has doubled from 24% to 49%.

Berenberg analyst Nick Anderson says there are several factors that could be behind the slowdown, specifically a rapid reversal in monetary stimulus in China and weaker US consumer data.

Looking at US consumer spending data, Anderson says furniture sales, which indicate economic factors such as disposable income, confidence and credit availability, have recently softened. (LMJ)

Weakness in Standard Life shares is not a buying opportunity

Merger with Aberdeen Asset Management yet to deliver the goods

Despite three quarters of the analysts which follow it liking the stock, **Standard Life Aberdeen (SLA)** shares are down more than 30% this year hitting recent lows below 290p.

It certainly hasn't been plain sailing for the venerable Edinburgh firm since its tie-up with Aberdeen Asset Management in 2017 and investors should resist the temptation to see current weakness as a buying opportunity.

In February 2018 the shares slumped 14% after one of Aberdeen's biggest customers, Scottish Widows, terminated a contract on the basis that Standard Life was a material competitor. Widows had £109bn of assets at Aberdeen.

The shares took another tumble in June when **Lloyds Banking (LLOY)**, which owns Scottish Widows, announced that it had dumped its entire stake in SLA.

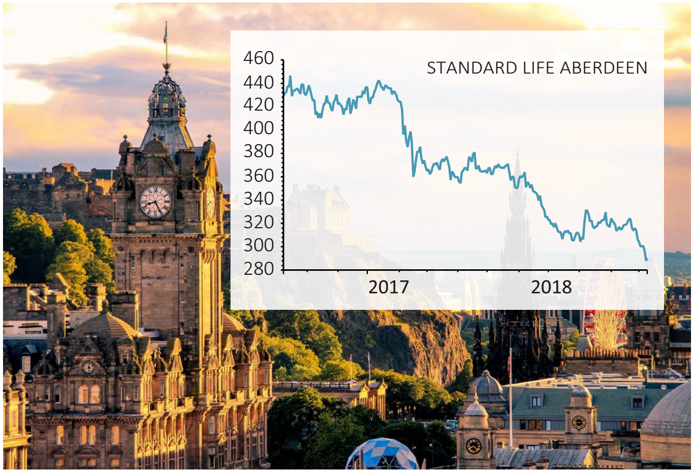
Lloyds is now in talks to merge its wealth management arm into a new joint venture with **Schroders (SDR)** with the latter expected to win the Widows mandate.

Standard Life's assets under management and administration (AUMA) are still above £600bn but first half results showed net outflows of £16.6bn, mostly from higher-margin equity products like **Standard Life Global Absolute Return Strategy (B7K3T22)**. That translated directly into a 7% fall in operating profits.

The GARS fund, seen as a 'hedge fund for the masses', was the biggest in the UK in 2016 with assets of almost £27bn. However due to poor performance and outflows, assets have since dwindled to £17bn.

A RACE TO THE BOTTOM

Standard Life is also caught in a 'race to the bottom' as industry rivals cut fees to try to grab a



bigger share of customer assets.

Firms like Vanguard and Fidelity have offered low-cost index funds for years. Now Fidelity has launched a range of zero-fee index products with the first two funds capturing over $1bn of assets within a month of launching.

Added to these competitive pressures Standard Life's bent towards emerging markets, which have suffered from bearish sentiment all year, hasn't helped its share price.

On the plus side the company is shedding its UK and European insurance businesses as it adopts an 'asset-light' model. That will allow it to return up to £1.75bn of capital or nearly 20% of its current market cap to shareholders.

There is also a renewed focus on costs to try to offset the impact of lower revenues and protect profits, and this looks to be bearing fruit as first half pre-tax profits were up on the previous half.

SHARES SAYS:

Cost-cutting alone is unlikely to turn the share price around. What's really needed is for fund performance to improve and net inflows to turn positive, neither of which look likely to happen in the short term. (IC)

Who is looking to connect with French Connection?

Faded fashion brand has put itself up for sale, sending the shares storming higher

Embattled fashion brand **French Connection (FCCN)** has confirmed media speculation (8 Oct) it is considering strategic options including putting itself up for sale.

As we write the news has sent the shares surging higher to 54p, within sight of 52-week highs.

Founder, chairman and CEO Stephen Marks has reportedly approached bidders to offload his near-42% stake and French Connection is in an offer period; any deal to buy Marks' holding would likely trigger a mandatory offer for the entire enterprise.

Fighting to arrest like-for-like sales declines and battle its way back to profitability amid cut-throat competition, French Connection has long been viewed as a value trap for investors.

A sale of the business could be the required catalyst to unlock this value.

A buyer would have to extricate the retailer from leases and further streamline the brick and mortar estate but there look to be opportunities to expand the wholesale and licencing parts of the business.

Mike Ashley's **Sports Direct International (SPD)** has a 27% stake in French Connection, although it is unclear if Ashley is one of the interested parties.

Last year, French Connection received an unsolicited bid from an unnamed US group, but the suitor ultimately walked away from a deal. (JC)

Retailer QUIZ has questions to answer after major profit warning

Occasion wear specialist's earnings alert has left the stock firmly out of fashion

SHARES IN **QUIZ (QUIZ:AIM)** have collapsed following a profit warning (5 Oct) that triggered sizeable earnings downgrades.

Slipped out at 2.38 p.m. on a Friday afternoon, the fast fashion brand warned of a £1.5m first half EBITDA (earnings before interest, tax, depreciation and amortisation) shortfall and materially downgraded full year sales and profit expectations.

Glasgow-based QUIZ's profit warning reflects an unforeseen slump in sales from third party platforms, namely **Next (NXT)** and Zalando, and a poor September in its stores and concessions as footfall softened.

More predictable was the poor showing from concessions with embattled **Debenhams (DEB)** and House of Fraser.

Encouragingly, *TOWIE* ranges have been well-received, QUIZ is seeing very strong growth through its own websites, which carry higher margins, and the brand is growing internationally.

'We still believe QUIZ is a good, progressive brand with a loyal following but clearly this is a backward step and the shares will likely tread water until the growth profile starts to reappear,' laments stockbroker Peel Hunt. (JC)

Watch out for storm hit at Beazley and Hiscox after Lancashire warning

Big losses for insurers in store from Hurricane Florence and Typhoon Jebi

Storm-related losses at non-life insurer **Lancashire Holdings (LRE)** have a negative read-across for rivals **Beazley (BEZ)** and **Hiscox (HSX)**.

Shares in Lancashire lost 10% of their value after the company warned of hefty third-quarter losses due to weather-related and marine losses (8 Oct).

Even with re-insurance recoveries, losses from storm damage are seen at between $25m and $45m while losses in its marine portfolio are expected to reach $30m.

Before these losses Lancashire would have returned a profit last quarter but it also cautions that actual losses may vary from its estimates as the final settlement of all claims will take a considerable time.

Market estimates of total insured losses from Hurricane Florence, which hit the east coast of America last month, are seen anywhere between

$3bn and $5bn.

Losses from Typhoon Jebi, the strongest storm to hit Japan in 25 years, are estimated at up to $5.5bn.

Beazley is also likely to reveal a hit when it next gives guidance on 8 November although it should be more modest according to analysts at investment bank Berenberg.

Hiscox, which updates on trading on 6 November, is more diversified away from catastrophe insurance and its earnings are larger so a similar hit to Lancashire would have less of an impact. (IC)

Packaging sell-off 'way overdone', insist analysts

Structural growth in the online shopping industry remains a key driver of stock re-ratings

ANALYSTS HAVE launched a robust defence of the European packaging suppliers after a steep decline in the three key London-quoted stocks. Analysts at stockbroker Davy called the sector sell-off 'way overdone.'

DS Smith (SMDS), **Smurfit Kappa (SKG)** and **Mondi (MNDI)**, the largest of the three London-listed packagers, have all posted double-digit share price declines since the summer. Reported weakening prices for containerboard is widely seen as the cause.

Containerboard is the corrugated cardboard wrapping used by Amazon and thousands of other online retailers to protect packages sent out to customers.

But Davy's own channel checks suggest that any pricing dips have been short-term and, as we head towards the vital Christmas sales bonanza, are likely to reverse.

'If anything, the sector should have re-rated to reflect the improvement in longer-term growth dynamics driven by these structural factors [online shopping] as well as the positive earnings momentum that is likely to continue well into 2019,' says Davy's Barry Dixon and Flor O'Donoghue. (SF)

Act now! Market sell-off offers superb chance to buy Accesso for a discount

Buck the risk-off markets theme with this outstanding growth story

ACCESSO ↗ BUY
(ACSO:AIM) £23.60
Stop loss: £18.80

Market cap: £639m

Since positive half year results in September **Accesso Technology's (ACSO:AIM)** share price has plunged more than 20%. This is potentially great for new investors because it means you can now buy the same business and growth opportunity for 20%-plus cheaper than you could last month.

The obvious question to ponder is whether the sell-off implies something uglier to come? Our own digging suggests not. We attribute the share price performance to nothing more than a global markets sell-off as the market mood changes. Our view is long-term and these sell-offs can be good times to pick up decent stocks.

Accesso isn't alone in terms of recent share price declines for popular AIM Stocks. For example, **Fevertree (FEVR:AIM)**, **Blue Prism (PRSM:AIM)** and **GB Group (GBG:AIM)** have all taken a hit in recent weeks.

Accesso is an attractions and queuing solutions supplier. Over the years it has created an integrated platform for everything from buying tickets, queue-busting, merchandise purchasing and more.

Clients include Alton Towers operator **Merlin (MERL)** and Six Flags and it has emerging opportunities across Latin America, the Middle and Far East, including China.

Multiple vertical markets are also being explored, such as sporting events, music concerts, ski resorts, museums and theatres.

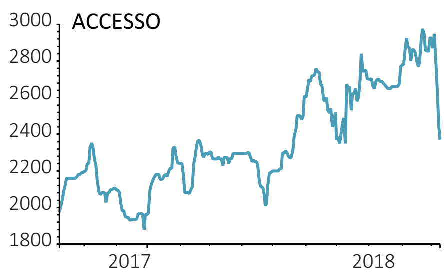
We believe Accesso has scope to expand in many ways. There are thousands of theme and water parks, tourist attractions and other high footfall visitor sites around the world that could potentially benefit from the company's integrated visitor 'experience' solutions.

There is also an extra growth leg emerging in health via a development agreement with Henry Ford Health System.

Accesso is a business that has been ticking growth investors' boxes for years. Since 2012 it has seen revenue soar from $46m to $133.4m, including last year's (2017) 30% jump, and has an equally impressive record on profits. It has been free cash flow positive in every one of those years.

Future revenues will be impacted by new accounting rules, which change both how and when income is recognised. This does not change the underlying growth dynamics of the business and it will make little difference to profit and earnings going forward, which implies better margins.

Analysts expect operating profit of around $42m in 2020. It is forecast to report $25m or $26m this year, implying a 2018 price to earnings (PE) multiple of about 40. That's high, yet if forecasts are to be believed, the forward PE could be slashed rapidly to about 22-times over the next 12 to 15 months. (SF)



Be brave and snap up Clinigen while its shares are weak

The pharma company boasts upbeat prospects despite temporary setbacks

Recent share price weakness in speciality pharma firm **Clinigen (CLIN:AIM)** presents an attractive entry point for a business expected to deliver significant profit growth in the coming years.

Stockbroker N+1 Singer forecasts it will grow pre-tax profit from £69m in the year to June 2018 to £124m over the next three years.

While one of Clinigens's recent acquisitions looks very expensive, the future rewards could be significant as Clinigen now has a stronger position in Europe and 'the pieces are now coming together to create a true global platform' says N+1 Singer contributing analyst Chris Glasper.

WHAT DOES IT DO?

Clinigen sends pharmaceutical products to hospitals around the world for patients with a high unmet medical need. It works with pharma businesses to make their drugs available for a volume-based fee or sales margin, or acquires and revitalises drugs so they can be applied to different markets than historically.

In the past financial year, the sale of unlicensed medicines comprised 45% of group profit while 44% was generated via licensed drugs. The rest came from its Clinical Trial Services (CTS) arm where Clinigen acquires drugs that will be used in clinical trials on behalf of pharmaceutical companies.

CLINIGEN ↗ BUY
(CLIN:AIM) 865p
Stop loss: 692p

Market cap: £1.14bn

WHY HAVE THE SHARES BEEN WEAK?

Over the last year, shares in Clinigen have fallen from a one-year high of £11.77 last October to 865p. The sell-off was triggered by half-year results in February following a 'significant divergence' in divisional performance, according to investment bank Berenberg.

While its Commercial Medicines arm smashed forecasts of 15% growth with a 37% surge in profit, both unlicensed medicines and CTS missed expectations. The performance of unlicensed medicines has since reversed but the trend in CTS has continued.

It is important to recognise that CTS only contributes a small amount of overall profitability. Clinigen also made a management change in March to address underperformance of CTS and better position it in the US and drive future development globally.

Another share price sell-off happened in late September when Clinigen raised £80m to help buy packaging and distribution services specialist CSM. The acquisition price looks a bit rich in our view at approximately 15 times earnings before interest, tax, depreciation and amortisation (EBITDA). However, strategically it looks important to Clinigen's desire to expand geographically.

It is now the job of the management to deliver on earnings expectations, or hopefully smash them, in order to win back the market's favour. This is a high-risk investment given current weak market sentiment, yet we believe anyone taking the plunge could see handsome rewards in time. (LMJ)

UNILEVER
(ULVR) £40.31

Loss to date: 5.2%

Original entry point:
Buy at £42.53, 2 November 2017

OUR LATE 2017 'buy' call on packaged consumer goods giant **Unilever (ULVR)** may be slightly in the red, but we're sticking with the high-quality business.

In a seismic development, the board at the *Persil*, *PG Tips*, *Marmite* and *Magnum* maker has capitulated to shareholder pressure and scrapped its plan to shift Unilever's headquarters to the Netherlands.

This means Unilever is going to stay in FTSE 100, although the board's reputation has arguably been damaged by the episode.

The blue chip company is a unique asset, a compounding star turn offering exposure to emerging markets.

Boasting an enviable portfolio of brands, deep entrenchment in the supply chains of its retailers is the source of Unilever's wide economic moat and the company has reasonably predictable earnings.

Strong cash flows have enabled Unilever to consistently grow its dividend in real terms for decades and the shareholder reward is being supplemented by share buybacks.

SHARES SAYS:
A quality corporate colossus worth clasping tight, we're delighted Unilever has seen sense and decided not to 'go dutch'. (JC)

SOPHEON
(SPE:AIM) 990p

Gain to date: 6.5%

Original entry point:
Buy at 930p, 13 September 2018

IT IS EARLY DAYS with our current *Great Idea* on **Sopheon (SPE:AIM)** so investors would be wise to resist getting too carried away with this week's upbeat trading update. That said; the business is developing quite the reputation for beating forecasts, a habit that goes back at least a couple of years.

Management are clearly being very careful about how investor expectations are handled, which is a good sign.

Innovation and product lifecycle software provider Sopheon now expects 2018 full year numbers to come in ahead of market expectations.

That prompted stockbroker FinnCap to raise its revenue estimates for this year from $31m to $32.5m and lift earnings before interest, tax, depreciation and amortisation (EBITDA) forecasts 5% higher to $8m.

What's really interesting is that the third quarter is usually the quiet period before the fourth quarter storm. This suggests to us that perhaps some new business has been done early although we certainly couldn't rule out future positive surprises.

SHARES SAYS:
We remain upbeat about the stock's prospects. Keep buying. (SF)

AVIVA
(AV.) 467.9p

Loss to date: 8.3%
Original entry price:
Buy at 510.5p, 14 December 2017

THE PLANNED DEPARTURE of chief executive Mark Wilson next April could help **Aviva (AV.)** take the step from rehabilitation to accelerated growth and support a share price which has drifted since we added the company to the *Great Ideas* portfolio towards the end of 2017.

After a period in the doldrums at the beginning of this decade, the insurance firm has been simplified under Wilson's leadership and both the financial performance and balance sheet have been drastically improved.

However, it is notable that the company has underperformed its rivals under Wilson in share price terms, up 27% since he took over in January 2013 compared with a 94% advance for **Prudential (PRU)** and a 78% rise for **Legal & General (LGEN)** over the same period.

Wilson will leave in six months' time to ensure an orderly succession. Non-executive chairman Adrian Montague will take up executive responsibilities aided by a committee of senior directors.

Shore Capital analyst Paul De'Ath says: 'The key question is whether Mr Wilson's replacement will come from outside the group or perhaps could be one of the three existing executive directors. As was seen with Mr Wilson himself, an external CEO is likely to bring a much greater change in strategy and direction for the group.'

SHARES SAYS: ↗
We remain positive on Aviva. (TS)

THARISA
(THS) 100p

Loss to date: 0.5%
Original entry point:
Buy at 100.5p, 7 December 2017

SOUTH AFRICAN CHROME and platinum miner **Tharisa (THS)** was caught up in the summer sell-off in commodity producers amid weaker metal prices and volatile currency rates. However, the shares have more recently started to claw back lost territory.

The fourth quarter production figures on 8 October were slightly below expectations yet full-year targets were met thanks to better than expected recovery rates.

A deal to buy 90% of Zimbabwe-based chrome miner Salene has been restructured to an option agreement to buy the business only if initial exploration is satisfactory.

Tharisa's investment case remains the same as when we said to buy the shares nearly a year ago. This is a low-cost producer trading on a cheap rating with the potential to churn out masses of cash. A lot of time is spent on improving operational efficiency which should provide a further boost to earnings over the longer-term.

SHARES SAYS: ↗
Investors shouldn't get spooked by the ups and downs of commodity prices. If you're going to invest in a mining stock, make sure you back a low-cost producer which can survive in more difficult times. Tharisa certainly ticks the right boxes. Keep buying. (DC)

AB DYNAMICS

(ABDP:AIM) £14.00

Gain to date: 49%

Original entry point:

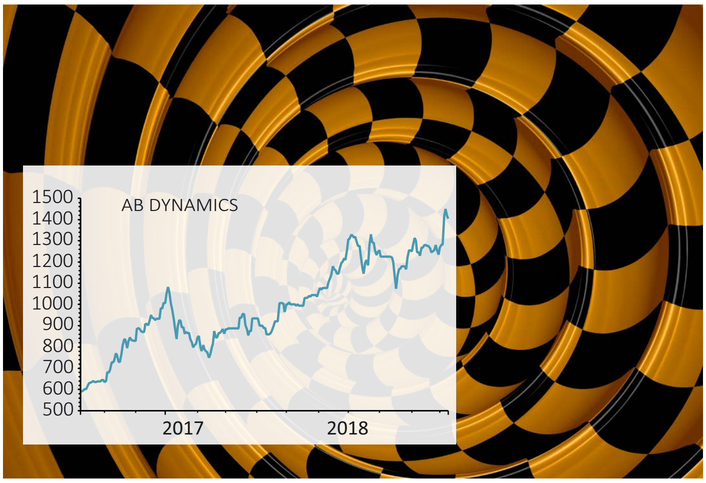
Buy at 937.5p, 21 December 2017

A VERY IMPRESSIVE trading update on 4 October has given another lift to **AB Dynamics (ABDP:AIM)**, one of our top picks of the year.

The automotive testing expert says revenue and pre-tax profit for the year to 31 August 2018 has 'significantly' exceeded previous market forecasts. We'll get a better idea of the numbers when the results are published on 14 November.

That event will also be the first chance to hear from new chief executive James Routh who started on 1 October, although it may be too early for him to comment on any big strategic plans.

'We think that the group is likely to have seen strength across a number of global geographies with commensurate levels of sales and deliveries in the ADAS targets and steering robot businesses,' says Gareth Evans, an analyst at Progressive Equity Research.



SHARES SAYS: ↗

AB Dynamics is one of those companies which just keeps delivering the goods. It is one of our favourite stocks in the small cap universe and we believe the shares are still worth buying, even after this year's impressive rise. (DC)

Best of new boom in subscriptions economy is yet to come

We explain why this old-hat model is getting a new lease of life and how this can benefit investors

The subscription business model is booming and could be considerably bigger in the coming years, so investors need to sit up and take notice.

We tend to think of subscriptions in terms of newspapers, magazines, gym memberships and pay-TV services. You could argue that utility bills and mobile phone contracts are also types of subscription even though they are deemed as non-discretionary spending.

Business-to-consumer subscription businesses attracted more than 11m subscribers in the US in 2017, according to *Harvard Business Review*, and the industry as a whole has been growing at 200% annually since 2011. There are now thousands of consumer-focused subscription businesses tailoring products and services to the diverse requirements and preferences of millions of customers.

To give you a sense of the scale, Netflix has more than 130m people worldwide paying monthly fees to access its vast and often exclusive library of TV and film content. **Sky (SKY)**, about to be taken over by US media giant Comcast,

has something like 8m UK subscribers.

Amazon reported having more than 100m people signed up to its *Prime* service at the start of this year, which gives users access to its own exclusive TV and film content and next-day delivery on thousands of items purchased through its online store.

Supermarkets are trying to get in on the game such as encouraging customers to sign up for monthly or annual delivery plans to lower the cost of home deliveries.

It is not just consumers either; increasingly businesses are buying goods or services via subscriptions, most typically seen via software-as-a-service (also known as SaaS).

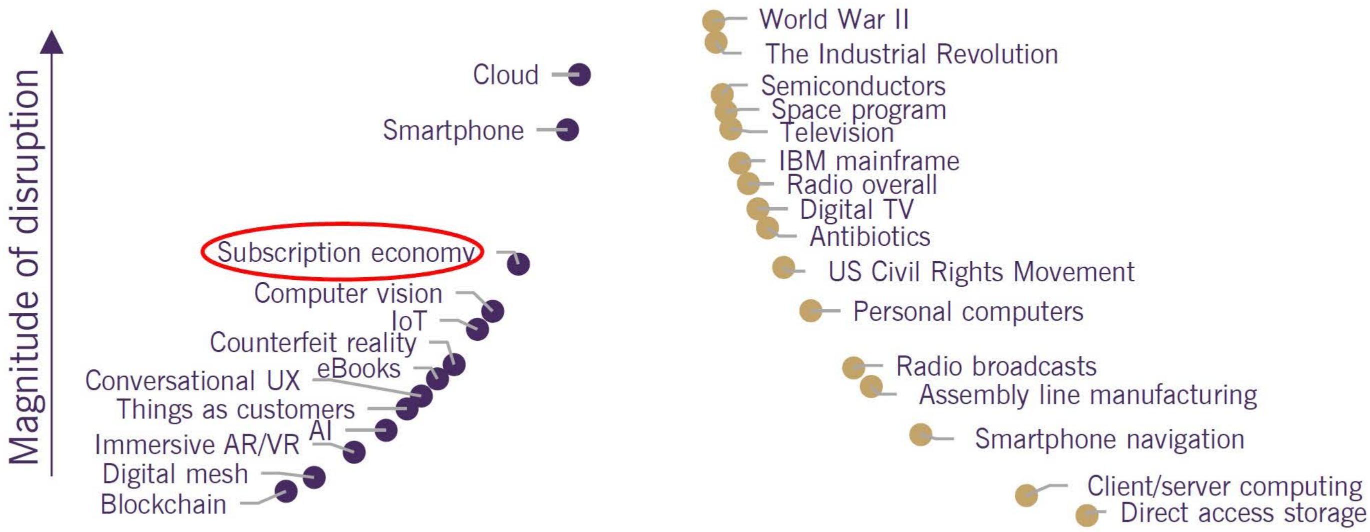
BIGGER THAN ARTIFICIAL INTELLIGENCE

While the subscription model is hardly new, the ability to embrace the internet means we may be at the early stages of something far more transformational.

It could be more disruptive even than the adoption of personal computers in the 1980s and 1990s, or artificial intelligence and the connected world of the internet of things (IoT) that grab so many headlines today, according to analysts at Gartner.

According to the market researcher, transformational disruptor subscription models are 'renovating existing markets, generating large-scale societal effects, aggregating capabilities,

GARTNER DISRUPTION SCALE 2018



and enhancing existing or creating new business models.'

The underlying premise is that almost anything could eventually be sold on an as-a-service basis.

For example, think about transport-as-a-service, where we are starting to see car sharing schemes as a real alternative to owning a car yourself. It might even be healthcare-as-a-service, data-as-a-service or a thousand other 'as-a-service' subscription options.

If it can work for Harry's with razor blades and shaving cream, it can probably work for anything.

THE INVESTMENT APPEAL

Subscription models go down well with investors because of their repeatable and predictable income streams which are normally referred to as recurring revenue.

Customers build up familiarity with a service and can often be psychologically reluctant to move to another provider. In some cases, a subscription service can become so embedded in an end user's own operating model that it becomes almost impossible to switch away.

There's also the promise of networking effects, where a service becomes more valuable to users as overall users grow. Facebook is perhaps the best example of this situation in that the more of your friends and family use the platform, the more you are likely to use it to socialise with them.

Analysts at stockbroker Peel Hunt says subscriptions also end up as customer retention tools too, in that if the subscriber cancels, they stop getting the service. Equally important is what service providers can learn about their customers, gaining valuable usage insight on which extra or premium services might be sold.

This last point is really important when it comes to understanding the future profitability potential of a subscription business.

Market research commissioned by cloud computing business Zuora last year suggests that something like 70% of subscription businesses prioritise

THE DIFFERENCES FOR THE CUSTOMER AND DEVELOPER

	One-time fee	Subscription
Customer	✓ Pay once and forget	✓ Low upfront cost
	✓ Transparent	✓ Spread out over lifetime
	X High cost upfront	X Hard to keep track of cost
	X Often needs to pay for major releases	X Eventually more expensive
Developer	✓ Easier to sell	✓ Steady income to support development
	✓ Cash upfront	✓ Easier to charge higher rates
	X Can't support developement	X Hard to ask customers to sign up
	X Harder to sell incremental services	X No incremental revenue for updates

Source: Peel Hunt

a customer land grab, with little effort put into customer retention (circa 20%) or upselling existing users (10%) and increasing annual revenue per user, or ARPU as it is known.

This is at odds with research findings that show upselling additional services to the existing subscriber base is, by far, the most effective way to generate extra revenue.

With no customer acquisition costs (you already have them) subscription models can deliver what Peel Hunt calls 'add-on creep'. This means pushing incremental features or products, perhaps for free at first, and then slowly turn subscription taps later on.

It also has advantages for buyers, making relatively small payments on a regular basis rather than in a large upfront chunk. That takes a lot of pressure off a user's own cash flow, moving the purchase from capital cost into everyday operating expenses.

Putting that situation into an everyday context, a Netflix subscription of £7.99 a month will seem to many ordinary people as incidental – it is effectively the same price as a cheap cinema ticket or a pie and a pint.

But how different would you feel being asked to cough up nearly £100 upfront? Most of us get paid monthly and £7.99 is easier to manage than £100 gone in month one.

It's not a one-way street; there is the cost of attracting new customers to think about (marketing cost, for example), customer churn (users that drop a service) and other factors.

But it is not really surprising that some of the UK market's most highly-rated businesses are, at least in part, on this subscriptions 'as-a-service' curve. Think **Rightmove (RMV)**, **Auto Trader (AUTO)** or cyber security specialist **Sophos (SOPH)**, for example.

Even **Rolls-Royce (RR.)** sells many of its plane engines at little better than cost to milk the 'servicing-as-a-service' profits stream for many years into the future.

As Zuora founder and former Salesforce executive Tien Tzuo puts it, companies like Netflix, Spotify and Salesforce are just the tip of the iceberg for the subscription model. 'The real transformation, and the real opportunity, is just beginning.' (SF)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The value of your investments can go down as well as up and you may get back less than you originally invested. We don't offer advice, so it's important you understand the risks, if you're unsure please consult a suitably qualified financial adviser. You should check with your current provider that you won't lose any guaranteed benefits before you transfer a pension.

What will Chancellor Hammond pull out of his red box on 29 October?

We look at how savers and investors could be affected by the forthcoming Budget


Philip Hammond. Photo: Chris McAndrew

Embattled Chancellor Philip Hammond has already dropped one surprise by announcing an earlier-than-expected Budget on Monday 29 October. In doing so he has broken with the tradition of holding the economic set-piece on a Wednesday, immediately after Prime Minister's questions.

As always the event will be a must-watch for savers and investors. That is particularly the case after Hammond effectively scrapped the Spring Statement, making October's event his only opportunity in the financial year to announce major tax and spending changes.

The economic and political backdrop is challenging. Uncertainty over Brexit hangs over Whitehall like a foreboding mist in a gothic Victorian horror, while the Treasury must find somewhere in the region of £20bn to meet a funding promise for the NHS.

In the midst of all this noise, what major changes should you expect when the Chancellor opens his famous red briefcase in just under three weeks' time?

PENSION TAX RELIEF

Rarely does a Budget go by without rumours that pension tax relief for higher earners could be set for the chop.

Under the current system tax relief is granted at your marginal rate, meaning higher and additional-rate taxpayers get a bigger upfront savings bonus than basic-rate taxpayers.

Some campaigners want to see this system overhauled, either through the introduction of a flat rate of tax relief set at somewhere near 30% or the abolition of higher-rate relief altogether. Others have called for the tax-free lump sum – currently 25% – to be capped.

Given pension tax relief costs the Exchequer around £25bn a year (when income tax received on pension withdrawals is taken into account), it would be naïve to think the Treasury isn't considering changes to raise short-term cash.

However, a fundamental overhaul seems unlikely in the current political climate. Furthermore, attacking the tax-free lump sum would be extremely unpopular among core Tory voters.

Instead, the Chancellor might look to raise funds by reducing the annual tax-free allowance – which currently sits at £40,000 for anyone who hasn't accessed their pension flexibly – or lowering the point at which the annual allowance 'taper' kicks in.

At the moment those with

an 'adjusted income' above £150,000 could see their annual allowance fall as low as £10,000.

Alternatively, the Chancellor could restrict 'carry forward' rules which currently allow savers to utilise up to three years of unused annual allowances in the current tax year – potentially generating an annual allowance of £160,000 if used to the maximum.

In the meantime, if you were planning to top up your pension this tax year anyway, it makes sense to do so before the Budget to make sure you maximise the incentives on offer.

DEATH BENEFITS

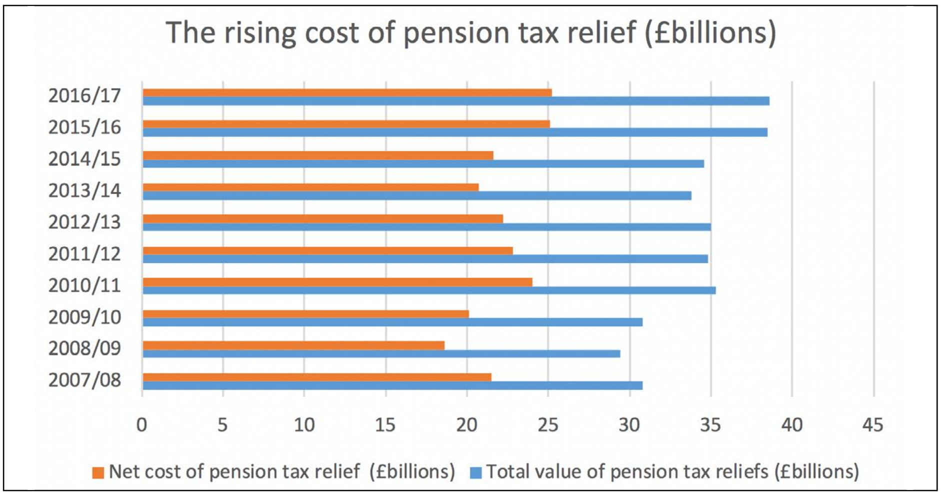
It's not just payments into your pension that benefit from generous tax treatment at the moment. Anyone with a pension who dies before age 75 is able to pass on their entire unused fund to loved ones without the recipient(s) paying income tax – provided the money is transferred to their beneficiary (or beneficiaries) within two years of them dying.

If someone dies after their 75th birthday, tax is charged at the beneficiary's marginal rate of income tax.

This regime was introduced alongside the pension freedoms reforms in April 2015, and replaced previous rules which meant pensions could be hit with a 55% tax charge on death. Given the fiscal pressures currently facing the Chancellor, it would not be surprising to see this come under review.

TAKING YOUR TAX-FREE CASH

A potential technical tweak at the Budget may involve the decisions you are required to take when accessing your 25% tax-free lump sum.



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

Under existing rules anyone who wants to take a lump sum from a defined contribution pension must first 'designate' how they want to take an income from it. This could be through the purchase of an annuity providing a guaranteed income for life, or taking a flexible income through drawdown.

A third option, known in the jargon as UFPLS, allows you to take chunks of your money out and receive 25% of each chunk tax-free.

The Financial Conduct Authority (FCA), the City regulator, has recommended the Treasury review its rules and consider 'decoupling' tax-free cash. If introduced, this would simply mean you could take your tax-free cash from your scheme without making a decision about how you want to take your income.

It is possible that none of these things will happen – or the Chancellor could pull an entirely different rabbit from his hat. Whatever happens on 29 October, we'll ensure you stay fully informed on how it will impact you both today and into the future.

Tom Selby, senior analyst, AJ Bell

Make hundreds of pounds from your friends

How to get more from banking, investing and even your TV provider

Thanks to lucrative offers from a number of businesses you can now make hundreds – or even thousands – of pounds just by referring friends to sign up to services and companies. These 'recommend a friend' schemes often give both the referrer and the friend money off, vouchers or cash.

Here we round up the best on offer at the moment. If you have been recommended a service you should always check it's the cheapest and best provider for you, even with the referral bonus, otherwise you could end up paying more in the long term.

BANKING, MORTGAGES AND INVESTING

Nationwide customers who recommend a friend can make £100 for themselves, with their friend getting £100 too. This is one of the more generous schemes, and you can recommend up to five friends in a year – making up to £500.

You're eligible as long as you have a current account, mortgage or savings account with Nationwide, and the friend will need to switch their current account to a FlexAccount, FlexPlus or FlexDirect account, including transferring two direct debits.

The friend must use the current account switch service, which means their old current account will be closed. If all the criteria are met there is no waiting time before you both get your cash.

Free finance app **Chip** doesn't offer money for signing up friends, but instead the ability to boost the interest rate you earn on your savings. The app connects to your bank account and looks at how you spend, and then automatically saves money for you each month – by moving it from your current account to your Chip account.

You earn 0% on the money in your Chip account unless you recommend a friend, upon which the rate you earn is boosted by 1 percentage point for each friend recommendation. You can increase your rate to 5% by recommending a maximum of five friends. Each recommend (and so 1 percentage point boost to your interest rate) lasts for a year.

You can earn £50 with peer-to-peer lender **Zopa**. Both you and the friend get £50 if you recommend they sign up, and to be eligible they need to deposit £2,000. There's no limit on the number of recommends.

Online mortgage broker **Habito** offers £100 cash to both you and a friend when you refer someone. You must be a registered user of Habito in order to generate a referral link. You'll both get your £100 once your friend completes their mortgage application. The reward is unlimited, so you can recommend as many people as you like.

AJ Bell Youinvest offers £100 to anyone who recommends a friend to sign up to the investment platform. The friend must be new to AJ Bell Youinvest and open a self-invested personal pension (SIPP) or ISA account with £10,000 or more. You can recommend an unlimited number of people, so there's no cap on how much you can earn.

ENERGY SUPPLIERS

Smaller, less-well-known energy companies often offer decent bonuses for recommending a friend as they seek to attract more customers. Currently small green-energy provider **Bulb** is offering £50 to both you and a friend when you refer them. Crucially, this referral bonus is uncapped, so you potentially earn hundreds – Bulb even claims one customer has made more than £100,000 from referring new customers.

OVO Energy offers a similar deal, but will give you and your friend £25 each if you

recommend they sign up. Rather than being cash, the money comes in your choice of M&S, John Lewis or Amazon gift cards. **First Utility** pays a more generous £50 each to both the referrer and the friend, and you can pick between Amazon, John Lewis and Tesco vouchers.

TV AND ENTERTAINMENT

Sky offers one of the most generous referral schemes in the entertainment space – with you and a friend getting a £100 Majestic Wine gift card when they sign up.

You need to send your friend a referral code and once their first month's bill has been paid you will be sent your gift card. The friend must subscribe to Sky TV, with a minimum cost of £20 a month, and live at a different UK address to you to be eligible. There's no limit on the number of friends you can refer.

Virgin Media is less generous but you get a different reward rather than a gift card. It will give both you and a friend £50 each off your bill when you refer someone. It's not open to Virgin Mobile customers.

Your friend must not have been a Virgin Media customer in the past six months, and must sign up to at least a 12-month broadband, TV or home phone contract. You can make up to 25 referrals in any 30-day period.

Both **Three Mobile** and **BT Mobile** offer a £25 Amazon gift card for both you and your friend when they sign up. With Three they must sign up to a 12-month SIM-only plan or a 24-month Pay Monthly plan. In a unique twist, you don't actually have to be a Three customer to refer a friend, you just sign up to their referral programme online.

> **You don't have to be a Three customer to refer a friend, you just sign up to their referral programme online**

With BT you do need to be a customer to recommend someone, and they can be an existing BT customer, as long as they don't have a BT Mobile account.

Online shopping service **Ocado** has a referral scheme where you and your friend each get £20 off an £80 shop when they sign up. They also get free deliveries for a year as part of the deal. You'll only get the voucher after they have had their first order delivered and your friend must have a different email address and delivery address to you.

Laura Suter,
personal finance analyst,
AJ Bell

WHY YOU SHOULD CONSIDER EMERGING MARKETS FOR THE LONG TERM TODAY

The term "emerging markets" is used to describe developing economies across the world. These include some of the most populous nations, such as China, India, Brazil and Russia as well as smaller countries including Mexico, South Africa and Saudi Arabia.

These fast-growing regions are driving global growth at present and look set to be the leading economic powerhouses of tomorrow. Meaning today's investors should not overlook emerging markets.

These countries may be diverse yet they typically exhibit attractive demographics and a growing "middle class" which are the key drivers behind their economic growth.

The figures speak for themselves. According to **J.P. Morgan Asset Management**, emerging GDP in emerging markets is estimated to be 4.5 per cent in 2018; this compares to just 1.75pc in the US and 1.25pc in the UK.[1]

These are materially important markets which allow investors to diversify their portfolios and access more sustainable, long-term growth opportunities versus developed markets peers.

WHY INVEST IN EMERGING MARKETS NOW?

Emerging markets have matured in recent years and now offer a different investment environment to that of the 1990s and early 2000s.

Political and economic reforms have helped build stronger and more stable economies, with larger reserves and far less debt.

A more mature corporate market is reflected in the fact that far more companies in these regions now share profits with investors via dividends payments. Emerging markets today have outperformed many European and US markets, where growth has slowed in recent years. Valuations are also looking attractive relative to long-term averages, as short-term market movements mean that share prices and markets have had a challenging period in 2018 but fundamentals remain compelling.

MANAGING EMERGING MARKET RISKS

This is not to say that investing in emerging markets is not without risk.

One of the inherent challenges in these markets is dealing with volatility. Share prices, as well as currency valuations, can be subject to more sudden price movements, particularly when compared to developed markets.

Recent newspaper headlines concerning the economic problems in Argentina and Turkey certainly serve to highlight such short-term risks.

For investors, the key is to focus on the longer-term structural story, typically driven by the EM consumer. Volatility may present short-term challenges but it can also offer longer-term investment opportunities and the ability to buy into weakness.

This emphasizes the importance

of working with emerging market specialists, who have on-the-ground experience and in-depth knowledge of these markets, to enable them to make longer-term appraisals and not be side tracked by short-term noise.

THE IMPORTANCE OF SPECIALIST KNOWLEDGE

J.P. Morgan Asset Management takes a very active approach to emerging market investments. It takes what is known as a "bottom-up" approach: looking at the growth potential of specific companies rather than simply taking a view on individual countries.

This, it believes, is a sound way to deliver value to investors over the longer-term, by differentiating winners from losers

Investment trusts are ideally suited to facilitate this longer term approach. The fact that these are closed-end funds means that managers are not forced to sell stock in times of market turbulence to fund redemptions.

Austin Forey, Fund Manager of the **JPMorgan Emerging Markets Investment Trust** says this long-term strategy is reflected in the company's stock choice. Its investment philosophy is to choose profitable companies rather than successful countries, in other words to focus on micro not macro.

He says: "We have a bias towards companies with sustainable competitive advantages, consistent cash-flow generation and strong management teams."

"The portfolio continues to be positioned to benefit from the secular growth in emerging market consumption, including increasing penetration of financial products in under-banked markets."

This includes long-term investments in HDFC and IndusInd, two private Indian banks that continue to capture market share.

The Company has recently added a holding in MercardoLibre, the largest e-commerce company in Latin America . Given that UK consumers spend around 19pc of their income online but only 3pc in Brazil, Austin says such companies offer huge potential.[2]

He adds: "This approach has worked well for the portfolio over the long term and the team remains confident that this is the right strategy to pursue in current market conditions."

For more information on the **JPMorgan Emerging Markets Investment Trust** visit jpmorgan.co.uk/jmg

[1]2018 Long-Term Capital Markets Assumptions Paper, J.P. Morgan Asset Management
[2]The companies above are shown for illustrative purposes only. Their inclusion should not be interpreted as a recommendation to buy or sell

The SMARTER WAY to play the property market

Forget housebuilders and estate agents, we've spotted a better way to obtain exposure to bricks and mortar

They say an Englishman's home is his castle and plenty of investors like the idea of retreating to the safety of bricks and mortar and pulling up the drawbridge during spells of market volatility.

In this article we examine why it's not necessarily that simple, plus we look at some smarter ways to invest in the property market.

We highlight two property stocks which operate in attractive niches and a third one headed to the stock market which looks an interesting story.

THE CASE FOR PROPERTY

There are several reasons why investors might consider property as part of a diversified portfolio. First of all, as a physical asset class it is relatively uncorrelated with stocks and shares or bonds and so offers genuine diversification in terms of return.

Real estate offers the prospect of yield (from rental income) alongside capital gain; property stocks are typically valued using their yield and net asset value.

For investors with limited capital, investing directly in property is tricky. Your own home should certainly not be considered an investment in the traditional sense though you do have the option of investing in, for example, a holiday home abroad or flat or house to rent in the UK.

It is worth remembering that most of us will be 'overweight' residential property in our portfolios, either through circumstance or through choice.

HOW TO INVEST

Companies on the stock market, investment trusts and funds can provide exposure to the property market via construction firms, housebuilders, property developers and landlords of commercial property.

Holding shares in a property developer may not have the same effect as owning a house, but these companies should generate higher profits when house prices rise, which in turn should deliver higher dividends and capital growth.

Real estate investment trusts (REITs) are a relatively recent innovation, having been introduced in 2007. The government has allowed these companies, which face extra regulation, a tax regime that almost replicates the situation you would face if holding property directly. They have become a very popular way for investors to gain exposure to property.

The core business of REITs is protected from corporation tax, allowing the distribution of rent payments from their tenants to flow straight through to your dividend without being hit by extra levies. In theory a REIT should provide good levels of income as they are forced to pay out 90% of the profits from their core business within one year, meaning a steady stream of dividends.

THE PROBLEMS FACING INVESTORS

Housebuilders have historically been popular ways for investors to play the property market. This strategy is no longer an easy trade as housebuilders are facing pressure on profit margins due to rising costs.

The other issue to consider is a potential slowdown in the housing market. Housebuilders' share prices can be highly leveraged to the housing market and can display volatile movements as new bits of market data are published.

One alternative is to look at commercial property. REITs have traditionally invested in assets like shops, shopping centres and office blocks but several factors are undermining the valuation of these assets.

Economic uncertainty created by the Brexit process means commercial property is at best a mixed bag, reflected in the weak performance of REITs like **British Land (BLND)** and **Land Securities (LAND)**.

A slowdown on the high street has seen retailers struggle and several have used Company Voluntary Agreements to close loss-making stores and to trim the rent they owe to their landlords. This has hit big investors in retail properties like **Hammerson (HMSO)** and **Intu Properties (INTU)**.

The weakness in Intu's share price recently attracted a takeover bid with a consortium including near-30% shareholder Peel making a preliminary approach for the group on 4 October.

POTENTIAL NEW RULES ON PROPERTY FUNDS

The Financial Conduct Authority, a regulator, has proposed that property funds and other portfolios invested in illiquid assets should be badged as having 'high liquidity risk'.

Trading in these funds would also have to be closed off as soon as there was 'material uncertainty' expressed by an independent third party over the valuation of at least 20% of their assets.

Several property funds suspended trading in July 2016 as investors scrambled to get their cash out amid widespread concern the Brexit vote would severely damage the UK property market. The FCA is looking to avoid a repeat of this situation.

The problems specifically impacted open-ended funds (unit trusts and Oeics), rather than listed property vehicles, as their size isn't limited and varies according to supply and demand. If investors want to sell or redeem their interest in an open-ended fund, then the fund needs to sell assets to meet these redemptions. Investment trusts fall under the category of closed-ended funds.

In 2016 some (but not all) open-ended property funds suspended trading as they wanted to avoid asset fire sales in order to generate the necessary cash to meet a flood of redemption orders from investors.

The problem is that investors want to be able to buy and sell funds whenever they want but the underlying asset class held by these funds doesn't work this way.

A fund manager trying to sell their interest in an office block, for example, would struggle to achieve a sale in a short timeframe.

This helped lift share prices across the REIT space, however Jefferies' head of real estate Mike Prew says 'REITS are "just bugs looking for a car windscreen" and will probably find it with the portfolio valuations in the November earnings season'.

Essentially Prew's argument is that the current valuations used for the majority of assets in REIT portfolios are too high and will need to be trimmed. British Land reports its first half results on 14 November and Land Securities on 15 November.

At the same time, the more buoyant area of logistics assets – which benefit from the shift towards online shopping which is dogging the high street – is becoming an increasingly crowded trade, with some observers warning a bubble has formed in the sector.

The clamour for assets of this type is putting yields under pressure as the chart demonstrates. The yield on prime logistic properties has been weakening in parts of the world such as Germany and the UK. This is a result of a highly competitive market to own large warehouses – so property investors are paying a higher price to own the building.

The yield is calculated as a percentage, based on the property's acquisition cost, annual income from rent and running costs. The higher the purchase price, the lower the yield or annual return on the investment. And don't forget, the return on a property has a direct influence on how much money a company can pay in dividends to shareholders.

For example, FTSE 100 constituent

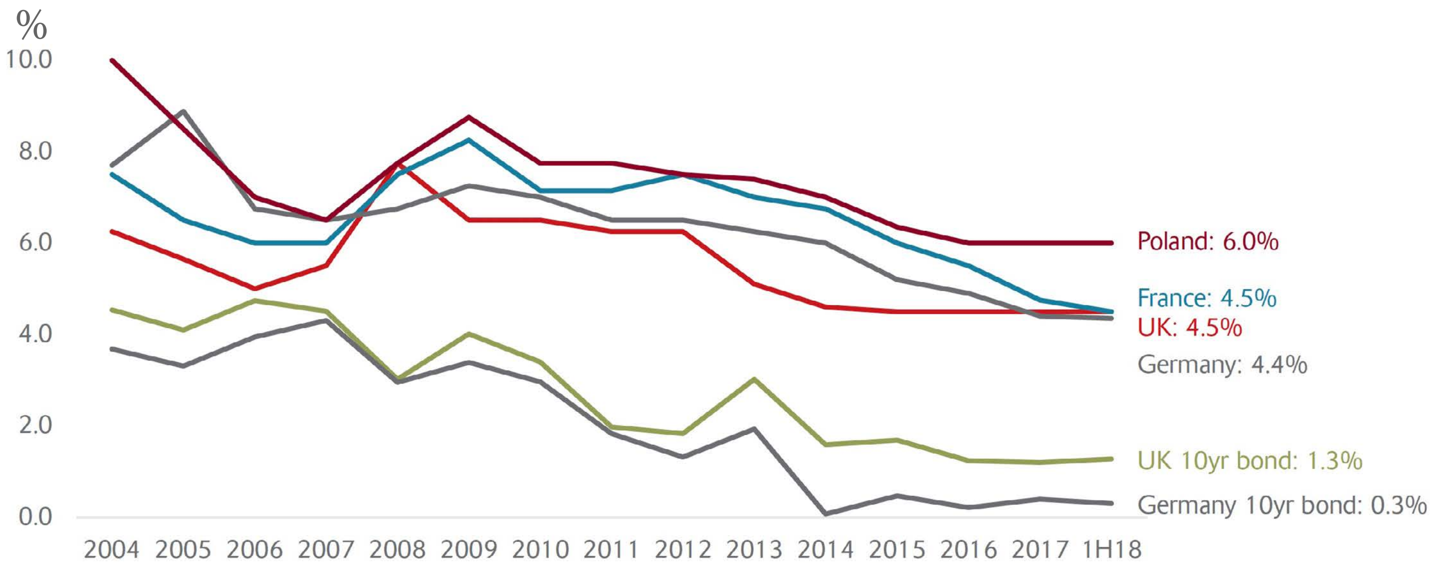
> **Don't forget, the return on a property has a direct influence on how much money a company can pay in dividends to shareholders.**

Segro (SGRO) is probably the most high-profile investor in the logistics property market and now only yields 2.8% based on the forecast dividend for 2018. Many investors may expect property in general to generate a dividend yield more in the region of 4% to 5%.

WHERE DO YOU GO FROM HERE?

Against this backdrop, you may think property is a no-go area from an investment perspective. Think again, as we can see numerous opportunities including student accommodation, a less mature part of the e-commerce-related warehouse market, and the rental market where falling supply and increased demand could lead to higher rents.

PRIME LOGISTICS YIELDS VS 10 YEAR BOND YIELDS

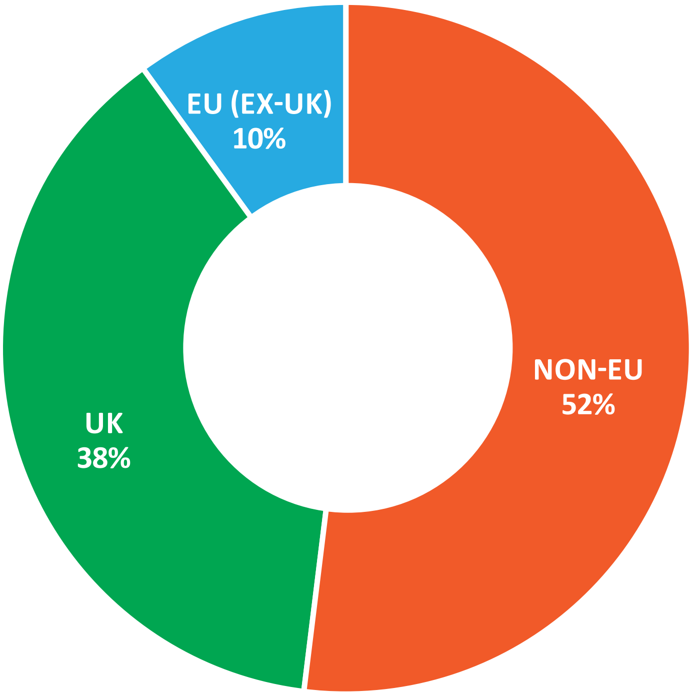


Source: CBRE, Bloomberg

OUR PROPERTY PICK #1: STUDENT PROPERTY

EMPIRIC STUDENT PROPERTY (ESP) 97P BUY
Yield: 5.2%
Discount to NAV: 7.2%
Source: AIC, Stifel

EMPIRIC'S TENANTS BY NATIONALITY



Source: Empiric Student Property as at 31 October 2017

Student accommodation as an asset class offers returns which are relatively uncorrelated with the wider financial markets. The fortunes of this space are reliant instead on UK universities' reputation for excellence.

Empiric Student Property is on the comeback trail after being forced to cut its dividend payments in November 2017 amid spiralling administration costs.

The progress made under acting chief executive Tim Atlee and chief financial and operating officer Lynne Fennah is not currently reflected in the valuation. At current levels the REIT trades at a 7.6% discount to net asset value compared with a 2% discount at its counterpart **GCP Student Living (DIGS)**.

The plan is to sell non-core assets but only once these assets are fully let so the best possible price can be achieved. The management of its portfolio is also being brought in-house with the development of its *Hello Student* platform. This should improve margins and, with the company approaching full occupancy for the 2018/19 academic year, should support its target of delivering a fully covered dividend for the 2019 financial year.

Student accommodation rental growth in the UK – 3% per year between 2014 and 2016 – has surpassed all other real estate asset sectors and significantly outpaced the RPI measure of inflation.
Source: Empiric Student Property

Empiric's portfolio encompasses nearly 100 properties across 29 cities and towns including some of the UK's top academic institutions.

Brexit is a risk to consider as it might depress the number of students coming from the European Union; however it is worth noting the large number of non-EU students which come to the UK to study. As the pie chart shows, just 10% of Empiric's tenants are from the EU (ex-UK).

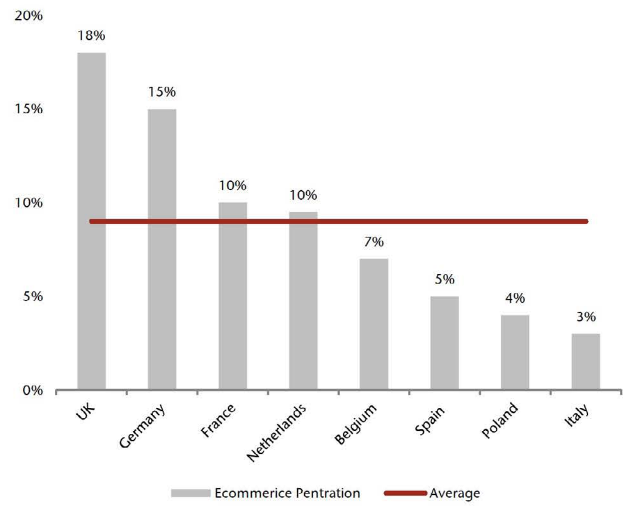
Investment bank Stifel says: 'The shares have been steadily re-rating, and we believe will continue to do so over the next year as we see more evidence of the management team's turnaround of the company's financial and operational performance.'

OUR PROPERTY PICK #2: THE IMMATURE PART OF THE LOGISTICS MARKET

TRITAX EUROBOX (EBOX) 103.8P BUY
Sep 2019 yield: 2.3%
Premium to NAV: 3.8%
Source: AIC, Stifel

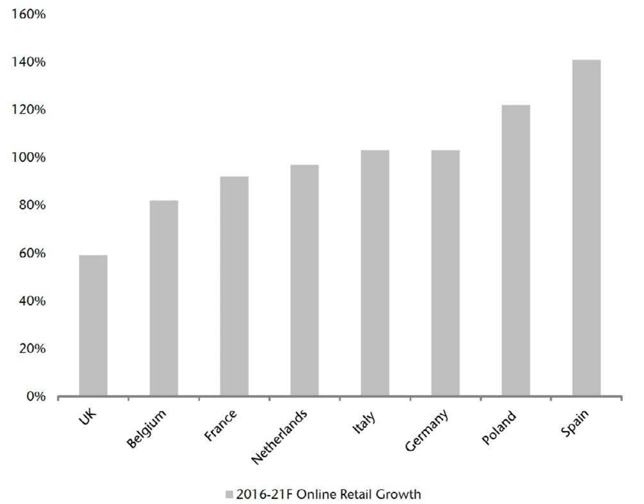
THE EUROPEAN LOGISTICS MARKET

E-commerce as % of total sales



Source: Centre for Retail Research, Knight Frank

Estimated online sales growth (2016-2021)



Source: Centre for Retail Research, Knight Frank

While the logistics property market in the UK might be looking very expensive, Mike Prew, the property expert at investment bank Jefferies, says the European logistics space is five years behind the UK.

This should create positive dynamics for **Tritax Eurobox (EBOX)**, launched in July 2018 by the people behind the £2bn-plus **Tritax Big Box REIT (BBOX)**.

The plan is to take the extremely successful Big Box template to continental Europe. The strategy has been to rent out high quality logistics assets of 500,000 square foot or more to institutional-grade tenants on long leases.

The reason the European logistics sector is lagging the UK is that shoppers do not currently buy as much online in Continental Europe. As the chart shows, 18% of UK retail trade is done online with Germany the next closest in Europe at 15% and many other large European countries having much lower levels of online penetration.

Unsurprisingly these immature markets are expected to grow more quickly. This growth will require warehousing facilities to store and process orders and returns, providing support to the yields Eurobox can achieve from its assets.

The £300m raised alongside its stock market flotation will be invested in a €1.8bn pipeline of logistics properties – with Tritax actively negotiating the purchase of assets worth upwards of €600m.

It is targeting an initial dividend yield of 4.75% once fully invested, to be paid quarterly in sterling, and a total return in the medium-term of 9% a year.

On 26 September the company announced its first acquisition with the purchase of the global distribution centre for clothing retailer Mango in Barcelona for €150m.

The purpose-built facility was constructed in 2016 and is let to Mango on a 30-year lease. There is also potential to extend to an adjacent plot of land.

Eurobox expects to be fully invested by December with several other deals in progress. The shares do trade at a small premium to net asset value, probably reflecting investors' hopes that it can match the impressive performance of Big Box. We're certainly confident, so buy its shares now.

ONE TO WATCH: PRIVATELY RENTED HOMES

THE MULTIFAMILY HOUSING REIT

Keep an eye out for The Multifamily Housing REIT which is scheduled to join the stock market on 26 October.

The investment trust hoped to float in September but pushed back the date to give potential investors more time to do due diligence.

Assuming the listing does happen, we think it could be a good option for investors who want to add something property-related to their portfolio which offers a more resilient slant.

The real estate investment trust is focused on pre-built privately rented homes in 'regional' England (or in other words outside London).

In other geographies most institutional investment goes into pre-built stock but in the UK the focus up until now has been on build-to- rent schemes.

Jonathan Whittingham, CEO of Harwood Real Estate Asset Management and non-executive director of The Multifamily Housing REIT, notes there was a perception from some potential investors that the market it is targeting simply doesn't exist.

He says: 'We have first mover advantage and a sustainable bespoke hub operation. Build-to-rent, including those already built and those in the planning stage, accounts for just 1.75% of the regional residential market proposition. We are targeting the market with the broadest possible appeal.'

The plan is for the proceeds from the float to go towards the acquisition of a portfolio of properties in Bristol, the West Midlands, East Anglia, Manchester and Leeds.

These are 'mid-market' properties with average rents of £500 to £700 per month – equating to 30% of the median salary for around 70% of the local populations in these areas. The trust says this compares with average one-bedroom build-to-rent propositions requiring 46% of average local regional salaries.

Most of the properties are low-rise apartment blocks of traditional brick construction. As well as the initial seed portfolio, an immediate pipeline of £422m has also been identified. A total return of 10% is being targeted including a 5% dividend yield and the trust intends to have a progressive dividend policy.

The company will operate a 'hub' strategy with four separate hubs dedicated to managing the properties which, because they are in close proximity to each other, should result in efficient operations.

'These are real homes for real people, housing the likes of office workers, nurses and teachers,' Whittingham adds. He notes renters in arrears account for less than 0.5% of the prospective rental roll. (TS)

Set to focus on mid-market rental properties outside of London

Grab a 6% dividend yield with secured lender Hadrian's Wall

This investment trust can help you obtain a much better return on your money than cash in the bank

Imagine a bank or building society with a poster in the window offering a savings account that pays 6% annual interest.

It would be quite feasible to expect queues down the road as the general public seizes the opportunity to get a much better return on their money than has been the norm over the past decade.

Sadly that 6% rate is nothing but a dream for savers at the moment unless they are prepared to take on higher risks and invest their money in the markets.

The idea of buying individual company shares can be too daunting for many individuals so they look for solace in investment funds as a source of regular income.

It is fairly easy to find equity funds which yield in the region of 3% to 4%. These products will have a portfolio made up of lots of stakes in individual companies.

To get a higher yield, you would have to look at places like property or infrastructure funds which may offer 5%.

WHERE TO FIND EVEN HIGHER INCOME YIELDS

Hitting the magic 6% income figure would inevitably mean venturing into more complicated investment products such as funds that invest in higher risk corporate bonds or other parts of the credit market.

Many investors are reluctant to go down this path as debt markets can be difficult to understand. If this resonates with you, we may have something to win you over.

We've come across a debt-focused fund that is very easy to understand, looks to be lower risk relative to some of the other 'alternative investments' on the market, and strives to pay that all-important high income.

Hadrian's Wall Secured Investments (HWSL), an investment trust listed on the London Stock Exchange since June 2016, lends money directly to small businesses at an average 9% interest rate – the full range is 7.5% to 11%.

After paying the costs of running the trust and keeping back 15% of income to help pay dividends in tougher times, Hadrian's Wall typically has enough money to pay a 6% dividend yield each year, based on its 100p stock market flotation price.

ADDRESSING A NICHE PART OF THE MARKET

'We're kind of like what a bank used to do 30 years ago,' says Michael Schozer, chief investment officer at Hadrian's Wall Capital, the trust's investment adviser. 'For example, a £7m manufacturer in Norwich who needed to borrow £3m would visit their local bank manager who'd they known for 15 years and get a loan.'

Schozer says mainstream banks have since phased out that method of lending in preference of having a more formulaic way of making loans via a centralised location. 'That method has got rid of expensive people in the branches and introduced clear criteria to whom they will lend.'

Hadrian's Wall specialises in loans to small businesses which may have been rejected by these banks because their situation was complicated rather than being a bad credit risk. It competes for these opportunities against challenger banks like Shawbrook rather than private equity which prefer larger sized loans.

Schozer believes the investment trust's downside is limited because its loans are secured against physical assets. If someone can't pay back the loan, Hadrian's Wall takes ownership of assets and sells them to recover its money.

'Any loan book has defaults; it is part of the industry. Imagine an equity fund manager saying all the stocks they buy have gone up – it is unlikely. We've had one full repayment so far and no defaults yet,' explains Schozer.

'When we look at loans, we are doing secured lending. We look at a) can the company pay?; b) if they can't, do I have the legal right to take the asset?; c) How certain am I that I can convert that asset to cash?

'If you are making consumer loans, every loan that defaults you will lose a high percentage. If you are making secured loans, you will lose a very small percentage if you are properly structured. If you look at data over many years, senior secured bank loans tend to recover about 80%, unsecured might recover 50%.'

A LOAN SITUATION IN PRACTICE

The investment trust now has nearly 20 loans in its portfolio. The weighted average life of a loan is almost four years.

Among its portfolio is a £5.5m loan to the owner of petrol stations and mini-marts located in places where there is no immediate competition from large supermarket operators. The owner wanted to buy back two sites they built 10 years ago, plus they were also building a new site.

'A bank would easily lend against a petrol station and a mini-mart, but they would want to see two to three years' financial performance before they would lend. In our situation, the banks would only lend against two of the three properties as the third was too new. So we got the loan instead as we were prepared to lend against all three sites. These are nice cash flow operations.'

Hadrian's Wall is often a bridge to future bank lending. In the petrol station example, it recognises that the owner is likely to refinance the loan at a much cheaper rate with a bank once they have three years' worth of financial performance from the newly-developed site.

It uses brokers and arrangers to source new loans rather than employ a large salesforce of its own.

EXAMPLES OF LOANS IN THE HADRIAN'S WALL PORTFOLIO

- **£2m loan to a specialist engineer which has made equipment for subsea infrastructure for nearly 30 years**
- **£4m loan to finance mission critical equipment for a civil engineer**
- **£1m loan (secured against property) for a medical practice serving both private and NHS clients**
- **£6.5m loan so a short-term car hire company can buy more vehicles**

SHARES SAYS:

The investment trust has attracted numerous big name shareholders including asset managers Investec Wealth, Old Mutual and CCLA which manages investments for the Church of England and various charities. It is easy to see why they're on board.

Ultimately Hadrian's Wall is suitable for investors who want a nice income from a low volatility asset, recognising they won't get much in terms of capital gains.

The 6% yield, while not guaranteed, means you can expect a nice return on your money and one that is significantly beating the current rate of inflation which can't be said for most cash savings accounts. Buy now. (DC)

Does taking greater risk equal greater reward with investing?

We look for evidence by analysing 10 years' worth of data in parts of the funds market

The greater the risk, the greater the potential reward is a common adage in investment. After all, if you could generate the best returns by investing in UK government bonds (also known as gilts), why would you ever think of putting any money into racier assets?

But measuring risk is difficult, and determining whether the rewards are commensurate with the level of risk you have taken is largely a matter of opinion.

Experts measure risk in a number of complicated ways. One of them is through something known as standard deviation. In investment, this figure is a way of expressing how far a fund sways from its average return. In essence, it shows how volatile the performance of a fund has been. The greater the standard deviation, the greater the swings up and down in a fund's returns.

It's a crude measure and by no means a perfect science, but it is one way of ascertaining how risky a fund may be.

Tom Becket, chief investment officer at Psigma Investment Management, says: 'Investors should be compensated for taking higher risk in the form of greater returns, but whether this materialises depends on your time horizon for investing, your patience and capacity for risk.

'Using quantitative analysis such as standard deviation can be helpful to determine how funds have performed at certain points in the investment cycle and how they might blend with the rest of your portfolio, but it shouldn't be the main factor on which you

RISK RETURN – GLOBAL

	10 years to 31 August 2018		
Group/Investment	**Standard Deviation (Annualised)**	**Return (Annualised)**	**Peer group percentile**
LOWEST			
Troy Trojan Global Eq O Acc	10.22	11.9	16
MT Total Return	11.43	9.8	43
BNY Mellon Long-Term Global Equity	11.70	11.6	18
Jupiter Merlin Worldwide Portfolio	11.87	8.8	64
Morgan Stanley UK Global Brands	11.95	14.7	3
HIGHEST			
Pictet-Clean Energy	19.03	2.4	98
Harris Associates Global Equity	19.12	5.3	96
Sanlam Global Financial	19.86	10.4	34
First State Global Resources	25.58	-0.5	99
Schroder ISF Global Energy	27.65	-5.8	100
Number of investments ranked			151
Peer Group Average	14.71	9.5	

base an investment decision.'

WHAT DO THE FIGURES SHOW?

The correlation between a fund's standard deviation and its performance is patchy at best. Analysis from stockbroker AJ Bell shows the performance of funds with a track record of at least 10 years, detailing their standard deviation and annualised return over that period, as well as the percentile ranking of the fund within its peer group.

With thousands of funds available to UK investors, the tables in this article show only a snapshot of the data, illustrating the five funds with the highest and the lowest standard deviation within the UK All Companies, UK Smaller Companies and Global investment sectors.

In the UK All Companies sector, greater risk certainly seems to produce greater rewards: the **Standard Life UK Equity Unconstrained (B7LK223)** fund has a standard deviation of 24.24 – significantly higher than the peer group average of 14.75 – and it has also produced an annualised return of 13.9% over the past decade, putting it in the third percentile of performers.

Meanwhile, the **Invesco Perpetual Income (BJ04HX6)** fund, which has the lowest standard deviation in the sector, has produced an annual return of 7.9% over the same period.

But, it's the **Liontrust UK Smaller Companies (B57TMD1)** fund which is the standout performer in the UK Smaller Companies sector. The fund has the lowest standard deviation of its peer group at 11.65 – compared to an average of 15.64 – and has produced a stonking annualised return of 18.6% over the past 10 years, putting it in the third percentile.

Meanwhile the average UK smaller companies fund has an annualised return of 13.8% over the same period and **Janus Henderson UK Smaller Companies (0744762)**, the fund with the highest standard deviation, achieved 14.8%.

In the Global sector, meanwhile, the two funds with the highest standard deviation have produced negative annualised returns over the past decade.

TAKING RISKS DOESN'T GUARANTEE REWARDS

Wesley McCoy, manager of the SLI UK Equity Unconstrained fund, says: 'People think of volatility as risk and as a bad thing, but it creates the opportunity to make money. But taking risk doesn't guarantee rewards, that isn't how it works.

RISK RETURN – UK ALL COMPANIES

	10 years to 31 August 2018		
Group/Investment	**Standard Deviation (Annualised)**	**Return (Annualised)**	**Peer group percentile**
LOWEST			
Invesco Perpetual Income	10.22	7.9	53
Invesco Perpetual High Income	10.26	8.2	46
Invesco Perpetual Strategic Income	10.54	8.9	35
Newton UK Opportunities	11.91	8.8	38
Schroder MM UK Growth	12.00	6.9	73
HIGHEST			
Quilter Investors Equity 1 A	19.04	11.4	14
River and Mercantile UK Recovery	20.45	12.2	8
SVM UK Opportunities	21.53	12.2	9
SLI UK Equity High Alpha	21.77	11.0	15
SLI UK Equity Unconstrained	24.24	13.9	3

Number of investments ranked			195
Peer Group Average	14.75	8.4	

Ladbrokes Coral's stock fell out of favour amid the government crackdown on the betting industry

If an investment is offering you a high return, there's a reason for that. It's rare to find a high return in something that is very certain.'

He says periods such as Brexit and the global financial crisis, when stock markets are at their most volatile, are when his fund has produced some of its strongest returns. He explains: 'We're looking for companies that are mispriced or misunderstood by the market, where a volatile share price is expressing something that won't matter in years to come.'

He points to Ladbrokes Coral as one recent example where the stock fell out of favour amid concerns about a government crackdown on the betting industry. In the end, the share price shot up as the company was bought by **GVC (GVC)**.

STRATEGIC MOVES

Victoria Stevens, co-manager of the Liontrust UK Smaller Companies fund, aims to reduce risk by only taking small positions in stocks that the team deem as being potentially riskier. She says: 'This is especially important in the small cap market, where individual stocks can be very volatile.'

To limit risk the team looks for companies with strong barriers to competition as well as those where the directors have a large stake in the business. The fund veers towards quality companies, which are 'robust, dependable and better able to weather external economic shocks'.

Becket at Psigma adds: 'People should take any measurements such as standard deviation with a huge pinch of salt because, ultimately, they tell you about the past and not the future. Just because something has or hasn't been volatile in the past doesn't mean that will continue in the future.' (HB)

RISK RETURN – UK SMALLER COMPANIES

	10 years to 31 August 2018		
Group/Investment	**Standard Deviation (Annualised)**	**Return (Annualised)**	**Peer group percentile**
LOWEST			
Liontrust UK Smaller Companies	11.65	18.6	3
Unicorn UK Smaller Companies	12.95	14.0	45
Schroder Instl UK Smaller Companies	13.98	16.1	18
Royal London UK Smaller Companies	14.08	12.6	62
FP Octopus UK Micro Cap Growth`	14.11	11.1	87
HIGHEST			
M&G Smaller Companies	17.50	11.5	77
Franklin UK Smaller Companies	17.90	9.6	97
JPM UK Smaller Companies	18.07	11.3	85
MI Discretionary Unit	18.24	13.5	52
Janus Henderson UK Smaller Coa	18.39	14.9	28

Number of investments ranked			41
Peer Group Average	15.64	13.8	

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Registration contact

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How Italy could still knock the Eurozone off target

What are the potential implications for markets in Europe and beyond?

The old saying that 'markets like to climb a wall of worry' is getting a good work-out this autumn. As if a rising oil price, a strong dollar, tighter monetary policy in the US, emerging market debt crises and the Brexit negotiations were not enough for investors to ponder, you can now add Italy to the list.

After three months of haggling, March's general election eventually led to the formation of a coalition government in Rome. And given their victory on an anti-austerity ticket, no-one should be surprised that the two leading Italian parties, the right-wing, separatist Northern League and the anti-establishment Five Star Movement, are now looking to push through a more expansive Budget, even if Brussels and the EU rule-makers are unhappy about it.

This begs three questions:

1. Why are markets as unhappy as the EU's bean counters?
2. How can investors tell?
3. What are the potential implications for markets in Europe and possibly beyond?

BUDGET SHIFT

The Italian government has drawn up a Budget which has three key thrusts, all designed to boost growth and tackle unemployment, especially among the young. As a result, Italy's projected annual budget deficit for 2019 will be 2.4% of GDP, rather than the 0.8% agreed with the European Commission in 2017. Plans for a balanced budget by 2021 have also been scrapped.

Brussels seems unamused, arguing that the plans are not compatible with the prior agreement and wider European stability. Italy already has an aggregate debt-to-GDP figure of 130% and it is home to the world's third-biggest government bond market. It is too big to bail out.

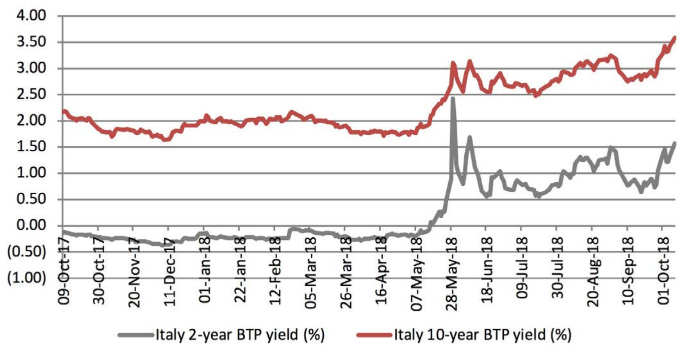
The Italians may be entitled to feel miffed, given that France is forecasting an annual 2.8% deficit for 2019 and Spain 2.7% while in America the Trump tax cuts are being lauded as a key driver of growth even if they will take the annual budget overspend to 5% of GDP.

WATCH THE TARGET

The markets seem as unimpressed as the EU authorities and this can be seen in two ways.

The first is a sell-off in Italian government bonds, or BTPs. The yield on the 10-year paper has rocketed to 3.58% as supply is about to increase just as the European Central Bank (ECB) prepares to stop its quantitative easing programme in December, knocking a potential buyer out of the equation.

ITALIAN GOVERNMENT BOND YIELDS ARE RISING AGAIN

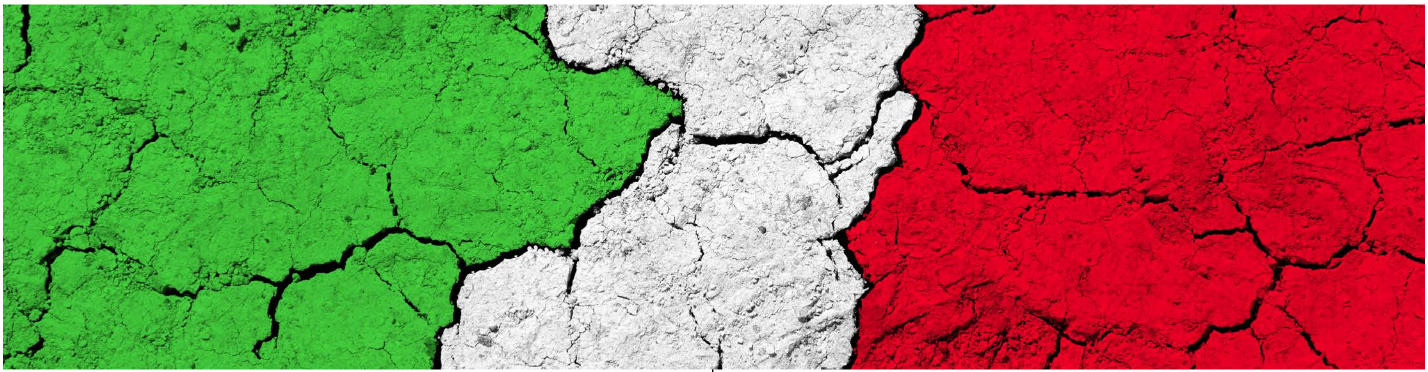


Source: Thomson Reuters Datastream

The second is capital flight from Italy. This can be monitored via the Trans-European Automated Real-time Gross Settlement Express Transfer (or Target-2) mechanism.

In essence the system is there to help balance trade flows but it also reflects capital flows.

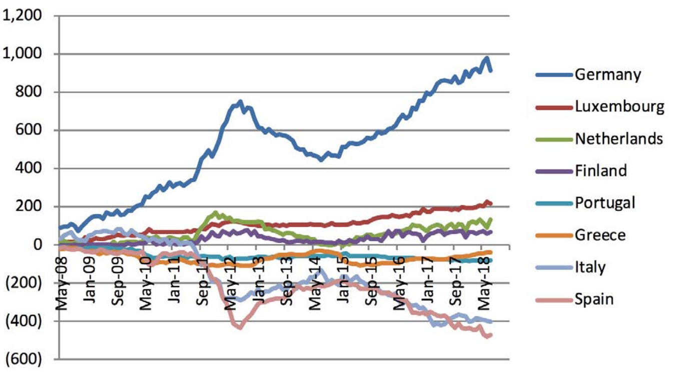
Bears and sceptics of the single currency in particular assert that Target-2 flows merely highlight huge capital flight from the south. The good news is that eight Eurozone members are now in credit (up from five a year ago) – Germany, Luxembourg, the Netherlands, Finland, Ireland,



Slovakia, Cyprus and Malta – and Greece's deficit is still shrinking.

The bad news is that Germany's positive balance is higher still and it looks like money is leaking out of Spain and Italy. If this trend continues through 2019 – and the data is released with a two-to-three-month lag – it could in turn imply the Eurozone edifice is coming under increasing strain, with Germany and the select number of other creditors bankrolling the rest.

IMBALANCES ARE GROWING WITHIN THE EU'S TARGET-2 SYSTEM



Source: European Central Bank, € billions

BANKS BACK IN THE SPOTLIGHT

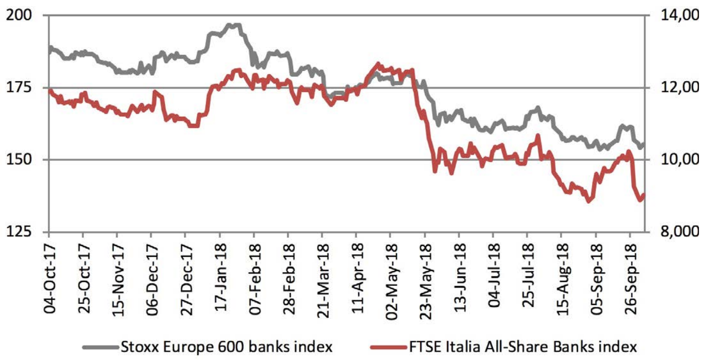
Target-2 suggests Italy's budget battle could have continent-wide implications, although any reversal of flows back south would be a positive sign.

But the most pressing concerns are strictly Italian. The rise in BTP yields increases the cost of funding for Italian banks and could restrict their ability to lend. Moreover, falling bond prices erode Italian banks' capital, as they are huge owners of Italian government debt.

According to analysis from the Bank of International Settlements, Italian government debt represents nearly one-fifth of Italian banks' total assets, more than 140% of the regulatory Tier 1 capital at leading lenders Unicredit, Intesa Sanpaolo and more than 200% of Monte dei Paschi di Siena's Tier 1 reserves.

If bond prices keep falling, Italy's banks will get weaker; and if its banks and economy get weaker, then its bonds could keep falling, in the very doom loop that the ECB launched QE to avoid. And if Italy's banks wobble, the markets may start looking at who else is lending them money, if they are not already – the Stoxx Europe 600 banks index is already doing badly.

ITALIAN AND EUROPEAN BANK STOCKS ARE PERFORMING POORLY



Source: Thomson Reuters Datastream

None of these concerns have to be borne out. Italy's finance minister, Giovanni Tria, is arguing that the annual deficit will start to shrink as economic growth accelerates (the same argument put forward by the Trump administration in the US).

But investors with exposure to Europe or the banking sector, via their chosen funds, may need to keep an eye on events in Rome over the coming weeks and months, just in case.

By Russ Mould, investment director, AJ Bell

Why rat-catcher Rentokil is a standout stock in the FTSE 100

Investors can sleep soundly at night with this solid growth story

On the face of it few businesses might seem less attractive than rat-catching and loo-cleaning, but few other FTSE firms can boast **Rentokil's (RTO)** high operating margins or are world leaders in their field.

Thanks to a mix of steady if undramatic organic growth and opportunistic bolt-on acquisitions, over the last five years Rentokil has turned itself into the global leader in commercial pest control. At the same time, Initial has grown to become the world's biggest hygiene services business.

STRONG LOGIC BEHIND COMPANY'S STRUCTURE

There's a strong logic to having these businesses under one roof. They tend to serve the same customers in the same areas which means they can share country management, administration, infrastructure and technology, which saves on costs.

Also, both businesses are non-cyclical and are growing due to the same big industry trends, most obviously the need to prevent the spread of bacteria, germs and disease as populations grow and more people live and work in cities.

According to UN estimates, by 2050 nearly 70% of the world's population will live in urban areas compared with just over 40% in 1990. Most of that growth is expected to come from Asia and Africa.

The pest control division, which accounts for 63% of sales and 68% of operating profit, operates in an $18bn global market which is seen growing by 5% a year for the next five years. Rentokil's underlying sales are growing at the same rate but thanks to acquisitions total sales growth is much higher (13% in the first half of this year).

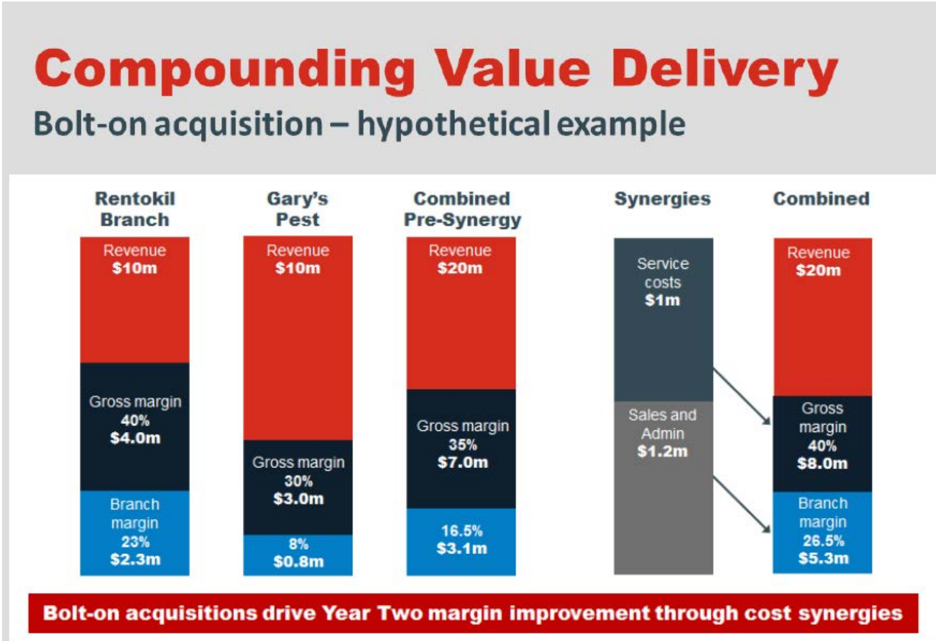
On top of this, vector control is a rapidly-growing market already worth over $3bn globally. This entails preventing the spread of diseases like malaria and dengue fever which are on the rise due to climate change and increased travel. Rentokil has recently bought the leading US vector specialist VDA, giving it access to this key market.

Meanwhile the hygiene services arm, which accounts for 22% of sales and 23% of operating profit, is a slower-growth but equally high-margin business. Again targeted acquisitions are propelling growth with two big deals announced in the last year, CWS in Italy and Cannon in the UK.

WHERE DOES THE REST OF ITS MONEY COME FROM?

The remaining 15% of sales and 9% of operating profit come from watering office plants, supplying work-wear and treating dry rot, collectively titled Protect & Enhance. While these businesses benefit from the group's global footprint, they are non-core and some assets have already been sold or put into joint ventures.

The UK property-care business, which treats dry rot and woodworm, has been



Sourse: Rentokil

struggling for the past year as the housing market has slowed and revenues are just 1% of the group total (£11m out of £1.2bn in the first half).

With little sign of an upturn we wouldn't be surprised if Rentokil sold this unit to a more natural owner like **Homeserve (HSV)** and re-invested in its higher-margin core businesses, as it has with Cannon Hygiene and more recently with the purchase of **Mitie's (MTO)** pest-control business.

ACQUISITIONS ARE KEY TO EXPANSION PLANS

Acquisitions are an important part of Rentokil's growth strategy. Both pest control and hygiene are fragmented markets with hundreds of small competitors ripe for consolidating into Rentokil's trusted-supplier model, and the company is often the 'buyer of choice' for smaller firms.

By increasing scale and density, particularly in urban areas and emerging markets, the company can better leverage the benefits of scale.

Another part of the growth strategy is investment in innovation, both in terms of products and technology. A third of new orders in its pest control arm are for new products and the relatively new online portal MyRentokil has been a big hit with around 80% of customers using it to monitor their products and pest activity.

Unusual as it may sound, bed bugs are another growth opportunity. The potential market for a successful 'smart' solution is huge as there are 17m hotel rooms across the globe and traditional tools for treating the problem are very hit-and-miss. One US hotel chain is already piloting Rentokil's bed-bug monitoring scheme across 1,000 of its rooms.

INVESTORS WARMING TO THE SHARES AGAIN

Investors have given Rentokil something of a cold shoulder in recent months but we note that the shares jumped last week on the news of the Mitie deal while those of Mitie dropped, which suggests that investors are warming to Rentokil's growth story again.

Analysts are more positive than negative with eight 'buy', four 'hold' and just two 'sell' ratings but they haven't pushed the boat out with their price targets as the 12-month consensus is just 14% above the current share price at 370p.

Sales and earnings estimates for this year and next year have been creeping up slowly over the summer but again analysts aren't overly bullish so it looks as though there is room for more earnings upgrades.

SHARES SAYS:

The shares aren't cheap at 27 times this year's earnings and 25 times next year's so upgrades wouldn't go amiss but with EBIT (earnings before interest and tax) margins of 13% (30% higher than the FTSE 100 average) and the leading global position in two crucial and growing sectors we think Rentokil is a keeper. Buy at 325p (IC)

Want to tap into a market worth $340bn a year?

We reveal the biggest names in the healthcare equipment and services sector and explore their mixed fortunes

Medical devices and healthcare equipment are vital to helping people live longer and healthier lives, and globally this market is worth an estimated $340bn every year according to leading operator **Smith & Nephew (SN.)**.

As well as developing and manufacturing life-changing and enhancing products, there is also a significant market for helping meet demand for quality care and treatment.

Among the biggest London-listed healthcare equipment and services specialists are **ConvaTec (CTEC)**, **Spire Healthcare (SPI)**, **UDG Healthcare (UDG)**, **NMC Health (NMC)**, **Mediclinic (MDC)** and Smith & Nephew.

In this article, we will explore why the performance among this grouping of stocks has been mixed despite the strong demographic drivers underpinning the space.

HEALTHCARE SPENDING TO SOAR

One of the biggest drivers for the sector is growth in healthcare spending, which is necessary to tackle an ageing population and more lifestyle-related illnesses such as obesity.

Global healthcare spending is expected to rise from $9tn in 2014 to $16tn in 2030 and $24tn in 2040 according to a study commissioned by the Bill and Melinda Gates Foundation.

TAKEOVER TARGETS

Two businesses in the sector have been regularly considered to be takeover targets, namely Smith & Nephew and Spire.

Smith & Nephew manufactures advanced wound care products, knee and hip implants, as well as products and technologies that aim to help heal severe fractures.

Previous speculation includes interest from US rival Stryker, Medtronic and Johnson & Johnson.

In May 2018, Smith & Nephew warned annual sales growth would slow from 3% to 2%, which was blamed on softer market conditions and a weak performance from Advanced Wound Bioactives.

While trading has improved since then, the performance has been at best solid rather than spectacular with Berenberg analyst Tom Jones claiming 'not bad is good'.

Jones argues maintaining guidance of 2% to 3% sales growth and margins at 2017 levels will reassure investors as there were concerns new chief executive Namal Nawanda might look to reset expectations.

WHY SPIRE AND MEDICLINIC HAVE NOSEDIVED

It is fair to say that 2018 has been a difficult year for private hospital provider Spire Healthcare as NHS-related troubles have dragged on trading.

Spire recently warned of 'significantly declining' NHS admissions, lower than anticipated growth in private admissions and investment in the business, pushing the share price to an all-time low of 138p.

In 2017, the private hospital group rejected a takeover approach from 29.9% shareholder Mediclinic on grounds that it significantly

WHICH FUNDS INVEST IN THESE COMPANIES?

NMC Health	BlackRock Global Allocation Fund, Vanguard Total International Stock Index Fund
ConvaTec	FP Crux Special Situations Fund
Spire Healthcare	Franklin UK Mid Cap Fund, M&G European Strategic Value Fund
UDG Healthcare	M&G Recovery Fund
Smith & Nephew	Invesco Pan European Structured Equity Fund

undervalued the business.

Liberum's Graham Doyle is sceptical that Spire's shares can recover, flagging guidance for annual earnings before interest, tax, depreciation and amortisation was 9% worse than expected at £120m to £125m.

He argues if the company was to miss the bottom of its earnings range by 5%, it could breach its debt covenants.

Mediclinic itself has struggled of late with investors concerned about problems in its Swiss hospital business where it has taken significant impairments.

A SECTOR CONSOLIDATOR

Rather than a bid target, NMC Health is a consolidator in this space as it continually looks for interesting businesses to take over in a bid to supplement its offering.

Recent acquisitions include cosmetics business CosmeSurge and the largest private general hospital in the United Arab Emirates, Al Zahra Hospital.

NMC Health is the largest private healthcare company in the United Arab Emirates. In 2017, 70.5% of overall sales were generated through medical services at its network of clinics and hospitals.

The company also has a distribution business, representing the remaining 29.5% of sales last year. Through this division, NMC offers over 108,000 products across pharmaceuticals, medical equipment and consumables, consumer, education and veterinary.

In June, NMC announced plans to create a new national healthcare company in Saudi Arabia via a joint venture with Hassana Investment, potentially creating one of the largest private operators in the country.

Berenberg analyst Charles Weston reckons NMC can more than double sales by 2023 – even without further M&A.

RESHUFFLE AND REVIEW AT UDG

UDG Healthcare has an untypical business model compared to the rest of the sector. The Ashfield division focuses on communications, commercial and clinical services, including scientific communication content. It is the biggest contributor of group profitability at 63.1%.

UDG also provides contract packaging services such as packaging design and labelling through the Sharp division, generating 31.9% of group profit.

Its smallest business, pharmaceutical products distributor Aquilant is being sold to H2 Equity Partners for up to €23m.

In August, the company said it would review Ashfield and reshuffle its management team following an underwhelming performance due to the phasing of contracts and a lack of business development opportunities.

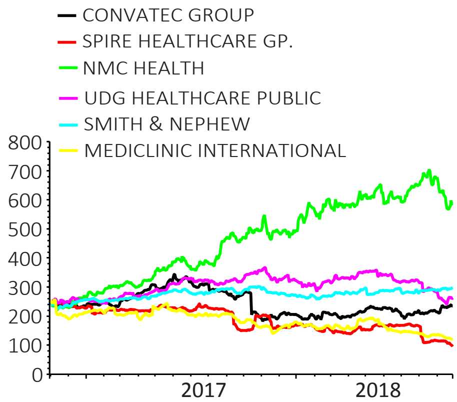
ROCKY RIDE FOR CONVATEC

Since its stock market debut in 2016, ConvaTec has experienced a series of highs and lows as it entered the FTSE 100 only seven weeks after its IPO and beat profit expectations in March 2017.

ConvaTec develops medical products, including wound care dressings, colostomy bags and catheters.

Its strong performance helped the stock hit an all-time high of 344p, but falling profit, the departure of chief financial officer Nigel Clerkin and slashed annual sales growth guidance in October 2017 amid supply issues, hurt the share price and contributed to the company's ejection from the FTSE 100.

Numis analyst Paul Cuddon says new hires Stephen Bonnelycke and Sten Scheibye should help to revive growth in the ostomy business and 2018 performance has been more encouraging so far. (LMJ)



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Half Year Results

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