STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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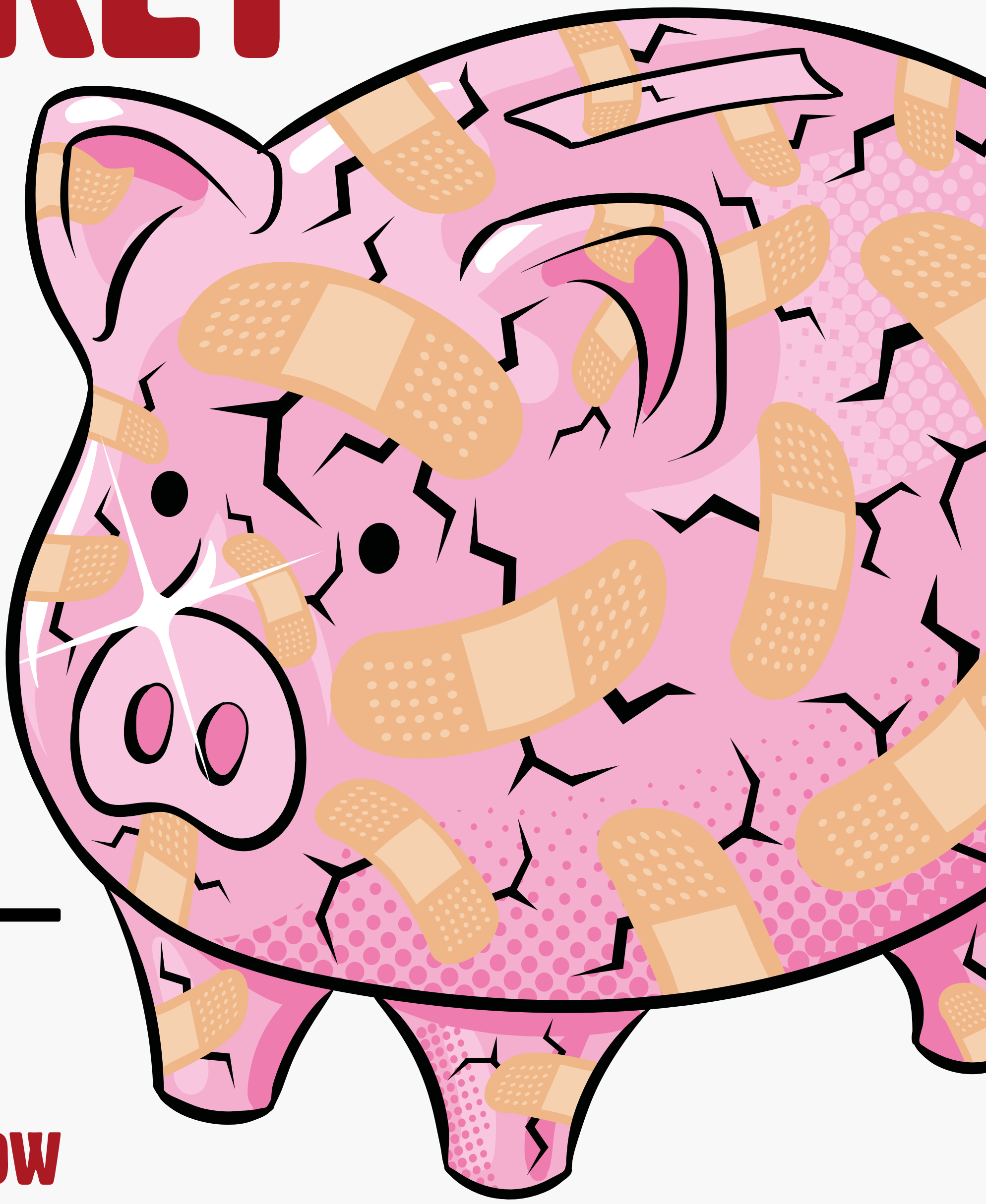
SHARES

WE MAKE INVESTING EASIER

MARKET SELL-OFF:

REPAIRING DAMAGE TO YOUR PORTFOLIO



FOUR BARGAIN STOCKS AND INVESTMENT TRUSTS TO BUY NOW

PLUS

FUND MANAGER: **'DON'T ABANDON'** FAST GROWTH STOCKS

CAKE CRISIS: KEY QUESTIONS AFTER **PATISSERIE SCANDAL**

10 UK INCOME FUNDS WITH **SUPERIOR RETURNS**

Will Patisserie shareholders receive compensation?

Were there any signals ahead of the shocking news that the AIM company's finances weren't as strong as people thought?

Investors in fancy cake seller **Patisserie (CAKE:AIM)** are hoping the value of their shares haven't been damaged too much as a rescue financing package to repair a big hole in its accounts takes effect.

However, there are lingering questions from this unsavoury and certainly far from sweet episode, plus investors may now be asking if they can receive compensation as previous accounts were misleading.

On 10 October shares in Patisserie were suspended after the company revealed significant and fraudulent accounting irregularities that led to a mis-statement of its accounts.

Finance director Chris Marsh, who was suspended this week, was arrested on Thursday and has been released on bail.

The company now calculates it had a £9.8m net debt position rather than the previously stated £28.8m net cash position.

It has subsequently raised £15.7m via a share placing at 50p (prior to its suspension the shares were trading at more than 400p).

Chairman Luke Johnson is providing a £10m bridging loan pending receipt of the share placing proceeds, plus another £10m longer term loan.

While existing shareholders are not facing complete wipe out, as would probably have been the case had the company gone bust, the value of their investment in the business looks set to be just a fraction of what it was before this scandal came to light.

Sometimes you can spot a situation like this arising. If a company's earnings are not being matched by cash flow, for example, then this should ring alarm bells. But this was not apparent at Patisserie, whose balance sheet and cash generation based on the *reported* figures looked rock-solid.

Fortunately, instances of faulty accounting or outright fraud are relatively rare. The next question is whether Patisserie shareholders be able to claw back any compensation for their losses?

WHAT HAPPENED AT TESCO?

In 2017 **Tesco (TSCO)** launched a scheme to compensate investors who had bought shares in the company after it overstated profits in a 29 August 2014 trading update – subsequently correcting its accounts on 22 September 2014.

The Financial Conduct Authority used its powers to compel Tesco to pay out £85m in compensation to shareholders who had invested between 29 August and 19 September 2014 (i.e. on the basis of the faulty profit figure).

As yet we do not know the full extent of the accounting irregularities at Patisserie, but we definitely know the first half results on 15 May were inaccurate so applying the same principle as in the Tesco case, anyone who invested in Patisserie since between that date and close on 9 October would theoretically be eligible, should it be forced to pay compensation.

Tesco had deep enough pockets to fund a compensation scheme, so where would the money come from at Patisserie? Tesco is a Main Market company and as such investors enjoy greater protections than they do when investing in AIM stocks.

What's certainly the case is such a dramatic near-collapse at a previous AIM darling is unlikely to do anything for the reputation of London's junior market. (TS)

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Small is beautiful

Seneca Global Income & Growth Trust plc

Our smaller size allows us to explore all investment opportunities.

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

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

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

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

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

Small is indeed beautiful!

Growth, Income and Low Volatility

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

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

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

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

Things To Be Aware Of

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

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

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

[4]Benchmark: CPI plus 6% from 06.07.17. Previously LIBOR GBP 3 Months plus 3%, all after costs for the period ending 31.08.2018 a forecast CPI is used.

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

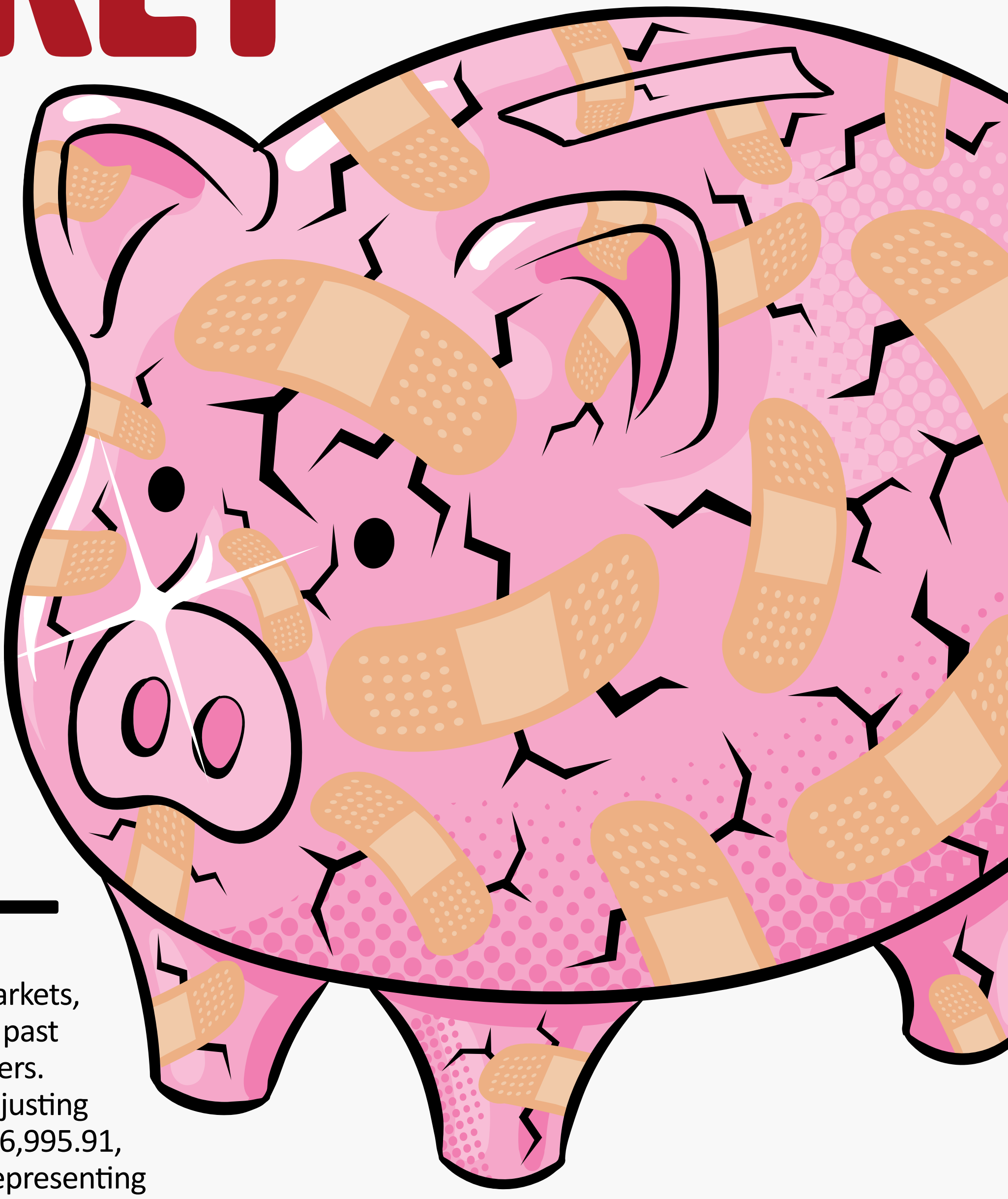
** There is no guarantee that dividends will continue to increase or grow ahead of CPI.

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

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

MARKET SELL-OFF:

REPAIRING DAMAGE TO YOUR PORTFOLIO



If investors needed proof of the capricious nature of financial markets, you've had it in spades over the past seven to 10 days. It's been bonkers.

As we write the FTSE 100 is re-adjusting to the limbo levels below 7,000. At 6,995.91, this is the first time the UK index, representing Britain's biggest (and supposedly best) companies, has stumbled this low since... April 2018.

That the FTSE 100 was lower than it is now as recently as six months ago hopefully puts these events into context. Were prospects so bad back then, and are they any worse today?

In this feature we aim to guide investors through this patch of uncertainty and bring a little perspective to recent declines in stock markets.

What has been going on, what does it all mean, and what can ordinary investors do to protect their investments and position their portfolios for the coming months?

IN THE EYE OF THE STORM

This latest market panic, crash, correction (call it what you will) means that hard earned share price gains made earlier in 2018 have been largely wiped out, as have capital returns booked since November 2016.

'A five-day losing streak, capped by the worst one-day fall in the US S&P 500 index since February, has investors asking themselves whether this is just the 'healthy correction' so beloved of market commentators or the beginning of something more serious,' says Russ Mould, investment director at platform AJ Bell.

The share price shake-out has been a global response. The VIX index, which measures market volatility, spiked from 11.61 on 3 October to 24.98 on 11 October. In February the VIX surged to beyond 50.

Equity markets across the globe have fallen - the

HOW MAJOR GLOBAL INDICES FARED IN THE SELL OFF

INDEX	PERFORMANCE SINCE CLOSE ON 3 OCTOBER
FTSE 100	-6.7%
HANG SENG (HONG KONG)	-6.1%
DAX	-5.9%
S&P 500	-5.7%
NASDAQ 100	-7.1%
NIKKEI 225	-7.6%

SOURCE: SHAREPAD, 15 OCTOBER 2018

S&P 500, Dow Jones, Europe's Stoxx 50, Hong Kong's Hang Seng, the Nikkei 225 in Japan; they're all down, chalking-up declines in the region of 5% to 7%.

Such statistics will worry the many investors with various tracker or index-linked investments yet the scale of the sell-off has not been evenly spread and many of the individual company shares, investment trusts or funds you may own may be showing substantially greater losses.

The US Nasdaq, noted for its density of technology stocks, came off among the worst, losing 6.6% between 3 and 11 October, before staging a modest rally on the 12 October.

This will inevitably lead to claims that this is a response to bloated technology valuations. There may be some truth in that view but the main change has come in the market mood, and its response to risk - how much investors are willing to embrace risk and what price they are willing to pay for returns in the face of this implied uncertainty.

WHY ARE THE MARKETS DOWN?

There are a number of factors that have been troubling investors and investment markets, none of them particularly new. Rising bond yields, an escalation in trade hostilities between the US and China, and asset valuations to cut to the chase.

Equities have come under increasingly intense scrutiny just as we head into what looks like a very important third quarter corporate earnings season, one that could spark share price recovery, or hasten stock markets declines.

BEST AND WORST PERFORMING FTSE 350 SECTORS IN THE SELL OFF

INDEX	PERFORMANCE SINCE CLOSE ON 3 OCTOBER
BEST	
FIXED LINE TELECOMMUNICATIONS	5.2%
GAS, WATER & MULTIUTILITES	-2.2%
FOOD & DRUG RETAILERS	-2.1%
FOOD PRODUCERS	-2.9%
ELECTRICITY	-3.2%
WORST	
ELECTRONIC & ELECTRICAL EQUIPMENT	-13.7%
FORESTRY & PAPER	-14.0%
GENERAL INDUSTRIALS	-14.0%
LEISURE GOODS	-15.5%
AUTOMOBILES & PARTS	-22.6%

SOURCE: SHAREPAD, 15 OCTOBER 2018

Rising bond yields have provided the kindling to spark the flames of this market sell-off.

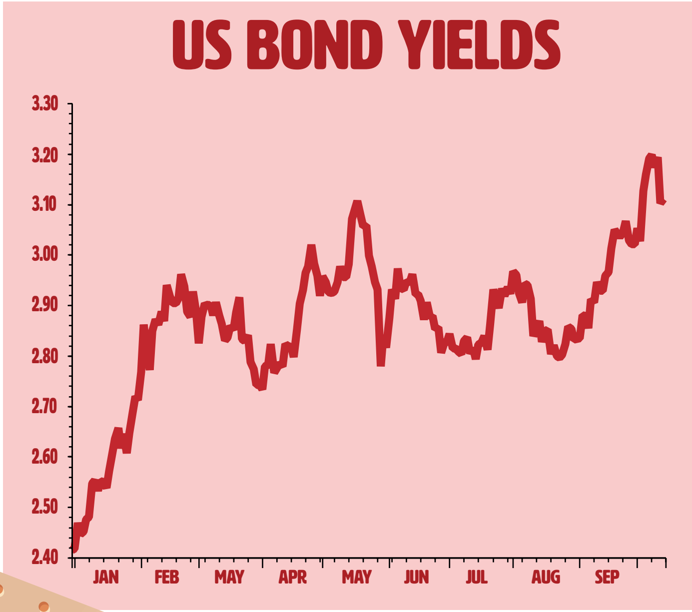
'Sharp rises in yields can cause market dislocations, and if the current bond market sell-off becomes more aggressive, it could begin to create genuine problems for equity markets,' says David Absolon, investment director at Heartwood Investment Management.

Rising bond yields mean that investors can get higher returns on their invested capital from relatively safe government-backed securities.

Average yearly equity returns of 6% to 7% (the historic average) may look attractive if US treasuries (the most influential of government bonds) are offering 1.5% to 2.5%, as they have done for much of the past 10 years.

But this year yields on 10 year US treasuries have jumped, hitting 3.2% this month.

Suddenly the extra risk investors must accept with equities doesn't look so attractive. Why have yields shot up? Keeping it simple, that's mainly because of higher interest rates and the firm message from the US Fed that this trend will continue into 2019.



Policymakers at the US central bank increased interest rates for the third time this year last month to 2.25%. The widespread belief is that a fourth hike could come through in December and the market is anticipating three rate rises through 2019. For bonds to remain attractive to investors versus cash, asset prices need to come down on fixed income bonds which pushes yields up.

Higher interest rates also work against equity markets since they push up borrowing costs for companies and individuals, potentially hurting corporate profits and curbing consumer spending.

These trends have been playing out in financial markets all year so we cannot really say that this latest correction in equities has come from out of the blue. 'The sharp sell-off in the US has likely caught no one by surprise,' says Paras Anand, head of asset management, Asia Pacific at Fidelity International.

'If anything, investors have been wondering how, in the face of tighter monetary policy, a contracting labour market and rising oil prices, the US has continued to be so resilient.'


US Federal Reserve is continuing to hike interest rates.

THIRD QUARTER US EARNINGS SEASON

With the global market correction really taking hold off the back of selling in the US, the ongoing corporate earnings season for the third quarter could land with a material impact.

Expectations are pretty high, the S&P 500 is expected to post earnings growth of 19.2% on revenue gains of 7.3%, according to data provider FactSet. This follows on from 25% jump in earnings on a 10.1% revenue increase for the second quarter. Earnings from the banking sector have already been published and have revealed the benefits from deep tax cuts and rising interest rates (a sector-specific catalyst). If most other updates continue in this positive vein, then investor concerns around stock valuations might start to dissipate.

However, if earnings disappoint then the selling could resume with greater intensity. The dominant technology sector may hold the key to investor sentiment and the table shows when America's tech titans are scheduled to report. (TS)

TECH TITANS REPORTING SCHEDULE

ALPHABET (GOOGLE)
25 OCTOBER

AMAZON
25 OCTOBER

FACEBOOK
30 OCTOBER

APPLE
1 NOVEMBER *

* Q4 RATHER THAN Q3 EARNINGS AS APPLE'S YEAR END IS 30 SEPTEMBER

WHAT DOES THIS MEAN FOR INVESTORS?

The widespread decline in share prices has understandably made investors nervous and eager to find some way to add an element of protection to their portfolios. You can do this by making subtle shifts, perhaps increasing stakes in reliable income-bearing stocks, funds and trusts that will help improve diversification.

But we do not subscribe to the idea that most investors should rip up their portfolios en masse and start wearing their tin hats, especially if you are investing for the medium to longer term.

WHAT SHOULD INVESTORS DO NOW?

Remaining invested in the market has historically been the best course of action if you're in it for the long haul. Stock markets have a tendency to recover faster than you think, although precisely predicting when that may happen is impossible.

You might reasonably ask whether the fundamentals have changed for your investments, and if they haven't deteriorated, it's probably best to do nothing. If they have, you need to do further research and ask whether you should still own that investment.

But it is also advisable to remain open to the possibility that for many good quality companies, little has really changed except the

> "WE DO NOT SUBSCRIBE TO THE IDEA THAT MOST INVESTORS SHOULD RIP UP THEIR PORTFOLIOS EN MASSE AND START WEARING THEIR TIN HAT"

valuation. That could mean a rare chance to invest in a business at a price discounted to levels seldom seen.

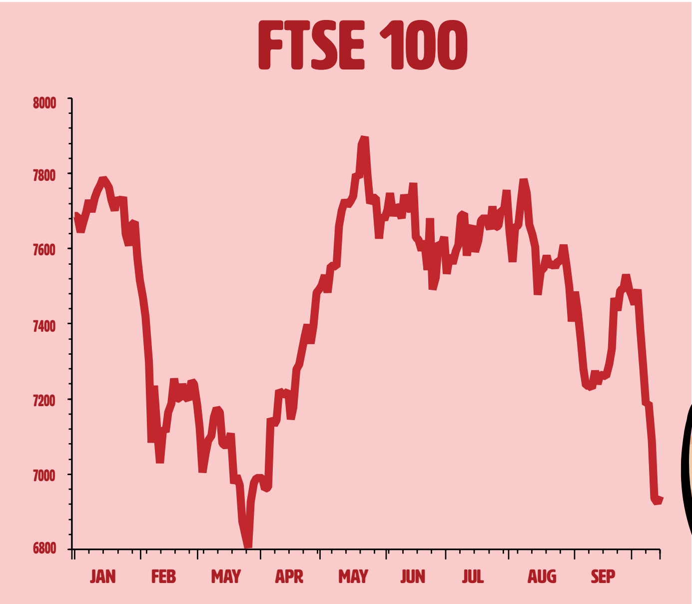
'We are closer to the end of the current cycle than the beginning,' says Karen Ward, the chief market strategist in JP Morgan Asset Management's Europe, Middle East and Africa unit.

But that is not to say the best of the investment profits from equity growth have been had, far from it. 'Late cycle returns can be spectacular,' she stresses.

It is worth noting that UK stocks had already been lagging the performance of other major markets before the current market sell-off. The FTSE 100 had actually declined 1.8% year to date as of 3 October and hasn't made meaningful ground in 15 months.

Since the sell-off began on 4 October (the first day share prices were affected in the UK) the index has fallen 6.7%.

We are taking a front foot approach. We have noted several excellent companies with very

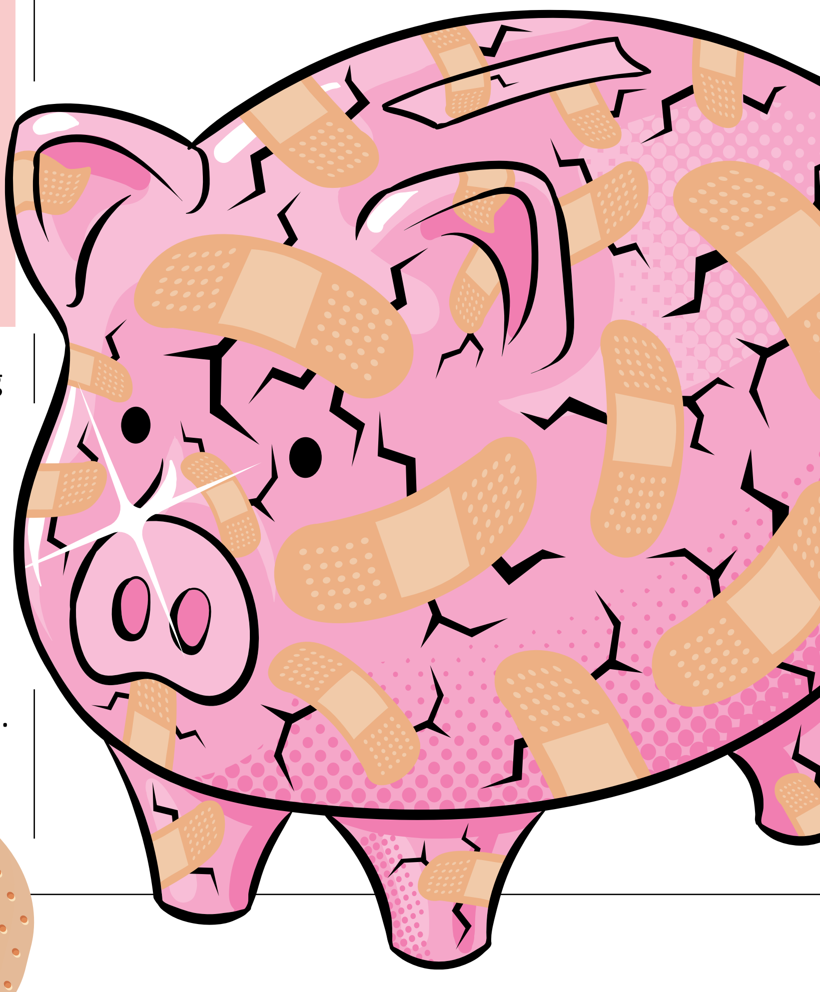


strong investment credentials that are now looking attractive. So we have extended our weekly *Great Ideas* section to give readers a handful of opportunities to get on board, if they choose to.

They may not all be super cheap, but these are high quality businesses with great prospects whose shares are now available at valuations not seen in some time.

"THE SHARP SELL-OFF IN THE US HAS LIKELY CAUGHT NO ONE BY SURPRISE"

PARAS ANAND, HEAD OF ASSET MANAGEMENT, ASIA PACIFIC AT FIDELITY INTERNATIONAL



Ashtead is a stock to own not to rent

Plant hire business unfairly affected by the sell off given strong returns and dividend track record

Shares in plant-hire group **Ashtead (AHT)** have fallen more than 17% in the market rout.

it's main business is leasing construction and industrial equipment. The US accounts for almost 85% of sales with another 4% coming from Canada and the balance from the UK where it operates the A-Plant brand.

The group recently (11 Sep) reported first-quarter sales up 19%, driven mainly by strong like-for-like rental growth in the US (19%), and raised its full-year profit target.

US construction spending is growing at twice the rate of GDP driven mainly by private non-residential building and big infrastructure projects.

TARGETING BOLT-ON ACQUISITIONS

As the US market remains very fragmented, bolt-on acquisitions can provide a useful kicker to the company's already strong organic growth.

The company is both investing in its existing business and using funds for these modest-sized deals. It allocated £465m to capital expenditure in its first quarter and spent £145m on M&A. Despite these material levels of investment, the company remains comfortably within its targeted range of 1.5 to two times net debt to EBITDA (earnings before interest, tax, depreciation and amortisation).

ASHTEAD BUY
(AHT) £19.67
Stop loss: £15.74
Market cap: £9.6bn

Thanks to a high rate of like-for-like growth and the ability to keep taking costs out of the business, most of the increase in sales drops through to operating profit. Ashtead's operating margin is 30% compared with an average of 10% for companies in the FTSE 100.

Following the fall in its share-price Ashtead now trades on 12 times earnings for the year to April 2019 which seems very cheap for a business with 30% margins and a return on capital of nearly 40%.

A DIVIDEND HERO

The company also yields 19% and strong cash generation underpins an impressive dividend track record. To place this in context, figures from AJ Bell's latest Dividend Dashboard for the second quarter of 2018 showed that the 2018 yield on the purchase price of Ashtead's shares ten years earlier was a staggering 44.9%.

Stockbroker Killik & Co comments: 'We continue to see Ashtead as an attractive investment opportunity. Not only will it be a beneficiary of increased infrastructure spending needed in the US and UK, but it is also playing a secular trend towards increased rental penetration and consolidation of a fragmented market.' (IC)

ASHTEAD'S US OPERATIONS – UTILISATION RATES

GENERAL TOOL (78%) OF THE BUSINESS

SPECIALITY (22%) OF THE BUSINESS

Source: Ashtead

Craneware's niche health solutions will see it grow rapidly for years to come

Customer outcomes and financial performance tick the right boxes for US hospitals

Scotland's **Craneware (CRW:AIM)** supplies innovative financial analysis, performance and monitoring tools to hospitals and other healthcare providers.

It may seem something of a curiosity to many investors since nearly all of its business is in the US despite the company being based in Edinburgh. That stems from the private healthcare system across the pond.

What is most important for investors to understand is that this is a fast growing business concentrated on a niche which is itself only starting to embrace new automated technologies, especially important as patient outcomes becomes the benchmark for performance.

Founded in 1999 by Keith Neilson and Gordon Craig, Craneware provides technology solutions through its Chargemaster and Pricing Analyser toolkits that help hospitals and other healthcare providers more effectively price, code, charge and retain earned revenue for patient care services and supplies. Keith Neilson remains the chief executive officer and main driving force.

Today Craneware employs 300 staff, and provides solutions to almost one third of the hospitals in the US. These are significant numbers. Research suggests that the average 350-bed hospital misses out on $22m in revenue capture opportunities every year.

CRANEWARE BUY
(CRW:AIM) £28.15
Stop loss: £22.52

Market cap: £752m

This is where Craneware can help, identifying new income opportunities to healthcare management as well has highlighting operational and financial risks.

TIME TO SHINE

One area where it shines is automating the authorisation code journey. This ensures that each patient gets tracked right through the treatment process, gets the help they need from doctors and healthcare professionals, and vitally for the hospital, ensures that accurate charges are billed to a patient's insurance company.

If that sounds labour intensive, it is. Yet amazingly, today most of that work is still done by admin staff using spreadsheets. That's a lot of human resource hours with massive scope for mistakes to creep in.

Craneware has been busy adding extra tools and services to its platform which should help bolster already sticky customers. This is opening up a vast pharmacies market through its fairly new Pharmacy ChargeLink toolkit.

About 85% of the firm's annual revenue is of a recurring nature while its niche solutions and deep integration into the financial running of a hospital would make it very difficult for existing healthcare providers to ditch Craneware's solutions for an alternative.

Analysts anticipate 18% revenue growth a year going forward with $79m pencilled in this year to 30 June 2019. That implies pre-tax profit in excess of $24m. It reported $18.9m last year, so 28% growth. But the point is, Craneware looks likely to continue to put up those sort of high teens to 20% growth numbers for years to come.

That it is a highly cash-generative model bolsters the long-run growth appeal. It is already paying dividends, albeit, modest ones right now. The shares have slumped nearly 20% during the recent sell-off yet little has changed in terms of Craneware as a fast growth, high quality investment story. (SF)

Halma is an excellent business trading at a more attractive price

Few companies can rival this companies track record of revenue, profit, cash flow and dividend growth

Periods of indiscriminate market weakness are typically good times to pick up quality businesses at a more attractive price. Down more than 14% since the recent market wobble, health and safety products specialist **Halma (HLMA)** undoubtedly fits the bill as a top-notch stock to buy now.

The FTSE 100 member has a very good track record of growing revenue, profit, cash flow and dividends. In June it released results which marked 15 consecutive years of record revenue and profit and the 39th consecutive year it had hiked the annual dividend by 5% or more.

The reason Halma's shares have been so heavily sold off in the past few weeks is probably concern about valuation. The shares were trading on more than 30 times March 2019 earnings ahead of the market correction. Now at 25.9-times it is trading at a more modest premium to its rough earnings multiple of 22 from four years ago, since which the shares have more than doubled.

HALMA BUY
(HLMA) £12.62
Stop loss: £10.10
Market cap: £4.84bn

Buckinghamshire-headquartered Halma makes, and sells globally, a diverse range of equipment required to meet regulations on health, safety and the environment. This can encompass everything from hazard detectors to environmental protection kits and sensors.

FORENSIC FOCUS ON THE RIGHT MARKETS

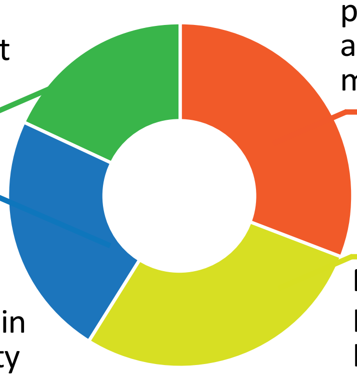
The company bolsters organic growth with select acquisitions and forensically targets markets which benefit from demographic trends like ageing populations and/or stricter safety rules. The company's own language around its business model is refreshingly simple.

Its objective is to double every five years. 'We aim to achieve this through a mix of acquisitions and organic growth. Return on sales in excess of 18% and return on capital employed over 45% ensure that cash generation is strong enough to sustain investment for growth and increase dividends without the need for high levels of external funding,' says the company.

Under its Halma 4.0 strategy, it is also buying up quality niche businesses which it can help develop within the group.

Assuming half year results on 20 November are the usual model of consistency then we would expect the shares to start recovering. Even if they don't move up much, we still think this is an outstanding business to buy and hold for the long term. (TS)

GENERAL TOOL (78%) OF THE BUSINESS



Buy Scottish Mortgage for 15% less than others bought it a month ago

Popular investment trust trades at a very appealing price following the recent market sell off

The global market sell-off has presented a good opportunity to pick up shares in popular investment trust **Scottish Mortgage (SMT)** for 15% less than they were trading only a month ago.

Its shares were caught up in the panic over rising interest rates in the US and slowing global growth, plus the fact that many of its holdings were trading on high ratings which makes them particularly vulnerable to large falls when the market turns.

We do not believe anything has changed to the companies inside its portfolio and so now is a great opportunity to buy a superb investment trust and hold for the long term.

Scottish Mortgage has a bias towards disruptive companies, namely ones with the right ingredients to shake up traditional industries plus create new ones.

Ten companies account for just over half of the portfolio by weighting. At the top of the pile is retailer Amazon which is arguably one of, if not THE, greatest company in the world at the moment in terms of its power and engagement with both consumers and businesses.

You also get exposure to various giant Chinese companies (Alibaba, Tencent and Baidu), plus some better-known names like Gucci-owner Kering and Inditex, one of the world's biggest fashion groups.

SCOTTISH MORTGAGE INVESTMENT TRUST ↗ BUY
(SMT) 481.4p
Stop loss: None

Smaller positions include sports car expert Ferrari, engineer **Rolls-Royce (RR.)** and Intuitive Surgical, a robotic surgical systems maker.

VOLATILITY TO BE EXPECTED

While Scottish Mortgage has enjoyed a really good run, delivering 23.15% annualised total return over the past decade, it is important to note the trust is likely to go through periods of high volatility, just as it has done in recent weeks.

In addition to backing high-growth stocks on potentially high valuations, some of its holdings are facing political, social and governance headwinds. Disruptive companies tend to get a lot of attention and there are inevitably questions asked from multiple directions as to whether they are good citizens.

For example, Tesla – which is Scottish Mortgage's fifth biggest holding – has been slammed for the behaviour of its chief executive Elon Musk and his failure to adhere to normal standards of corporate governance. Amazon has been criticised for the way it treats warehouse workers.

Scottish Mortgage's fund managers benefit from deep relationships with investee companies, and so you can be reassured they have the power to engage with, and hopefully influence, businesses that may have some 'delicate' issues.

Fundamentally this investment trust will give your portfolio exposure to strong growth stories around the world, with low charges and a highly experienced fund management team. We rate it as a must-have for anyone in the accumulation phase of their investing career. (DC)

Why it isn't game over for growth stocks

Sell-off is an opportunity to buy quality stocks, says Legal & General GARP guru Gavin Launder

Among the high growth stocks which have sold off in the recent roiling of equity markets are online fashion phenomenon **ASOS (ASC:AIM)**, online grocer-turned-platform, **Ocado (OCDO)**, video games services provider **Keywords Studios (KWS:AIM)**, attractions software supplier **Accesso Technologies (ACSO:AIM)** and mixers marvel **Fevertree Drinks (FEVR:AIM)**.

Other high-flying stocks such as **Games Workshop (GAW)** and litigation finance provider **Burford Capital (BUR:AIM)** have been caught up in the correction. Yet one leading fund manager believes the markets rout is but a blip, and there are a considerable number of attractive growth stocks worth buying now.

Gavin Launder manages the **Legal & General Growth Trust (B28PVN0)**, a £212m unit trust which puts money to work with companies the seasoned investor believes boast strong growth prospects.

L&G Growth Trust is an actively managed portfolio of 25, broadly equally weighted UK names. Launder adopts a 'one in, one out' approach to picking shares, forcing him to regularly review each position and promoting a strong sell discipline.

ASOS has proven to be a fashion phenomenon

Put simply, this ensures only the best growth ideas remain in his concentrated portfolio, a facet of the fund that will comfort prospective investors alarmed by the recent market turmoil.

'Because it is a one in, one out process, it could become quite high turnover, so we're actually looking for good long-term secular growth stories that can be in there for multi-year periods,' stresses Launder.

You want to have a company with either barriers to entry or increasingly in the modern world, barriers to scale

GAVIN LAUNDER – MANAGER, LEGAL & GENERAL GROWTH TRUST

KEEP CALM & CARRY ON GROWING

'I don't think the world has changed dramatically,' says Launder, addressing the recent sell-off in global equity markets blamed on a rise in US bond yields, fears over rising rates and trade war jitters.

'Growth is still an attractive place to be. It is just that the valuation gap between growth stocks and value stocks had stretched, not so much by growth looking expensive, but by value underperforming so much that it was looking very cheap and you've had that slight correction,' he explains.

His view? 'I think we just carry on.' Rather than requiring earnings upgrades to continue powering the market, Launder thinks 'reaffirmation that the growth is still growing will be supportive.'

'When this first starts happening, people ask "are we switching from growth outperforming value to a long period of the reverse, or is it just a small correction?". But we've had these corrections at some point every year for the last four or five years.

'Personally, I think that's all this is because when I look at the macro, the US is still growing well above average. Europe might have slowed, China might have slowed, but there are still long-term growth trend lines.

'It has been quite a big correction and we've topped up quite a few things here and there. It has been spread across a number of names. None of them have dropped so much that we've put lots of money in but we've topped up quite a few names.'

Growth at a reasonable price (GARP) investor Launder is on the lookout for companies that display strong secular and structural growth trends and has 'ambitions for this fund to get a lot bigger'.

His ideas are generated through a combination of fundamental bottom-up analysis and meetings with management, to assess the long term potential growth rates of a business.

Among the names to pass muster with the manager are the likes of engineering software firm **AVEVA (AVV)**, Ocado, **Cineworld (CINE)** and heat-resistant refractory materials maker **RHI Magnesita (RHIM)**.

Other positions include cyclical, yet strong growth companies such as equipment rental firm **Ashtead (AHT)** and Glasgow engineer **Weir (WEIR)**.

GROWTH STOCKS CAUGHT UP IN THE SELL OFF

TOP HOLDINGS	WEIGHT
Accesso	-9.8%
ASOS	-12.7%
Burford Capital	-13.4%
Fevertree Drinks	-21.3%
Games Workshop	-15.5%
Keywords Studios	-27.1%
Ocado	-13.0%

Source: SharePad 15 October 2018

ASOS: AT THE FOOTHILLS OF GLOBAL GROWTH

Launder can't disclose his most recent purchases for compliance reasons, but he is highly enthused by the global growth potential of names in the portfolio including the aforementioned ASOS.

'You want to be in a market that is growing, whether that is cyber or online retail,' he enthuses. 'And you want to have a company with a good moat, either barriers to entry or increasingly in the modern world, barriers to scale.

'To get as big as ASOS is a bit of challenge now, because they are the biggest player, but there's a lot of opportunity to keep on growing, and that's just in the UK.'

He has added to Hungarian airline **Wizz Air (WIZZ)**, recycling some of the profits generated from online fashion purveyor **Boohoo (BOO:AIM)** into what he perceives as a good long term story. (JC)

Why Superdry's feeling the heat

Premium apparel brand blames balmy weather for profits woe, but is the brand becoming tired?

Branded fashion retailer and wholesaler **Superdry (SDRY)** bombed on a full year profit warning (15 Oct) blamed on unseasonably hot summer and autumn weather, a hit from FX hedging losses and the downfall of partner House of Fraser.

Yet the *Superdry* branded t-shirts-to-jackets seller's shares, now trading at a lowly 784.5p, were weak ahead of the warning, which may resurrect concerns over the longevity of the brand and its faux-Japanese styling.

Heavily dependent on cold weather categories, usually delivering 70-75% of its annual profit during the second half of the financial year, Superdry is the latest retailer to lament the seemingly unending warm weather.

The balmy conditions that have continued into October, combined with weaker consumer confidence, have crimped the Cheltenham-headquartered premium clothing brand's performance.

Concerns over declining retail like-for-like sales

are weighing on the share price and Superdry concedes its first half owned store sales are expected to show a low single digit decline amid subdued footfall and competitive industry conditions.

Peel Hunt insists 'overall brand performance is not in question and Superdry has enjoyed stronger sales on the few weather appropriate days in September', while sticking with its 'buy' rating.

Nevertheless, the broker has downgraded its 2019 pre-tax profit estimate by a whopping £25m to £87m, conceding 'investors will need to see an acceleration in performance over the peak (period) to re-instil confidence in execution'.(JC)

Greencore abandons stateside ambitions

Convenience food giant sells entire US operation after almost a decade

DUBLIN-HEADQUARTERED convenience foods giant **Greencore (GNC)** is set to sell (15 Oct) its entire US business, bringing its near-decade long attempt to crack America to an end.

While it is an embarrassing climb-down for the group it at least looks a canny deal. Greencore will distribute £509m of the proceeds to shareholders through a special dividend and use the balance to pare down debt.

Sandwiches-to-salads supplier Greencore is selling the challenged US business, beefed up in scale through 2016's £594.3m Peacock Foods acquisition, to American contract food maker Hearthside for £817m.

Abandoning its US ambitions two years after betting big on America is disappointing, yet Numis Securities points out the business is being sold for an attractive implied EV/EBITDA multiple of 13.4 times.

Moreover, the sale will leave Greencore focused on the attractive UK Food to Go market, where it has a leading position and margin expansion opportunities. (JC)

Why have leisure stocks underperformed?

We explore the reasons why these companies are struggling

So far in 2018 stocks under Canaccord Genuity's leisure sector coverage have dropped by 10% on average. This miserable performance, which is worse than the wider market, begs the question of what is going on with this grouping of companies.

Investors should note these companies are still profitable for the most part, but have struggled following slower than anticipated profit growth, profit warnings or from negative investor sentiment.

MIXED PERFORMANCE FROM PUBS

One of the strongest performers is pub operator **Ei Group (EIG)**, driven unsurprisingly by the heatwave and World Cup, plus expectations that a potential sale of its commercial property portfolio could generate value.

Wet-led pub operator **Marston's (MARS)** has not enjoyed the same share price boost as EI, while rival **Greene King (GNK)** has been battling negative sentiment amid concerns it cannot maintain its positive trading.

Pizza seller **Domino's (DOM)** is among the fallers on concerns around future store openings, lacklustre sales and sluggish international growth.

While there are solid reasons for the sell-off here, the same cannot be said for bakery chain **Greggs (GRG)**, particularly after a surprisingly strong third quarter trading.

WHAT IS DRIVING THE WINNERS?

Corporate activity has been positive for Premier Inn owner **Whitbread (WTB)** with the sale of Costa Coffee to Coca-Cola for a significant premium at £3.9bn.

Also among the top performers is Jet2.com owner **Dart Group (DTG:AIM)**, which has rapidly expanded its fleet size and added new airport bases, helping to attract strong passenger growth.

This is in sharp contrast to the poor share price performance at rivals **EasyJet (EZJ)** and **Ryanair (RYA)** amid widespread strike action and higher oil prices.

SELECTED YEAR-TO-DATE PERFORMANCE FOR CANACCORD-COVERED LEISURE STOCKS

Company	YTD performance
Dart	25%
EI Group	16%
Whitbread	14%
Greene King	-11%
Marston's	-14%
EasyJet	-20%
Greggs	-23%
Domino's Pizza	-23%
Ryanair	-25%
888	-34%
Playtech	-47%

Source: Canaccord Genuity, 12 October 2018

It appears negative sentiment may also be spreading to Hungarian airline **Wizz Air (WIZZ)** as its shares are near one-year lows at £25.99.

Berenberg's Adrian Yanoshik argues investors are pricing in a profit warning, which is unlikely due to higher demand growth and the less competitive environment faced by the airline across much of its network.

WHY GAMBLING COMPANIES ARE STRUGGLING

Gambling companies have also struggled amid tougher regulations despite a US Supreme Court ruling earlier this year allowing individual US states to legalise sports betting.

Playtech (PTEC) is the worst performer down 48.4% at 443.5p as aggressive pricing from new rivals in Asia and the closure of its Malaysian market sparked a profit warning.

Rival **888 (888)** is also among the underperformers as its restructuring of UK division is proving slow in boosting performance. (LMJ)

Is it time to re-think annuities?

Higher rates are boosting returns from these income-for-life products

Before former Chancellor George Osborne stood at the House of Commons despatch box on 21 March 2014, most people who retired were shovelled into an annuity contract with their existing insurance company.

In many cases these products represented poor value for money, either because the rate on offer was paltry or wasn't tailored to their circumstances.

Following Osborne's announcement of the pension freedoms – which were introduced a year later in April 2015 – the tables dramatically turned.

Nowadays roughly twice as many people opt for the flexibility and choice of drawdown rather than securing a guaranteed income for life by purchasing an annuity.

But with rates slowly ticking up, is now the time for retirement income investors to revisit the case for annuities?

ROUGH RIDE

The pension freedoms were a final kick in the teeth for annuities after a torrid few years during which the rates offered by insurers nosedived. In fairness, this was mainly due to economic circumstances that were out of their control.

Annuity rates are essentially pegged to the yield on offer from long-term Government gilts, with insurance companies buying these gilts to match the guarantees they have made.

The massive £435bn quantitative easing programme launched in the wake of the Financial Crisis drove gilt yields into the dirt, and this in turn hung like an anvil round the neck of the annuity market.

To give you an idea of just how far rates fell, prior to the 2007/08 crash a healthy 65 year old with a £100,000 fund would have been able to buy a level, single-life annuity worth just shy of £8,000 a year. By September 2016 this had fallen to £4,696.

Since that low, rates have picked up by somewhere in the region of 15-20% - and could rise still further once QE is unwound.

PERSONAL CHOICE

Whether or not an annuity is right for you will depend on your retirement goals, personal circumstances and risk preferences.

Certainly if you don't want to take any retirement risk at all it's worth seriously considering buying an annuity. For many a combination between the security of an annuity – perhaps to cover essential spending – and the flexibility of drawdown will provide the right retirement mix.

But if you do decide to plump to convert some or all of your pension pot into an annuity, it is critical you shop around the market to get the best possible deal.

In particular, make sure you go for a medically underwritten or 'enhanced' annuity if you have a life limiting illness such as diabetes or cancer. You could also get a significant rate boost based on your lifestyle, for example if you have smoked for long periods of your life.

Tom Selby, senior analyst, AJ Bell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MITON UK MICROCAP TRUST PLC

The power of small

Over the decades of globalisation, plentiful growth with low-cost debt came to be regarded as the norm. In a world of easy credit and gigantism, smallness didn't get much of a look in.

However, since 2008, ultra-low interest rates have led to a stagnation of global productivity. As this has come through in supressed wage growth, electoral attitudes have hardened against the previous status quo.

Miton fund managers Gervais Williams and Martin Turner believe market trends are at a multi-decade turning point. In future, investors will become more discriminating in their choices, and prioritise capital allocation into assets generating productivity improvement.

The investment strategy of Miton UK MicroCap Trust plc has been crafted in anticipation of these changing market trends.

Two features define micro cap companies, the smallest of small listed company shares - their access to capital and management agility. When markets are unsettled, these factors tend to enhance the return of micro caps.

A differentiated Trust

The closed-ended structure of the Trust, where there is a fixed number of shares in issue, means the managers can take a long-term view. There are over 1,000 companies listed on the FTSE Small Cap, FTSE Fledgling and FTSE AIM Indices.

So, the opportunities for active managers to select under-researched companies are plentiful. This helps ensure investors capture the illiquidity premium[1] that comes with micro cap companies.

As managers Gervais Williams and Martin Turner commented: "Like others, we love spotting overlooked companies with vibrancy and urgency. The advantage of micro caps is that there aren't many others looking to pick these out."

In contrast to many existing smaller company funds or investment trusts, this Trust is genuinely invested in micro cap holdings.

"With world growth stalling, there's renewed interest in self-help assets that can buck the economic slowdown, and sustain ongoing growth. We are not just looking for stocks that survive the changing agenda. We're looking to back those that can really thrive."

"Alongside, the returns of the Miton UK Micro Cap Trust tend to be less correlated with mainstream indices, because the portfolio invests across such a wide range of industry sectors."

[1] The shares of smaller UK listed companies tend to be more difficult to buy or sell, and hence their share prices often move more abruptly, although this negative can offset higher long-term returns. This effect is known as the illiquidity premium.

Miton

www.mitongroup.com/micro

RISKS

The value of investments can fall as well as rise and investors may not get back the full amount invested.

The Company may borrow money which can then be used to make further investments (gearing). In a rising market, this 'gearing' can magnify the gains or in a falling market, the losses on your investment.

Past performance and forecasts are not reliable indicators of future returns.

Investment in the securities of smaller and/or medium sized companies can involve greater risk than may be associated with investment in larger, more established companies. The market for securities in smaller companies may be less liquid than securities in larger companies. This can mean that the Investment Manager may not always be able to buy and sell securities in smaller and/or medium size companies.

Important information

The views expressed are those of the fund manager at the time of writing and are subject to change without notice. They are not necessarily the views of Miton and do not constitute investment advice.

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Revealed: the ultimate income funds

The collectives which would have delivered the most cash back to investors on a £10,000 investment

Income-seeking investors want to find funds that deliver a healthy payout but not at the expense of growing their capital. We've found four income funds that have done that – in one case delivering almost £9,000 of income over 10 years on a £10,000 investment.

When assessing income funds there are, in our view, three historic performance figures investors need to look at: capital return, income paid, and total return. Capital return is the growth of your original investment, assuming that you'd taken any income paid out.

Income paid is any payouts you've received over that time, while total return is what your initial capital would have grown to had you automatically re-invested those income payments back into the fund.

With the latter figure you benefit from compounding. This creates a virtuous circle as those income units increase your stake in the fund, delivering higher income, which is then reinvested.

THE TOP OVERALL FUNDS

Looking at all the income funds focused on UK stocks over the past 10 years, we've found four that have delivered exceptional results on all three measures: **Unicorn UK Income (B00Z1R8)**, **MI Chelverton UK Equity Income (B1FD646)**, **Montanaro UK Income (BYSRYZ3)** and **Royal London UK Equity Income (B8Y4ZB9)**.

ULTIMATE INCOME FUNDS

Fund	10 year capital return	10 year total return	10 year income produced
Unicorn UK Income	180.35	309.69	£8,905.29
MI Chelverton UK Equity Income	131.71	310.91	£8,361.98
Montanaro UK Income	164.32	276.74	£6,351
Royal London UK Equity Income	109.27	220.48	£6,087.63

Notes: Income figure based on £10,000 invested. Source: AJ Bell

The top fund, Unicorn UK Income, has delivered almost 90% of your original investment back in income alone over 10 years. On top of that, if you'd taken that income your original £10,000 investment would have still grown to £28,000.

The fund, which has almost £560m in assets and is run by Fraser Mackersie and Simon Moon, invests in 43 different companies, mainly small and medium sized businesses.

> Unicorn UK Income, has delivered almost 90% of your original investment back in income alone over 10 years

MI Chelverton UK Equity Income, run by fund managers David Horner and David Taylor, is another fund that has delivered stellar income as well as capital growth. The £691m fund invests mainly in medium-sized companies and targets a yield of 4%.

It has handed investors almost £8,400 of income over the past 10 years and turned the original £10,000 investment into £23,200. For those that bought the 'accumulation' units of the fund and reinvested the income, their original investment would have turned into £41,000.

Montanaro UK Income, meanwhile, is smaller with just £330m in assets under management, having been set up almost 12 years ago. Run by the

TOP 10 BY INCOME			
Fund	**10 year capital return (%)**	**10 year total return (%)**	**10 year income produced**
Unicorn UK Income	180.35	309.69	£8,905.29
MI Chelverton UK Equity Income	131.71	310.91	£8,361.98
Schroder Income Maximiser	20.34	148.05	£7,847.05
JOHCM UK Equity Income	100.77	227.6	£7,080.62
Montanaro UK Income	164.32	276.74	£6,351
Schroder UK Alpha Income	64.24	157.7	£6,257.09
Royal London UK Equity Income	109.27	220.48	£6,087.63
Newton UK Income	72.6	128.58	£6,050.78
Premier Income	53.3	149.57	£6,016.64
Troy Asset Management Trojan Income	68.53	157.92	£5,832.58

Notes: Income figure based on £10,000 invested. Source: AJ Bell

asset manager's founder Charles Montanaro, the fund has turned a £10,000 investment 10 years ago into £26,400 and delivered £6,351 of income.

The Royal London UK Equity Income fund is by far the largest fund in the top 4, with almost £2.1bn of assets under management. It has delivered the lowest income of the top funds, but has still handed investors more than £6,000 of income over the past 10 years on a £10,000 investment.

There's no clear style winner among the top income funds, although those that have managed to deliver the highest income alongside impressive capital growth have focused on smaller companies – which have performed strongly in recent years. Unicorn, Chelverton and Montanaro all fall into this bracket.

THE BEST OF THE REST

There are just 36 funds that have a 10-year track record and have more than £250m in assets – showing how hard it is for investors to find income funds that have staying power. The 10-year limit means some well-known names such as Neil Woodford or **Evenlode Income (B40SMR2)** are excluded for not having a long enough track record.

However, there is a broad spread between value strategies, funds using derivatives, small-cap focused funds and those invested predominantly in large caps in the longer list of funds. The funds also range from multi-billion pound giants to much smaller funds, offering something for most investors.

MAXIMISING INCOME

Some funds are a choice between income and capital growth – so are top for income but have delivered much more muted price returns. This is why they haven't appeared in the top four funds above. **Schroder Income Maximiser (B53FRD8)**, for example, has handed investors almost £7,850 of income over the past 10 years, based on £10,000 invested, but has only grown the original capital to £12,034 in that time.

This fund sits within a group of funds called 'income maximiser' or 'income booster', which prioritise income over capital growth. These funds generate some income by using 'derivatives', which sell some of the potential future growth of the fund's holdings in exchange for a fee that is used towards the fund's income.

It means when markets rise the fund will likely not increase as much as its peers. This approach works for investors who want maximum income in the short term and aren't as concerned about growing their original capital.

Laura Suter, personal finance analyst, AJ Bell

THE IMPORTANCE OF INCOME

One advantage of contrarian investing is that the out-of-favour stocks we look for often offer higher-than-average dividend yields. But we never consider a high yield an attraction in its own right.

All that glitters is not gold – and an enticing dividend is worth little if it can't be sustained. That's why we look for companies with a yield that is both attractive and sustainable over the long-term. As part of a 'belt and braces' approach we often look for a reliable dividend to provide us with a return while we wait for our investment thesis to play out. As we typically invest in companies where major change is planned or already afoot, this can be crucial. Executing an effective turnaround can require time and patience and we want to be sure that the company has the wherewithal to maintain shareholder payouts through potentially turbulent times.

Being paid for our patience

If our research shows that the dividend is sustainable, then we can afford to be patient – secure in the knowledge that we are being paid to wait. That's an ideal situation for us: a strong dividend yield that gives us a consistent and attractive level of income while we await the return of health to the business – and hence its share price.

We value dividends not only because they boost portfolio returns, but also because we understand the importance of regular income to our investors.

Making income more predictable

We announced a step-change increase in our dividend in December 2017. This boosted the regular dividend by 48%, the total dividend increased by 11%. As our investment style tends to generate an above-average dividend income, compared with global equities, we have rewarded our shareholders with a higher and more predictable income stream than previously. Also, we have moved from semi-annual to quarterly dividend payments. This provides a more regular income to our shareholders. Of course, it should be remembered that dividend income is not guaranteed and can go down as well as up.

Thirty-four not out

Another key objective is to achieve dividend growth ahead of UK inflation. We have increased our net dividend in each of the last 34 years and the net dividend has been increased or maintained since at least the Second World War. Just as with our portfolio of investments, the sustainability of our own dividend is important to us and this is helped by revenue reserves of more than three times the regular dividend. This provides a strong foundation, so were the portfolio to experience a temporary shortfall in income the company would still be able to maintain its dividend policy.

Drip, drip

Finally, it is always worth emphasising the potential impact of reinvesting dividends. Dividends form a large part of total returns and this is especially true when the income is reinvested. Certificated shareholders can take advantage of our Dividend Reinvestment Programme (DRIP), allowing them to harness the power of compounding and potentially enhance returns significantly over the long-term. As at the end of July 2018, an investment in The Scottish Investment Trust would have returned 3 times its value over the last 20 years. With dividends reinvested, this would have increased to 3.7 times the original investment – an uplift of 25%. This underscores the importance of income – and shows how a steady drip of dividends can swell to a sizeable flow. ■

RISK WARNING

Please remember that past performance may not be repeated and is not a guide for future performance. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations. You may not get back the amount you invest. The Scottish Investment Trust PLC has a long-term policy of borrowing money to invest in equities in the expectation that this will improve returns for shareholders. However, should markets fall these borrowings would magnify any losses on these investments. This may mean you get back nothing at all. Investment trusts are listed on the London Stock Exchange and are not authorised or regulated by the Financial Conduct Authority. Please note that SIT Savings Ltd is not authorised to provide advice to individual investors and nothing in this article should be considered to be or relied upon as constituting investment advice. If you are unsure about the suitability of an investment, you should contact your financial advisor. Issued and approved by SIT Savings Ltd, registered in Scotland No: SC91859, registered office: 6 Albyn Place, Edinburgh, EH2 4NL. Authorised and regulated by the Financial Conduct Authority.
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Exploring alternative assets to generate more than 4% dividend yield

The investment trust income story does not end with stocks and bonds

It is testament to the flexibility of investment trusts that they can offer exposure to such a diverse collection of potential investments. Beyond the standard form of listed companies they offer more niche interests which span from private equity to wind farms and even loans to shipping companies.

All of this means investors can access income from a variety of different sources beyond traditional asset classes like stocks and bonds, plus generating returns that are often uncorrelated to the financial markets.

A BETTER FIT

The closed-ended structure of investment trusts makes them a better fit with less liquid assets such as property and other 'alternative' assets.

Many of the investment trusts which invest in alternative assets, often alongside equities, sit in the Association of Investment Companies' (AIC) Flexible Investment sector which is largely made up of multi-asset funds.

The table shows the higher yielding names in this grouping with assets of £50m or more.

HIGHEST YIELDING 'FLEXIBLE INVESTMENT' TRUSTS

INVESTMENT TRUST	DIVIDEND YIELD
Tetragon Financial	5.7%
F&C Managed Portfolio Income	4.5%
Aberdeen Diversified Income & Growth	4.4%
UIL	4.1%
Seneca Global Income & Growth	4.0%

Source: AIC

WATCH ABERDEEN'S EXPERT DISCUSS HOW THE FUND GENERATES INCOME

Tetragon Financial (TFG) invests in a mixture of bank loans, real estate, equities, credit, convertible bonds, private equity, infrastructure and TFG Asset Management, a diversified alternative asset management business.

It is possibly too complex for some investors and this is reflected in a more than 42% discount to net asset value (NAV). This discount may also reflect the difficulty of valuing the underlying assets in the portfolio. Despite these issues, broker Stifel points out that Tetragon has consistently grown its dividend since 2009.

The £475m asset **Aberdeen Diversified Income & Growth (ADIG)** was launched in its current format in February 2017 through the merger of BlackRock Income Strategies Trusts and Aberdeen UK Tracker. It has a wider remit than traditional multi-asset funds, investing in areas like farmland and trade finance. At 119.5p it trades at a 0.6% discount to net asset value, and investors can expect a dividend yield in the region of 4.4%.

THE INFRASTRUCTURE SPACE

Some trusts focus on specific types of alternative asset, perhaps most notably infrastructure.

Infrastructure as an investment theme has become increasingly popular in recent years. It is relatively uncorrelated to the equity market and can provide a predictable stream of income, often rising ahead of inflation, over the long term.

The £1.45bn takeover of John Laing Infrastructure earlier this year by a consortium of funds helped revive sentiment towards the infrastructure space which had previously suffered as the idea of private money being invested in public projects becoming more politically unpopular.

Among the investment trusts with exposure to the infrastructure space is **HICL Infrastructure (HICL)** which trades at a 6% premium to NAV and offers a dividend yield of 5.2% according to data from the AIC.

WATCH HICL'S EXPERT DISCUSS HOW THE FUND GENERATES INCOME

Other constituents of this investment trust sub-set include **International Public Partnerships (INPP)** and **GCP Infrastructure (GCP)**.

WHY OPEN-ENDED FUNDS AREN'T SUITABLE FOR ILLIQUID ASSETS

You may wonder why illiquid assets such as infrastructure projects are dominated in the closed-end space (i.e. investment trusts) rather than opened-funds (unit trusts and Oeics). The reasons why are fairly straightforward.

Investors are entitled to redeem their interest in traditional open-ended funds at net asset value, and if a large number of investors want to sell their interest in a fund at the same time the company might have to sell assets to meet these redemptions. (i.e. raise cash to pay money back to the investors).

In contrast, investment trusts – also known as investment companies – have a fixed

number of shares and can trade at either a discount or premium to their net asset value based on market sentiment.

When someone wants to sell their interest in an investment trust, they are simply selling their shares to someone else in the market. The fund manager doesn't have to do anything to the portfolio because of the buying and selling of shares between investors.

'Structural advantages of investment companies include the ability to focus on actively managing underlying portfolios without the distractions of inflows/redemptions, which are often sentiment driven and at the wrong time in the cycle,' says investment bank Canaccord Genuity.

In addition, open-ended funds can struggle to sell illiquid assets fast enough to meet redemptions – notably this was the case for several UK property funds in the wake of the Brexit vote in June 2016 and they had to suspend trading as a result.

The Financial Conduct Authority recently published a series of proposals which would force open-ended funds investing in illiquid assets to suspend trading in certain circumstances and for the products to be badged as having high liquidity risk. (TS)

How to grab a slice of growing Asian income

Dividends are rising fast in the Asia Pacific region and several funds are poised to capitalise

Income-seeking investors may want to investigate Asia, where improving corporate governance and fast-growing earnings are helping to drive dividend growth despite the prevailing negative sentiment towards emerging markets.

Dividends from companies across the Asia Pacific region leapt 15.9% to a record £222.6bn over the past 12 months. That compares with average dividend growth across the rest of the world of just 5.5%.

ASIAN INCOME GROWTH

Research from the **Henderson Far East Income (HFEL)** trust shows the Asia Pacific region now accounts for one pound in every six paid out in dividends worldwide. At the same time, regions which have been more traditional hunting grounds for pay outs are seeing their dividends dwindle – in 2009 the US accounted for one pound in every 10 paid out to shareholders in the world, but this fell to one pound in 12 last year.

Meanwhile, the annual value of dividends in Asia Pacific has more than tripled over the past decade. Between 2009 and July 2018, firms in the region paid out a total of £1.3tn to shareholders.

Brian Dennehy, director at FundExpert, explains: 'Asia is home to vast, growing middle class populations, countries with lower debt levels and innovative companies with the potential to hugely increase productivity. By 2030, a quarter of Europeans will be over 65 but only 12.5% of Asians.

'That represents an extraordinary global rebalancing, which will drive company profits and dividends for decades to come.'

ASIA OVERLOOKED BY INCOME INVESTORS

Despite the statistics, however, few investors would think of Asia as an area for income. The region is best-known for its fast-growing economies and innovative tech companies. Only around £4bn is invested in Asian income funds compared to a hefty £61.5bn held by investors in UK Equity Income funds.

But there may be a valid reason for that disparity: dividend pay outs ratios (the proportion of its profits a company gives back to shareholders) are still comparatively low in Asia, so although dividends are rising

DIVIDEND GROWTH IN ASIA PACIFIC

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018/19
Asia-Pacific annual dividends £bn	£132.70	£163.90	£168.10	£192.10	£222.60	£239.20
Headline growth year-on-year	12.6%	23.5%	2.5%	14.3%	15.9%	7.5%
Underlying growth year-on-year	n/a	25.8%	-3.7%	4.2%	13.2%	10.9%

(underlying growth excludes the effect of special dividends and exchange rates)
Source: Janus Henderson, Exchange Data International

rapidly this is from a low base.

Indeed, only half a dozen Asia focused funds yield more than 4%. Chief among them is the **Schroder Asian Income Maximiser (B581S49)** fund, which yields 7.2%, however this uses derivatives to boost its pay outs, which some investors might not be comfortable with. The standard version of the fund, **Schroder Asian Income (B559X85)**, yields 3.9%.

Portfolio manager Rupert Rucker says: 'When people think about Asia they think of high-growth areas such as China and India, but there are more mature economies in the region such as Australia, Hong Kong and Singapore where the companies are incredibly stable and have been paying dividends for more than 50 years.'

RISING TREND SET TO CONTINUE

Investors in the region are confident the upward trend in dividends will continue, so now may be a good point of entry while the market is still relatively cheap.

Sat Duhra, portfolio manager of **Janus Henderson Horizon Asian Dividend Income (B1JPCL7)**, says companies have record levels of cash on their balance sheets, are seeing capital expenditure fall and foreign investment increase. At the same time, reforms in the region are encouraging companies to start rewarding their shareholders.

'The energy, materials and financials sectors have been very strong, paying out dividends way above our expectations,' he explains. The fund, which yields 5.6%, has around a quarter of its assets in Chinese firms, with further investments in Australia and South Korea. Top holdings include China Construction Bank, commodities giant **BHP Billiton (BLT)** (also listed in the UK), and chemical company Sinopec.

Mike Kerley, manager of Henderson Far East Income trust, expects the record breaking in the region to continue – he is forecasting underlying dividend growth of almost 11% over the next 12 months. He says: 'The Asia Pacific region is more than just a crucible of investment and growth, enticing investor interested in capital gains. As economies have developed and companies have matured, it is now a huge income-generating machine too.'

TAIWAN AND SOUTH KOREA SEE FASTEST GROWTH

Taiwan and South Korea have seen the fastest dividend growth, with pay outs up almost 150% since 2013. Kerley says chemical companies, whose pay outs have increased seven-fold, have been leading the way, with growth also coming from the banking and technology sectors and firms that are benefiting from a boom in consumer goods manufacturing.

For investors considering the region, Dennehy particularly likes the **Liontrust Asia Income (B7BZB32)** fund as a good option for combining income – currently it yields 4.8% - and capital growth. "Reinvesting the income provides a fantastic kicker," he points out.

He also likes **Newton Asian Income (B8KT2R3)**, which has been particularly strong in navigating the effects of trade war threats and anticipating problems in the Chinese banking sector. The fund yields 4.4%.

Dennehy adds: 'There are some great UK equity income funds doing a fantastic job of growing their dividends consistently, but investors should not forget that there is a whole world of income opportunities that they can benefit from.' (HB)

DIVIDEND CONTRIBUTIONS BY COUNTRY:		DIVIDENDS BY SECTOR:	
Country		Sector	
Australia	25%	Financials	44%
China	23%	Telecommunications	12%
Hong Kong	16%	Technology	10%
Taiwan	13%	Basic materials	7%
South Korea	7%	Industries	6%
Singapore	5%	Consumer Discretionary	5%
UK	4%	Utilities	5%
Malaysia	4%	Oil, gas & energy	5%
Thailand	3%	Consumer basics	4%
New Zealand	1%	Healthcare & pharmaceuticals	1%

Source: Janus Henderson, Exchange Data International

Back proven stock-picker Richard Penny to maintain his stellar record

Investors should get in on the ground floor of star fund manager's new portfolio

Launched last month by CRUX Asset Management, the **FP CRUX UK Special Situations Fund (BG5Q5X2)** is managed by seasoned investor Richard Penny.

In a coup for the firm, this summer Penny joined CRUX from Legal & General Investment Management (LGIM).

At LGIM, he'd built a reputation for stock picking prowess via his stewardship of **L&G UK Alpha (B079QX4)** and **L&G UK Special Situations (B3DMY34)** trust, both of which consistently outperformed the market.

Shares regards the new fund as a compelling proposition, enabling investors to buy into the fund while it is still small and capture Penny's future market outperformance.

Richard Penny reckons FAANG stocks, including Amazon, are looking really expensive

PROVEN PROWESS

The affable Penny has more than 25 years' experience in the UK market and has racked up over 5,000 company meetings in his time, garnering invaluable experience in ways to spot the winners and stay away from stock market duds.

'We've got a clean sheet of paper,' says Penny, whose new OEIC will seek to deliver long-term capital growth from a high conviction, concentrated portfolio of UK stocks, with some exposure to other developed markets.

Armed with a disciplined, research-driven process, Penny will seek to generate alpha by focusing on mid and small cap special situations, stocks which may be out of favour, or where he perceives there to be hidden value.

Not dissimilar to his previous L&G UK Alpha Trust, this concentrated, 'best ideas' portfolio will have greater scope to invest in smaller companies but it is an all cap book; the manager will invest roughly one-third of the portfolio in FTSE 100 companies, one-third in mid-sized stocks and one-third in smaller companies.

Mid caps will form its solid core, but importantly, the new fund also has the ability to invest in AIM, with the fund's exposure to the junior exchange capped at 30%.

Penny will also consider the FTSE 100 as well and has the flexibility to be up to 20% non-UK listed, giving him the freedom to play themes and opportunities which aren't available in the UK.

Talking to *Shares* about the new launch, Penny was unable to discuss specific names, although he did point out that Dublin-headquartered duo **DCC (DCC)**, a support services concern, and construction materials outfit **CRH (CRH)**, are in the FTSE 100 yet are technically classified as non-UK.

Penny will focus on fundamentals to identify high

> **Now is the ideal time to be bringing this new offering to investors as the UK remains out of favour and the uncertain environment creates numerous attractive opportunities for experienced stock-pickers.**

quality businesses with low levels of debt, run by strong management teams and where the company has an economic advantage with the potential for high returns on capital and growth.

He will also use his considerable stock picking nous to focus on companies that compete on a global scale and with a specific eye on business to business companies, many of which served him well during his stint at LGIM.

'This is a concentrated stock picker's fund,' enthuses Penny, explaining he'll look to unearth both value situations and growth situations, with areas such as oil and gas services, mining and even retail currently piquing his interest.

Patience will be a core component of the approach and the fund, in which debut dealings began last week (1 Oct), will not invest in companies which are unproven or where Penny deems it too early to invest.

Red flags for Penny include 'complex accounting, people who capitalise R&D, if the cash is not in place that's a problem, and I don't like acquisitive companies if the management doesn't improve the businesses they acquire.'

Penny is also mindful of the well-worn adage that profit warnings come in threes, so don't expect to see him jumping into a recovery stock after the first or second profit warning.

WHY THE UK IS OK

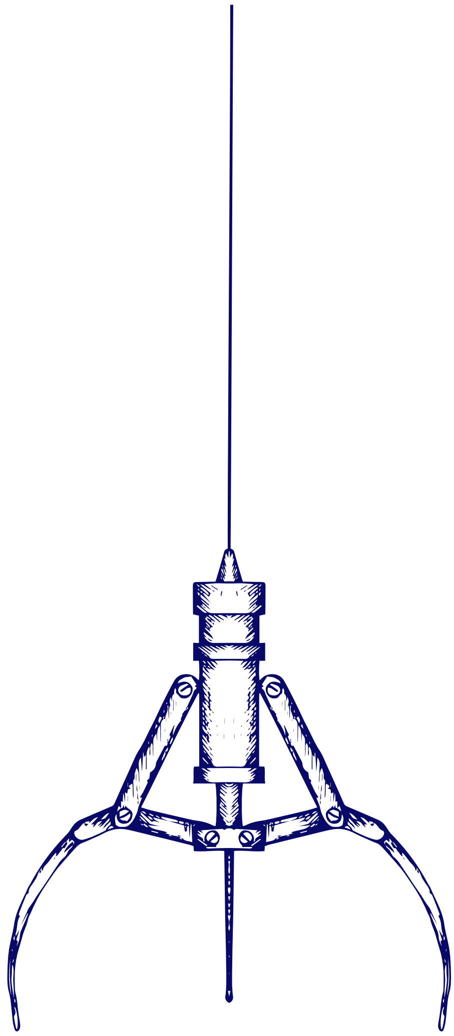
'People are underweight the UK, but the FAANGs are looking really expensive,' explains Penny, who focuses on the fundamentals of businesses to ensure they can deliver healthy upside, 'but in the UK market you can find some really interesting growth stories.'

Penny also believes some of the best opportunities can be found lower down the market cap scale, especially since international investors have a focus on UK mega cap companies.

'There are some quite interesting large caps that are yielding circa 5% and I'm seeing opportunities in some sub-£200m-to-£300m market caps,' Penny informs *Shares*.

'There's definitely a lot of opportunity in the UK small cap market, but we are pretty selective,' stresses Penny, who may back recovery stocks 'where new management has put in a few thousand pounds. But we want to back businesses that have a viable future. We don't want recovery stocks that are businesses in decline.'

Significantly, Penny is 'eating his own cooking' to coin a



phrase, having put a considerable amount of his own money into the new fund to ensure alignment with investors.

As he commented at launch: 'I have invested in UK stocks for many years and have always believed that good businesses only make the right investments when they are bought at the right price.

'Now is the ideal time to be bringing this new offering to investors as the UK remains out of favour and the uncertain environment creates numerous attractive opportunities for experienced stock-pickers. It is very exciting to be joining such a talented team and to be a part of this growing business.'

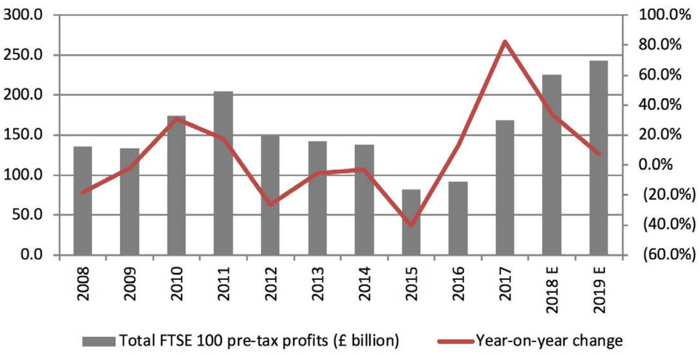
FTSE 100 earnings estimates on the rise despite correction

Future direction of UK's flagship index to be driven by banks, oil firms and miners

The FTSE 100 may be under pressure once more, as it fights to hold on to the 7,000 mark, but the good news is that aggregate earnings forecasts for the UK's benchmark index continue to rise, if only steadily.

Pre-tax profit forecasts for 2018 now stand at total of £225.8 billion, some 6% higher than they were a year ago, while estimates for 2019 are also showing positive momentum with a fourth straight annual increase to £242.9 billion the current analysts' expectation.

FTSE 100 PROFITS SEEN REACHING FRESH RECORD HIGHS IN 2018 AND 2019



Source: Digital Look, company accounts, analysts' consensus dividend forecasts

With the FTSE 100 index having fallen by 4% while profit estimates have advanced 6% over the past 12 months the benchmark has become cheaper. Based on consensus forecasts the benchmark now trades on just 13.5 times earnings for 2018 and 12.4 times for 2019 (compared the 18 times and 16 times multiples currently afforded to America's S&P 500).

Dividend forecasts also continue to rise, rather than fall, so the FTSE 100 now offers a 4.3% yield for 2018 and 4.5% yield for 2019, assuming that analysts' forecasts prove correct.

This suggests that the unloved UK equity market – regularly flagged as an 'underweight' among fund managers in the surveys such as that carried out by Bank of America Merrill Lynch – could be offering some contrarian value, at a time when value seems hard to find.

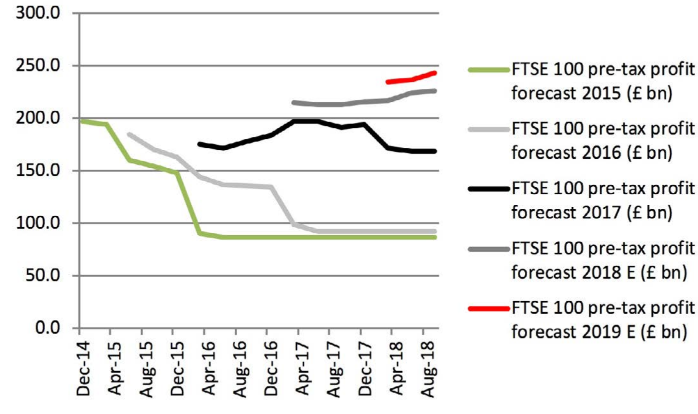
LOOKING FOR A TRIGGER

The tricky bit is finding what could act as a catalyst that could persuade investors to reassess the case for UK equities and unlock that value.

Merger and acquisition activity has yet to convince the doubters, despite a series of bids for FTSE 100 and FTSE 250 firms, including GKN, **Sky (SKY)**, **Shire (SHP)** and a failed approach for **Smurfit Kappa (SKG)**, which suggest that overseas trade buyers see value in the UK even if financial buyers do not.

Nor is the absence of net profit downgrades proving enough, even if it compares favourably to 2014, 2015, 2016 and also 2017, when more write-downs and conduct costs at the banks dragged the final total down right at the end.

FTSE 100 PROFIT FORECASTS KEEP RISING (IF ONLY SLOWLY)



Source: Digital Look, company accounts, analysts' consensus pre-tax profit forecasts

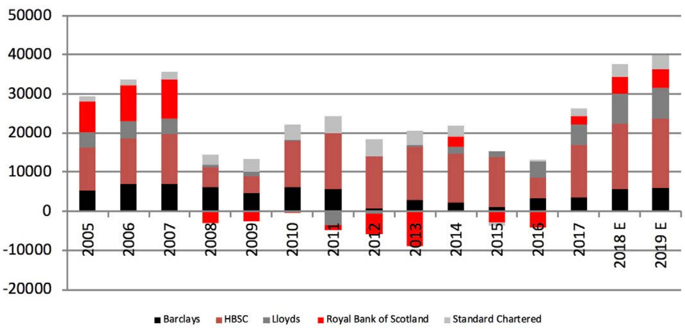
It is possible that investors remain concerned over the mix of the FTSE 100's earnings progress, which remains reliant upon oils, financials (notably banks) and miners in particular, all sectors that cannot be described hand-on-heart as inherently reliable or easy to predict.

BANKING ON THE BANKS

The banks remain particularly important.

For the umpteenth year in the row, analysts are expecting the big five banks to generate profits that match the pre-crisis peak of £36bn.

BANKS REMAIN IMPORTANT POTENTIAL PROFIT GROWTH CONTRIBUTORS



Source: Digital Look, company accounts, analysts' consensus pre-tax profit forecasts

Although such forecasts have proved inaccurate for the past several years, the good news at the moment is the profit estimates for the big lenders are rising, not falling. In June, analysts expected the big five to rack up aggregate pre-tax profits of £36.4bn and that figure has now reached £37.5bn.

However, it is in the second half of the year, and especially the fourth quarter, that the banks tend to book the bulk of any bad loans, asset write-downs, regulatory costs and restructuring charges so nothing can be taken for granted just yet.

The imminent third-quarter reporting season

SECTOR MIX OF FTSE 100 EARNINGS GROWTH MEANS ACTUAL PROFITS COULD PROVE UNPREDICTABLE (2018E)

Percentage of forecast FTSE 100 profits	
Financials	23%
Oil & Gas	18%
Mining	16%
Consumer Staples	13%
Consumer Discretionary	10%
Industrial goods & services	8%
Health Care	7%
Telecoms	3%
Utilities	2%
Technology	0%
Real estate	0%

Percentage of forecast FTSE 100 profits growth	
Oil & Gas	35%
Financials	21%
Health Care	14%
Consumer Staples	10%
Consumer Discretionary	8%
Mining	7%
Industrial goods & services	3%
Utilities	1%
Technology	1%
Telecoms	0%
Real estate	0%

Source: Digital Look, analysts' consensus pre-tax profit forecasts for the banks, which kicks off on 24 October with **Barclays (BARC)** and ends on 31 October with **Standard Chartered (STAN)**, should prove informative.

Poor share price performance in the sector also suggests that investors are not entirely convinced that the banks' earnings forecasts are wholly reliable, because perhaps because of fresh worries over Italian banks' health, even if rising interest rates and bond yields are in theory positive for the lenders' net interest margins.

RISK ON, RISK OFF

The reliance on cyclical sectors like banks and miners also leaves the FTSE 100 susceptible to the kind of switch towards 'risk-off' sentiment which currently seems to be affecting global stock markets, especially as the Brexit situation remains unclear.

It may therefore be that UK equities will struggle until markets have a clearer picture of how Brexit will look and how it could impact specific stocks and sectors or the British economy more generally.

But with the pound depressed and equity valuations looking tempting contrarians might like to start doing their research on certain companies or sectors, especially if they think a Brexit deal is possible or that even a hard Brexit may not have as big an impact as those in the Remain camp will argue.

In truth, no-one knows. But it can be argued that valuations are at least pricing in some degree of uncertainty and a negative outcome, although if the oil and metals prices retreat and the wider economy slows, to the detriment of the banks' earnings, then FTSE 100 could profit estimates could prove too optimistic – and then the index would have to fall a lot further for it to look cheap on an earnings basis.

By Russ Mould, investment director, AJ Bell

Decoding bond proxies and explaining the risks you need to watch out for

We reveal everything investors need to know about this grouping of stocks

Sometimes financial terms can seem intimidating to the uninitiated. Take bond proxies, for example.

There are several different definitions of this term, which has become increasingly popular in recent years, but essentially these are companies which are seen as 'defensive' thanks to a reliable earnings stream, predictable cash flow and strong and growing dividends.

As they offered a steady stream of income these stocks were seen as a substitute or 'proxy' for bonds which, after a three-decade bull run, offered very modest yields.

WHY BOND PROXIES BECAME POPULAR

The low interest rate environment in the wake of the financial crisis also saw the income from bond proxies attract more capital.

In addition, bond proxies have tended to outperform the market when investors had jitters about economic growth.

Morningstar Investment Management Europe portfolio manager Mark Preskett says bond proxies traditionally fall into one of four sectors, being consumer goods, utilities, telecommunications and healthcare.

He warns that bond proxies will not always be popular in difficult times as they still need to have strong fundamentals and remain resilient against rising interest rates and inflation.

While regulation is hitting utilities, consumer goods and telecommunication stocks, healthcare is benefitting from changes in regulation which are helping to drive through more drug approvals.

The healthcare sector has been the best performing sector year-to-date in the FTSE All-Share despite higher bond yields and interest rates, which have typically been bad for bond proxy stocks.

IDENTIFYING DIFFERENT BOND PROXIES

Canaccord Genuity Wealth Management deputy chief investment officer Richard Champion says bond proxes fall into two main categories.

The first group of bond proxies are companies whose main characteristic is a stable source of income. These include property firms and utilities, including **SSE (SSE)** and British Gas owner **Centrica (CNA)**.

Like Preskett, Champion warns utilities and telecommunication stocks such as **Vodafone (VOD)** and **BT (BT.A)** are facing regulatory pressures which may constrain their ability to dole out

WHY INTEREST RATES MATTER

A rising interest rate environment is perceived as bad news for bond proxies as investors turn away from these highly-rated stocks as the returns from bonds and other lower risk assets increase.

generous dividends.

According to Champion, the second type of bond proxy stocks include companies that may have no characteristics in common except a dependable earnings performance.

British American Tobacco (BATS) and **Imperial Brands (IMB)** fall into this group as earnings are derived by selling cigarettes. Because these are addictive, historically at least revenue achieved by these companies has been consistent.

Consumer goods colossus **Unilever (ULVR)** benefits from a strong set of brands such as *Ben & Jerry's, Magnum* and *PG Tips*.

These brands convey pricing power and mean the company is less at the mercy of fluctuations in the economy.

Champion argues businesses in the second category are high quality and more desirable than other bond proxies as they still offer growth, albeit often at a slower rate than the market.

One of the issues surrounding bond proxies is that investors generally mix these groups together.

UNFAIRLY LUMPED IN

This is problematic as the first set of companies are generally impacted more by rising interest rates, while the latter group can take advantage of strong brands to deliver compounding returns. As such perhaps it is unfair to characterise them as bond proxies at all.

In commentary written in 2017 Daniel Roberts, manager of **Fidelity Global Dividend (B777808)**, gave the view, similar to Champion, that all secure dividend-paying stocks had been lumped in the same bond proxy category.

Adding that if you 'scratch only a little beneath the surface and it can be seen that these sectors and the companies operating within them have very different characteristics in terms of duration, growth and absolute level of dividend yield'.

Roberts says he has a preference for quality stocks which is 'permanent not tactical' explaining that: 'History shows that fundamentally strong businesses with income-generating qualities tend to perform strongly over the longer-term.'

RISKS AFFECTING BOND PROXIES

Fidelity investment director Matthew Jennings says utilities are out of favour as the UK government is encouraging people to switch suppliers and enforcing price caps, while investors worry that the Labour Party could come into power.

Despite this, there are interesting opportunities with Jennings flagging **National Grid (NG.)** thanks to its good dividend yield and fundamentals.

Another sector out of vogue is the tobacco industry, affecting British American Tobacco and Imperial Brands.

Investors have turned against the sector as rivals have stolen market share amid regulatory pressures, lower cigarette sales and the increased popularity of vaping.

Even consumer colossus Unilever could be in for a tough time as concerns over valuation and future growth could weigh on performance according to Jennings.

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- AIM
- Investment Trust
- Fund

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