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SHARES

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PLUS

WHY HAVE INVESTORS FALLEN OUT OF LOVE WITH **UK BANKS?**

HOW TO BUY £1 OF **ASSETS FOR 50P**

GOOD NEWS: UK DIVIDENDS REACH **RECORD HIGHS**

The return of pricing power in consumer goods is reason to celebrate

Nestle and Unilever are leading the charge by pushing up prices to protect profit margins

Pricing power is one of the most important indicators of a strong and high quality business as it helps companies to protect or grow their profit margins. The ability to put up prices without weakening demand is a trait that many companies would like and very few possess.

Companies that can't push up selling prices may find it hard to generate additional value for shareholders, particularly if their margins are being squeezed by higher input costs.

So why is this relevant now? Concerns about economic growth in many parts of the world may have led some investors to deduce that pricing power is hard to achieve at present. Various consumer goods companies over the past week have demonstrated it is still possible to lift prices.

Nestle and **Unilever (ULVR)** both reported a pick-up in sales after charging higher prices for their products. This is an important shift in fortunes as earlier this year consumer goods companies in general were relying on higher volumes to drive revenue growth.

The extent to which it matters to investors was laid clear by the market reaction to Procter & Gamble's latest update. It told analysts and investors on a results conference call that it too was about to raise prices on several products around the world, triggering a 7% hike in its share price.

This is a huge breakthrough given fragile market conditions in various parts of the world. However, it is worth noting that Procter & Gamble won't be able to push through higher prices across the board as certain categories such as grooming remain too competitive to risk increasing the price ticket.

PRICING POWER UNDERPINS QUALITY EARNINGS

Pricing power can represent a higher quality of earnings, which in turn can drive share price outperformance over time. It can be linked to brand strength and/or limited competition. For example, Apple initially had considerable pricing power with its iPhone although this waned as the smartphone industry market grew and countless alternative products hit the market.

Some of the big consumer goods companies benefit from having rich relationships with retailers, meaning their products take up lots of shelf space which acts as a barrier to weaker rivals, plus it positions their brands at the forefront of shoppers as they browse for goods.

Another topical example of pricing power is TV and film streaming service Netflix which is conducting trials in Europe to gauge customer response to different price packages. While it is seen as a must-have service by millions of people, I don't believe Netflix has been around long enough to really make a judgement on its pricing power capability.

The idea of searching for companies with pricing power has been central to many investment strategies, most as part of a wider process although there are few ETFs and funds dedicated to this concept including US-listed Principal Price Setters Index ETF.

While pricing power should be considered alongside other factors such as valuation, it is fair to say that a company with sustainable pricing power is highly likely to be a great long-term investment. (DC)

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SOCIETE GENERALE

Contents

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

Why have investors fallen out of love with UK banks?

Loan and deposit growth, plus dividends, will be the focal points in the latest reporting season

Despite mostly positive first-half results, UK banks are completely out of favour with investors so there's a lot hanging on reports this week from three of Britain's biggest lenders.

Leading the way is **Barclays (BARC)** which on 24 October reported continued steady growth in its third-quarter period.

Pre-tax profit excluding litigation and PPI charges grew by 23% compared with 20% in the first half, thanks to lower provisions for bad loans. The bank also managed to trim operating costs by 3%, keeping its cost-income ratio steady.

Barclays has the highest net interest margin of the three (the return it gets on loans minus the cost of customer deposits), but loan and deposit growth is anaemic for Barclays and others.

Lloyds' (LLOY) third quarter figures were due to be released as this issue of *Shares* was published (25 Oct). The bank also had a strong first half with profit-after-tax up nearly 40% thanks to higher revenues and lower PPI charges.

Its net interest margin isn't far behind Barclays and it has by far the lowest cost-to-income ratio. It also wins the prize for the easiest-to-decipher results statement.

There has been speculation that Lloyds could double its share buyback to £2bn next year as well as raising its dividend.

Finally **Royal Bank of Scotland (RBS)** reports on Friday 26 October. It's the weakest of the three in terms of cost-to-income and net interest margin and first-half results were unremarkable with total income falling 3%.

However all eyes will be on the dividend policy. The bank paid 2p per share on 12 October, its first dividend in a decade after returning to profit last year, and shareholders will be keen to know whether they can expect further payouts.

First-half data	Barclays	Lloyds	RBS
Net Interest Margin	3.2%	2.9%	2.0%
Bad Loan Ratio	0.4%	0.2%	0.1%
Cost-Income Ratio	61%	48%	71%

RBS is still majority-owned by the UK Treasury (62%) after it had to be bailed out during the crisis.

A recent study by the Bank of England suggests banks are cutting back on lending particularly to consumers, rather than trying to grow their loan books.

The latest Credit Conditions survey shows that, excluding remortgages and credit cards, the banks offered less credit to households last quarter and expect to offer less again this quarter even though default rates are falling.

The reasons seem to be two-fold. First, the interest margin or 'spread' on lending to households is expected to narrow significantly this quarter so the banks will earn less.

Second, the Bank of England is unhappy with the amount of new loans this year to companies which already have a lot of debt.

This increase in 'leveraged' lending and lower underwriting standards mean the banks may be taking on more risks than is healthy, so as a result they are expected to decrease the amount of lending to consumers. (IC)

Weak outlook at Whitbread overshadows new budget hotel concept

The Premier Inn owner is hoping to tap into a £1bn market opportunity

Premier Inn owner **Whitbread (WTB)** plans to target people looking for 'no-frills' cheap accommodation by launching a new hotel concept called Zip.

Chief executive Alison Brittain says the market opportunity for ultra-budget consumers could be worth £1bn annually.

She believes the new Zip brand will target people that typically do not stay at Premier Inn as they may deem it too expensive.

Whitbread's strategic move comes hot on the heels of its decision to sell coffee chain Costa Coffee to Coca-Cola for £3.9bn, plus the move may threaten **EasyHotel (EZH:AIM)** by targeting its UK customer base.

WHAT NEXT FOR WHITBREAD?

The strategic initiative comes as weak consumer demand weighs on Premier Inn's performance with like-for-like accommodation sales rising just 0.2% in the half year to 30 September.

With the sale of Costa progressing, and likely to result in a special dividend for shareholders, Whitbread is planning to innovate the Premier Inn brand in the UK and scale up internationally, particularly in Germany.

The company say investors will have to wait until February 2019 for more detail on how it will pursue these growth opportunities.

Davy Research analyst Joseph Quinn says Whitbread's first-half results were in line with forecasts but warns the cautious outlook could cause consensus estimates to be trimmed.

Looking ahead, the company warns of inflationary pressures in the current volatile economic and political environment.

Whitbread also says a near-term profit growth 'may be lower' than previous years as it undergoes an investment programme in an effort to revive a subdued UK market.

WHITBREAD VS EASYHOTEL

In the year to 30 September 2017, EasyHotel derived the bulk of its sales from the UK at £7.2m.

The hotel operator generated approximately £1.1m of revenues from the EU and £0.1m from hotels around the world.

Whitbread's Zip concept is essentially stepping into EasyHotel's terrain and threatens its key driver of sales and profitability.

The first Zip hotel will open with 138 rooms in Cardiff in early 2019. It will offer rooms that are less than half the size of the size of a standard Premier Inn room at 8.5 square metres.

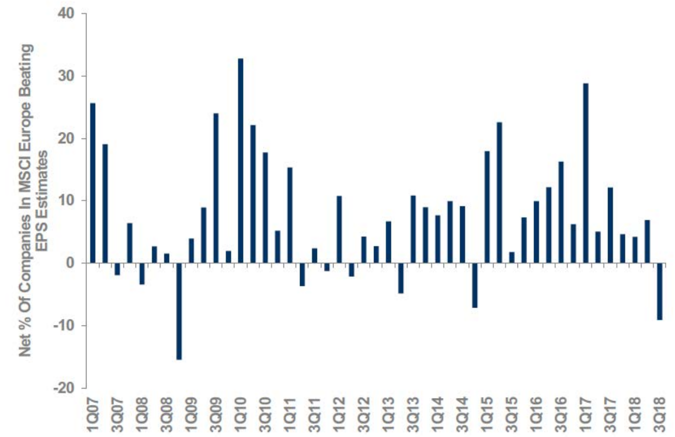
The 'outskirts' of major towns and cities are being targeted with prices from £19 a night and features including lightboxes, a TV, Wi-Fi and en-suite shower rooms.

EasyHotel provides a wide range of room sizes to accommodate families in convenient locations, including hotels within a 15-minute drive of London Heathrow and in walking distance from Paddington, Victoria and Old Street tube stations in the Capital. (LMJ)

United States 1 : Europe 0 in latest earnings season

Early signs from third quarter results suggest a significant divergence of fortunes

European financial results so far have shown more EPS misses than beats for the first time since Q4 2014



Source: MSCI, Bloomberg, Morgan Stanley Research
Note: EPS beat / miss defined as +/-5% from consensus estimates

The respective earnings seasons in the US and Europe reflect an increasing disparity in corporate health.

US firms, buoyed by tax cuts and a robust economy, are flying high. On 22 October, after nearly a fifth of US companies had reported their third quarter numbers, Saxo Bank's head of equity strategy Peter Garnry noted their earnings were up by an average of 6.5% year-on-year.

Despite these positive results, negative market sentiment means US indices continue to struggle and before investors get too carried away, the major technology companies, arguably the most important names to watch given their size, are yet to report.

Amazon, Intel and Google's parent company Alphabet post tonight (25 October) after the market close in the US.

European firms are not faring as well as their American counterparts. Garnry reckons up until now revenue and earnings are in a negative territory, reflecting exposure to faltering emerging markets. He does add that European stocks could be 'tactically interesting' with US stocks looking overvalued in his view.

90%
of S&P 500 firms have beaten Q3 earnings expectations – Driehaus Capital, 20 October 2018

EUROPEAN FIRMS ARE MISSING EXPECTATIONS

Investment bank Morgan Stanley says of the European companies to report so far, 23% have beaten earnings expectations and 32% have missed forecasts.

If this trend continues it would represent the first net miss since the fourth quarter of 2014.

All broad sector groupings in Europe are seeing at least modest earning downgrades and the bank's team also highlight the weak share price reaction to earnings reports.

They explain: 'Earnings per share beats have, on average, seen underperformance on the day of the results, while sales results have seen misses punished by more than beats have been rewarded.'

Morgan Stanley adds: 'One of the key themes to come out of the second quarter results season was signs of margin pressure, as a strong top-line (revenue) beat was met with merely okay earnings figures.

'Again we highlight that we only have limited results so far, but (third quarter) sales have seen a small net beat relative to the earnings miss, suggesting margin pressures continuing.' (TS)

Good news: UK dividends reach record highs

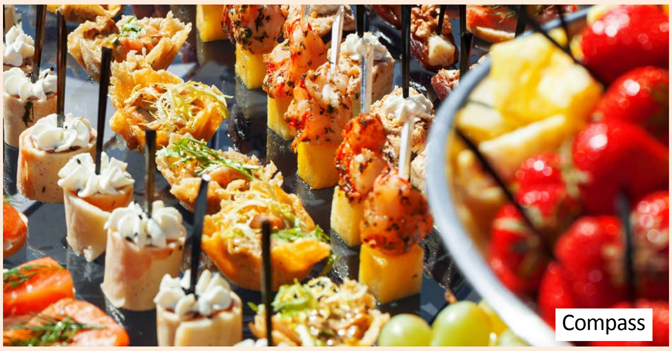
Robust payouts give investors reasons to be (more) cheerful

It is raining dividends in the UK with nearly £100bn worth of income payouts set to swell the coffers of investors in 2018.

That's according to the latest UK Dividend Monitor report constructed by shareholder support specialist Link Asset Services, which has raised its full year estimate by £1.1bn to £99.5bn for the current calendar year.

Recent stock market volatility has been a major concern for many investors, particularly in the wake of the heavy sell down of stocks this month. So robust dividend data will be very welcome news.

MEMBERS OF THE 600 CLUB: DIVIDEND HERO SHARES THAT RETURNED 600% OR MORE



Compass

Company	10-year total return	10-year dividend CAGR*
Ashtead	4,060%	27.8%
Hargreaves Lansdown	1,498%	18.1%
Croda	992%	15.2%
InterContinental Hotels	895%	11.7%
Halma	816%	6.4%
DCC	772%	11.2%
Paddy Power Betfair	739%	16.8%
Intertek	724%	13.1%
Micro Focus	722%	27.5%
Compass	662%	10.8%
Scottish Mortgage	652%	3.6%

Compound annual growth rate. Source: AJ Bell

Dividends topped a record £32.3bn during the three months to 30 September, a 4.1% increase year-on-year, says the study. Underlying dividends, which strip out one-off special payouts, rose 6.9% in the quarter to hit an all-time £31.6bn high.

The latest Dividend Dashboard data for the third quarter from AJ Bell reveals the FTSE 100 is expected to yield 4.3% for the whole 2018 calendar year. That implied return is set to rise to 4.5% in 2019, based on the anticipated 5.5% annual growth of FTSE 100 dividends next year.

Many UK investors have come to relay on growing dividends as a vital part of their investment strategy. This is because of the exceptional compounding returns that can be earned.

WHY DIVIDENDS ARE SO HIGHLY VALUED

This is illustrated by the '600 Club' recently flagged up by AJ Bell analysts, a list of 11 stocks that have combined for a 600%-plus total return (capital plus dividend reinvested) over the past 10 years.

These 11 companies are described as 'dividend heroes', so-called because they have increased their dividend in each and every of the past 10 years.

'Only two of these companies were in the FTSE 100 10 years ago, **Compass (CPG)** and **InterContinental Hotels (IHG),** showing the importance for investors of going beyond the big name firms of today, and hunting out the smaller, promising companies that will be the winners of tomorrow,' says Laura Suter, personal finance analyst at AJ Bell.

Mining companies have been a core driver of dividend growth in the last two years, as they recovered from a commodity price crash.

In the third quarter mining stocks overtook the oil sector to become the largest dividend payers, and they also contributed most to dividend growth, up £1.4bn year-on-year. This represents an increase of 41%, according to the UK Dividend Monitor. (SF)

Investors prepare for the Budget and rate decision

It could be a busy week ahead for economics, politics, markets and currencies

Next week will see investors digest both the Budget on 29 October and the Bank of England's latest decision on interest rates on 1 November.

Chancellor Philip Hammond may be spared some more difficult decisions after reports in the *Financial Times* that revisions to the Office for Budget Responsibility's forecasts for public finances would reduce the 2018-19 deficit by £13bn.

The risk of the Budget being voted down by the Conservative Party's partners in the Democratic Unionist Party (DUP) seems to have eased for now after the recent EU summit on Brexit came and went without any of the DUP's so-called red lines being crossed.

Brexit is likely to influence the Bank of England's upcoming decision on rates, when Governor Mark Carney will also offer an updated view on the outlook for the economy and inflation.

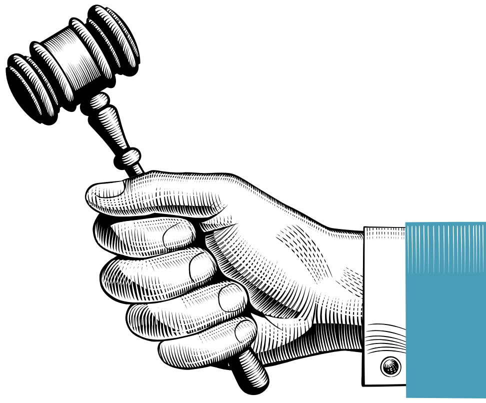
The most likely scenario is that Carney will take a cautious stance until the outcome of Brexit negotiations is known.

A no-deal Brexit may not prompt a cut in rates to shore up the economy; instead it may force an increase in rates to counter the inflation caused by any resulting slump in sterling.

On 22 October Prime Minister Theresa May told MPs an exit deal was '95% done'. That last 5% could be tricky to get over the line, with the EU's insistence on a 'backstop' aimed at avoiding a hard border in Ireland appearing to be the main, complicated sticking point. (TS)

The market sell-off has given the gift of cheaper Burford Capital shares

The AIM superstar is now trading 15% below the price at which big investors recently bought new stock



With the FTSE 100 hitting seven-month lows and the FTSE 250 at an 18-month low, investors are being given a rare opportunity to buy quality companies at knock-down prices.

One name which immediately stands out is **Burford Capital (BUR:AIM)**, which provides finance for lawsuits in return for a share in the awards.

The law industry turns over more than $800bn a year and litigation finance is a growing trend with huge potential to provide capital to law firms and in-house legal teams.

Burford has grown its 'assets' or cash advanced to companies to fight lawsuits by 350% in the last four years as the business has taken off.

Income from these assets has grown by over 650% in the same period, with operating profits averaging 90% (in the first half of this year they hit 93%).

These kind of results helped the shares to rocket from 200p in 2016 to £20.00 in August this year, but the recent market sell-off has taken them back to £15.62.

The business is highly cash-generative which allows it to keep investing and new commitments hit a record $540m in the first half of the year.

BURFORD CAPITAL
BUY
(BUR:AIM) £15.62
Stop loss £10.00

Market cap: £3.5bn

Growth is coming both from new clients, who usually need finance for single cases, and existing clients who move from single cases to whole portfolios of cases.

Around three quarters of law firms for which Burford financed a single case have gone on to give it further business.

The company focuses on large cases and is careful to spread its risk by claim type, claimant, legal adviser and law firm to avoid concentration.

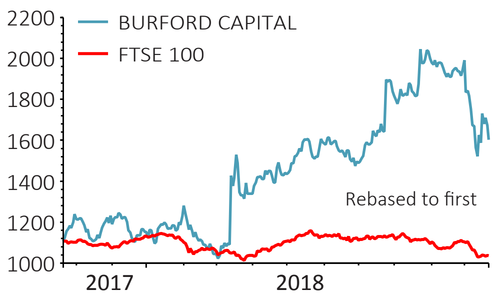
As the market leader, with close to a 60% share according to analysts at broker Keefe, Bruyette & Woods, Burford can take on more trial risk than its competitors which is a big competitive advantage and generates higher returns.

To help finance its expansion the company raised £193m from institutional investors at £18.50 per share at the beginning of October. The funds will be used to grow the business in the US and Australia, which are particularly litigious markets and where there is good scope to pick up new clients.

Due to the fall in stock markets individual investors can pick up the shares today at a 15% discount to the 'smart money' (the price at which institutions paid for the new shares a few weeks ago) which is almost unheard-of.

While the shares are weak and there's no news flow we would pick them up as interest is bound to be rekindled when the company hosts its investor day on 12 November. (IC)

DISCLAIMER: The author owns shares in Burford Capital



HOW CAN A MULTI-MANAGER FUND BENEFIT YOUR PORTFOLIO?

Established in 1909 to manage the estate of the first Lord Farringdon, Witan Investment Trust has a rich heritage. In 2004 Witan took a new direction and decided to adopt a multi-manager approach, selecting investment managers with different styles and specialisations, in order to allow the trust to play to managers' individual strengths to reduce the performance volatility that can arise from dependence on a single manager for everything. Witan invests its shareholders' funds primarily in a broad geographical spread of global equity markets and aims to profit from opportunities created by global economic growth, generating long-term capital growth together with an income that rises faster than the rate of inflation.

Chief Executive, Andrew Bell explains; 'If you choose one manager, however good they are, they will tend to play to a certain theme, which will work very well in some market conditions and less well in others. Our objective is to choose people based on what they're good at. Someone who's good with UK equities might not have global expertise, so we choose specialists. Part of our purpose in choosing a selection of managers is also to smooth out their peaks and troughs in performance'.

Over-diversification is a potential pitfall with this approach. Since each manager will have multiple stocks in their portfolio, the total number of stocks can mount up, with a risk that they end up cancelling each other's views out. 'We emphasise higher conviction stock-picking by our managers to reduce the risk of unintentional index-hugging. In investment, as in cooking, the individual ingredients to your recipe need some tang and spice about them, to render the final dish appetising'.

Although past performance is no guarantee of future performance, over the last 10 years the Company's net asset value total return has been 228% versus the benchmark performance of 178% (performance figures are 30th September 2008 to 30th September 2018) and 2018 marked the trust's 43rd year of consecutive dividend growth.

With a global strategy, Witan aims to offer investors a one-stop shop for global equities seeking to deliver long term growth in income and capital.

Witan Investment Trust is an equity investment. Please remember past performance is not a guide to future performance, and the value of shares and the income from them can rise and fall as a result of currency and market fluctuations, so investors may not get back the amount originally invested.

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DISCRETE PERFORMANCE (%)*

Witan investment trust

	Q3 2013 Q3 2014	Q3 2014 Q3 2015	Q3 2015 Q3 2016	Q3 2016 Q3 2017	Q3 2017 Q3 2018
Share Price (Total Return)	16.0	6.4	16.5	24.8	10.5
Net Asset Value** (Total Return)	8.6	3.7	25.0	19.2	9.6
Benchmark*** (Total Return)	8.1	-0.7	24.8	15.3	9.1

**Source: Morningstar / Witan, total return includes the notional reinvestment of dividends. Annualised figures updated each calendar quarter.*
***The Net Asset Value figures value debt at fair value and include the notional reinvestment of dividends.*
****Since 01.01.2017, Witan's benchmark is a composite of 30% FTSE All-Share, 25% FTSE All-World North America, 20% FTSE All-World Asia Pacific, 20% FTSE All-World Europe (ex UK), 5% FTSE All-World Emerging Markets. From 01.10.2007 to 31.12.2016 the benchmark was 40% FTSE All-Share, 20% FTSE All-World North America, 20% FTSE All-World Europe (ex UK) and 20% FTSE All-World Asia Pacific.*

Source: FTSE International Limited ("FTSE"). FTSE is a trade mark of the London Stock Exchange Group companies and is used by FTSE under license. For more information go to www.witan.com/legal-information.

Jupiter's US small cap investment trust is just the ticket for turbulent times

The smaller end of the market in the States is benefiting from strong economic conditions, lower taxes and takeover interest

An 8% discount to net asset value (NAV) on **Jupiter US Smaller Companies (JUS)** presents a great buying opportunity. With the US economy remaining strong, domestics benefiting from lower taxes and smaller corporate fry attractive as takeover targets, there's scope for the discount to narrow and the portfolio to be worth a lot more in time.

Fund manager Robert Siddles seeks out value opportunities within the vast universe of US small caps. While his value-oriented approach means the fund may lag when markets roar ahead, the portfolio should prove more resilient when markets encounter tougher times – a bit like now.

He focuses on capital preservation and avoiding downside risk, investing in attractively valued firms with a strong franchise, robust free cash flow, pricing power and management owning plenty of shares in the business (known as 'skin in the game').

Following a review instigated by the board, portfolio concentration has increased with Siddles seeking to hold the best performers for longer, while selling weaker performers more quickly.

JUPITER US SMALLER COMPANIES BUY
(JUS) £10.15
Stop loss: 700p

Bouncing back from a disappointing prior year, NAV per share rose 21.1% in the year to 30 June, outperforming the 14.2% advance of the benchmark sterling-adjusted Russell 2000 Index.

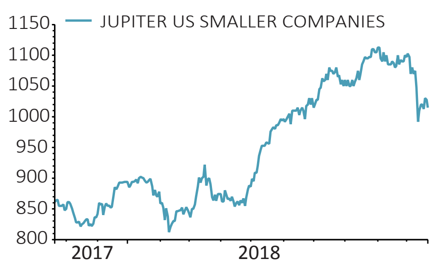
Sixteen of the investment trust's 41 holdings are 'companies capable of delivering reliable earnings growth over a long period and where the stock price at purchase is very cheap compared to the underlying business value,' says Winterflood analyst Kieran Drake.

Siddles believes US economic growth can continue despite rising interest rates and the trade war with China, according to Drake following a recent meeting with the fund manager. Donald Trump's tax cuts are stimulating economic growth and boosting the earnings of domestic US firms, too.

Strong franchises generating sustainable free cash flow make attractive takeover candidates and there were three takeovers in Jupiter's portfolio last financial year. Amplify Snack Brands was taken out for a tasty premium by Hershey, while two regional banks – State Bank Financial and CoBiz Financial – were also bought.

Jupiter US Smaller Companies' current biggest holding is Ollie's Bargain Outlet, a branded goods discounter geared into the financially squeezed US consumer's quest for value and boasting good growth potential.

Investors are also buying exposure to Chef's Warehouse, a food distributor to upmarket restaurants; used car seller America's Car-Mart; global freight railroads operator Genesee & Wyoming; nursing home operator Ensign; and insurance specialist Alleghany, among others. (JC)



JOHNSON MATTHEY
(JMAT) £28.74

Loss to date: 6.3%
Original entry point:
Buy at £30.66, 21 December 2017

SHARES IN CHEMICALS group **Johnson Matthey (JMAT)** have plummeted after Volvo detected problems in its trucks that may cause engines to exceed emission limits.

Johnson Matthey has an approximate 60% market share for heavy-duty catalytic converters, so the recent share price decline is the market betting that Volvo is one of its clients.

UBS analyst Andrew Stott says the liability of third party suppliers to Volvo may be 'impossible to establish'. He comments: 'What is not clear is the extent to which harmful nitrogen oxide (NOX) emissions are being released beyond regulatory targets, if at all.

'Volvo stated that faulty equipment "could cause emission limits to be breached", and that the full analysis is not completed. For Johnson Matthey, however, this could flag future risk as the leading supplier of truck catalysts (an estimated c20% of group earnings before interest and tax).

Stott argues a best case scenario for Johnson Matthey is that the problem is found not to be with its product, but rather related to other factors.

SHARES SAYS:
It is best for investors to wait until Johnson Matthey's half year results on 21 November for clarity. At the moment there isn't enough information on which to base a decision whether to keep or sell the shares, so we're sitting tight. (LMJ)

B&M
(BME) 391.2p

Loss to date: 6.4%
Original entry point:
Buy at 418p, 1 February 2018

WE'RE STICKING with our bullish stance on multi-price discounter **B&M European Value Retail (BME)**, albeit irked by a share price drift to 391.2p that leaves our trade languishing in a modest loss.

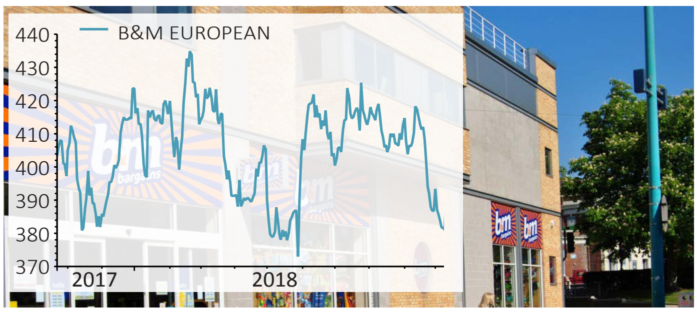
B&M's acquisition (19 Oct) of Babou Stores in France for €91.2m provides a base which will enable the Simon Arora-led firm to develop and grow its proven, profitable value retail model across the channel.

Babou is a 95-store-strong chain of discount general merchandise outlets. The average store size, location and customer base of Babou are comparable to the flourishing B&M Homestore operation in the UK.

France, alongside the existing German and UK markets in which B&M operates, has attractive dynamics in terms of overall size, the rising popularity of the discount channel and the healthy operating margins achieved by several incumbent players.

While the retail sector struggles, B&M is a self-funded growth business, a cash generative concern offering a play on trends towards value and convenience, and scope for higher ordinary dividends and special payouts on top.

Numis Securities welcomes the Babou deal, moving its recommendation from 'add' to 'buy' following a soft share price run; the broker's 475p price target implies 21.5% upside from these levels.



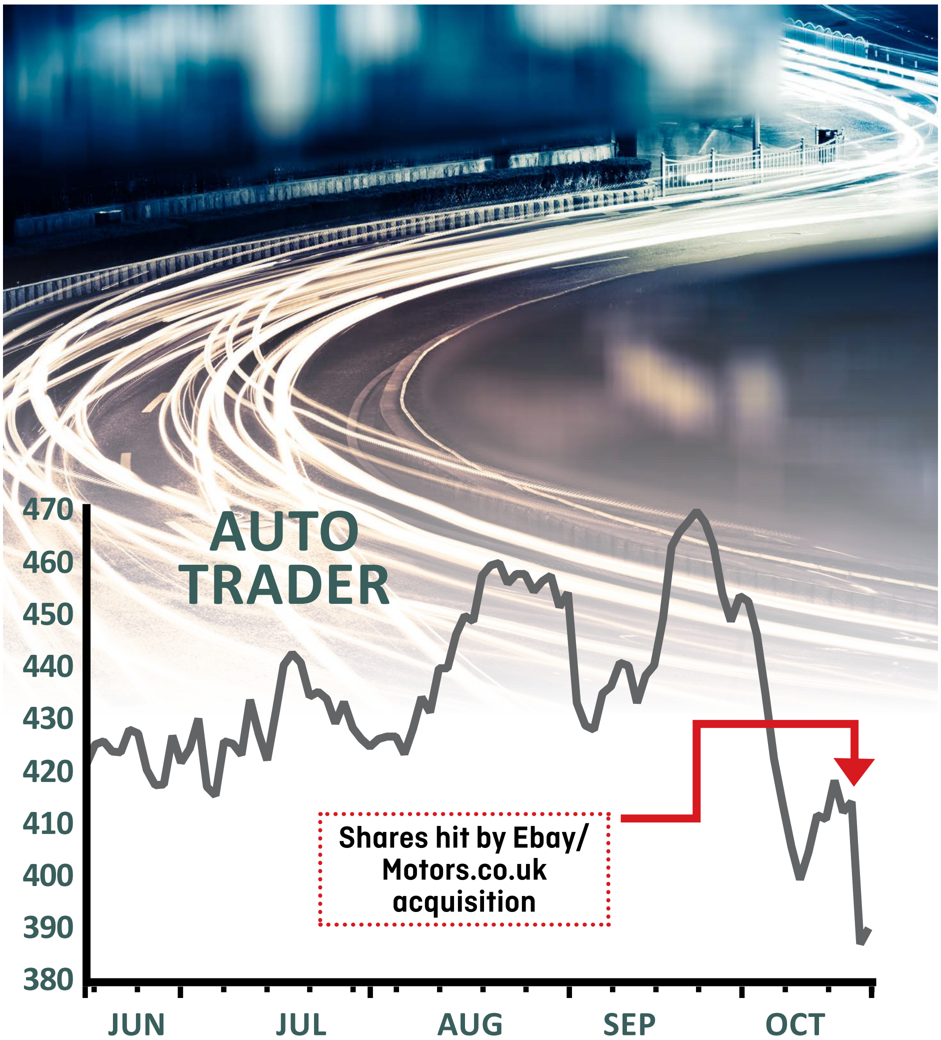
SHARES SAYS:
We're excited to see what B&M can do with Babou. Keep buying. (JC)

Will Auto Trader be overtaken by Ebay?

Competition concerns help rev up the pressure on a stalling share price

On 19 October two pieces of potentially negative news emerged to put **Auto Trader's (AUTO)** shares in reverse gear.

First the UK's largest independent car dealership **Pendragon (PDG)** warned on trading and then online auction site Ebay announced the purchase of Motors.co.uk, creating a bulked-up challenger to Auto Trader's leading position in the online car listings market.



WHAT HAS HAPPENED TO THE SHARE PRICE?

As a relatively highly-rated company with a technology-linked focus, Auto Trader had already been caught up in the recent market correction and the Ebay news helped extend the losses for shareholders.

At 390.7p the shares are now down around 17% on the highs attained in late September. At these levels the shares trade on a March 2019 price-to-earnings ratio of 20.1-times.

WHO IS MOTORS.CO.UK AND WHAT ARE EBAY'S PLANS FOR THE BUSINESS?

In the six years since being bought by Cox Automotive, Motors.co.uk has doubled its consumer audience and the number of vehicles it advertises. Ebay has now agreed to buy the Motors.co.uk website and make it part of its Gumtree service.

The deal is subject to approval by the Competion and Markets Asthoriy and is expected to complete in early 2019.

ARE THE COMPETITION FEARS WARRANTED?

While Auto Trader attracts 10.3m unique visitors a month and has around 500,000 car listings, the combination of Motors.co.uk and Gumtree should reach 10m and have 620,000 car listings.

However, it is worth unpicking these numbers a bit. Peel Hunt analyst Jessica Pok notes a study by Comscore in January 2018 which showed each visitor of Auto Trader spent on average 74.6 minutes in a month on the site. This compares with 34.8 minutes for Gumtree and 12.7 minutes for all other motoring portals.

Investment bank Berenberg

comments: 'Ebay already has expertise in autos in Germany with (listings) market leader mobile.de. In the UK, Ebay and Gumtree have historically been more focused on the lower end of the used car market but Motors.co.uk probably brings it more into the mid-market and it's hard to ignore this is a more viable challenger.

'That doesn't spell complete disaster for Auto Trader – **Rightmove (RMV)** and Zoopla co-exist in real estate – but it does give dealers something to push back with when Auto Trader comes with its annual price increase.'

This is an important point. Auto Trader has two main ways of increasing revenue and profit. One is to sign up a greater volume of car dealers to its platform. The other is to increase the level of subscription income or average revenue per retailer (ARPR) either by selling additional services or simply by upping its prices.

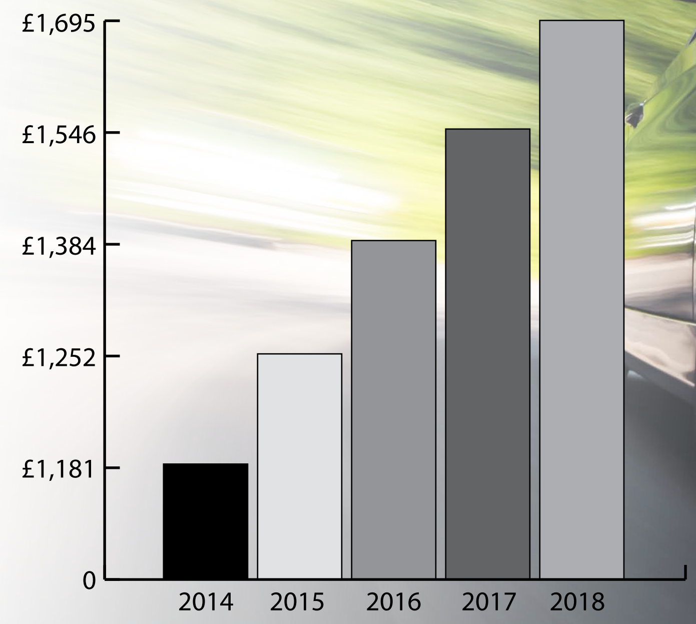
Auto Trader is a strong brand but a core strength of the business up until now has been its leadership position in the market.

Similar to Rightmove in the property sphere, by having the largest number of listings it becomes the one most checked by prospective purchasers and therefore a must-have subscription-based product for estate agents, or in this case car dealerships.

This has also enabled Auto Trader to consistently boost its ARPR. As Berenberg suggests, stronger competition might put this metric under pressure.

Pok at Peel Hunt comments:

AUTO TRADER – AVERAGE REVENUE PER RETAILER PER MONTH



Source: Company reports

'We believe the Ebay/Motors.co.uk deal will be approved by the Competition and Markets Authority and could increase competition for Auto Trader in the medium term.

'However, Auto Trader's brand has taken years to build to what it is today. In our view, the combination of the three portals only creates a larger pool of listings but not a more attractive proposition for the consumer.'

IS THE PENDRAGON NEWS RELEVANT?

Analysts are split on this question. Liberum's Ian Whittaker notes Pendragon's warning was driven by lower new car sales, adding that Auto Trader 'is essentially used cars (c. 80%) and, while it wants to expand its new car sales, this is not its primary market'.

Pok at Peel Hunt reckons the state of the new car market is more concerning than the Ebay move, pointing out that stock growth for Auto Trader is driven by more part-exchanged used cars coming on to the market.

HOW WILL AUTO TRADER RESPOND?

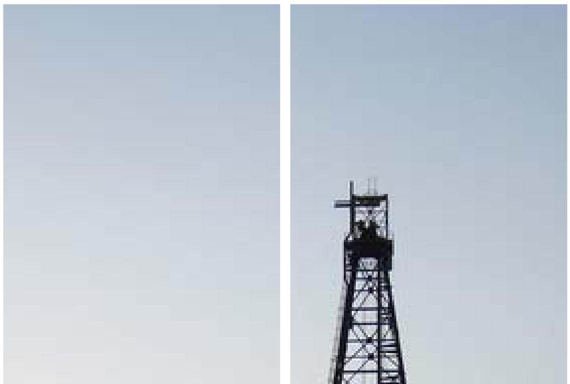
We won't have too long to find out as the company will be under pressure to address both issues when it reports half year results on 8 November.

SHARES SAYS:

Auto Trader is one of our running *Great Ideas*. Recent share price weakness has wiped out our gains on the stock, but we remain cautiously positive for now ahead of the company's upcoming first half results. Stick with the shares. (TS)

ENERGY LEVELS ON THE RISE

By Olivia Markham,
Portfolio Manager,
BlackRock Commodities
Income Investment Trust



Confidence is returning to the energy sector, says portfolio manager Olivia Markham, while mining may not have reached its peak.

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

The BlackRock Commodities Income Investment Trust invests in the energy and mining sectors, aiming to achieve an annual dividend target and capital appreciation over the longer term. This longer-term view is important as both sectors can drift off the radar of generalist investors during rocky periods or downturns.

In the case of energy, the Brent Crude Oil price has been through a slump over the past few years but, having risen above $70 per barrel in 2018 (Trading Economics), we believe that it has reached a point of relative price stability and it appears well supported at current levels.

As confidence grows that current oil prices are here to stay, the sector is well positioned to outperform broader stock markets over the medium term. We also believe that energy equities are attractively valued, which could translate into generous dividend yields. Past performance is not a reliable indicator of future results and should not be the sole factor of consideration when selecting a product or strategy.

Our view is that energy shares have not yet risen enough to reflect this oil-price strength. The Trust has therefore taken an overweight exposure to exploration and production companies, while also focusing on those energy companies offering attractive income streams. There is no guarantee that any forecasts will come to pass.

Global economic factors

We believe the outlook for global economic growth remains robust and we see this supporting healthy growth in the demand for oil over the next five years. Rising trade tensions are a key risk but for now we don't see them derailing the current positive outlook.

Another risk to global growth in oil demand is renewable energy and the move towards electric vehicles in particular. However, we see this as a longer-term threat, on a 10 to 15-year view.

BLACKROCK®

Meanwhile, in terms of oil supply, US shale oil production has not increased as fast as some had feared and OPEC continues to support the oil price with its production cap. We are also seeing general constraints on global oil production, resulting from reduced spending in the sector since the oil-price crash in mid-2014.

Resurgent mining?

Like energy, mining had been out of favour following a torrid period from 2011 through to the end of 2015. Since then, however, we have seen vastly improved performance through 2016 and 2017 as commodity prices rebounded and mining companies reduced their debts. Our view is that we are still a long way below the 2011 peak and the sector continues to trade at a valuation discount to broader stock markets. Meanwhile, free cash flow in the sector is close to the highest it has ever been.

Even so, many investors remain wary, expecting mining companies to make the same mistakes of the past in terms of poor capital discipline. Our view is that the pain of the recent down-cycle is still too fresh in the minds of management teams for this to become a widespread issue in the near term.

As with energy, we believe the mining sector offers a premium dividend yield compared with broader equity markets, as many of the big miners have switched to pay-out ratio dividend policies where dividends are based on earnings. We believe this is a sign of positive capital discipline and it gives us greater certainty around income when investing for the Trust.

Over the year to date (August 2018), the industrial commodities and mining equities have come under pressure due to fears of trade wars involving the US and China. However, in our view the recent falls in base metal prices look overdone relative to actual demand conditions, creating an attractive entry point to the sector.

There is no guarantee that any forecasts will come to pass.

Environmental factors

Last, but not least, environmental, social and corporate governance (ESG) has become an increasingly important topic in the world of investment over the past few years. For us, investing in the energy and mining sectors, it is especially important that ESG considerations are embedded in our philosophy and process.

Our starting point is that we don't make judgements about a company being a good or bad company just because of the business or sector it is in. Instead, we look for companies demonstrating the best ESG, as we believe it is positively correlated with investment performance.

When looking at mining companies, for example, their ability to maintain their social licence to operate is of critical importance.

However, ESG is only one of many factors we look at and for a stock to be included in the portfolio the valuation and fundamentals also need to be right.

For more information on this Trust and how to access the opportunities presented by the commodities sector, please visit: **www.blackrock.com/uk/brci**

All views expressed as at September 2018.

Trust-specific risks

Overseas investment will be affected by movements in currency exchange rates. Emerging market investments are usually associated with higher investment risk than developed market investments. Therefore, the value of these investments may be unpredictable and subject to greater variation. Mining shares typically experience above- average volatility when compared to other investments. Trends which occur within the general equity market may not be mirrored within mining securities. Investment strategies, such as borrowing, used by the Trust can result in even larger losses suffered when the value of the underlying investments fall.

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

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THE MAGIC INGREDIENTS:

2 SIMPLE STEPS TO BETTER INVESTING

BY IAN CONWAY AND THE SHARES TEAM

There are few truly great investors who reliably beat the market, and even they will admit they don't get it right every time.

Most investors, private and professional, are doing well if they can match an index over the long term.

Even if you invest with a professional manager who does perform in line with the index, after management fees your returns will be lower.

That is one of the reasons why index investing has become so popular over the last decade. If you don't have the time or the skill to pick stocks yourself, by using an index or tracker fund you can get the same return as the market with much lower fees than an actively-managed fund.

While that's fine if you want to invest in funds, what about those who are happy to invest in individual company shares – is there any way you can get some help to beat the market? The answer is yes.

THE ORIGIN OF THE 'MAGIC FORMULA'

In *Little Book That Beats The Market*, veteran money manager Joel Greenblatt argues that you can succeed. Moreover he argues that anyone can do it, and that the results are repeatable.

Greenblatt wrote in his book, published in 2006, that a portfolio of 30 stocks following his 'Magic Formula' delivered approximately 30.8% per year in the preceding 17 years. During that period the overall market averaged a return of 12.3% a year.

In the book he argues that investors need to view their relationship with companies as if they are actively involved in them.

He sets out two simple criteria for buying companies. The first is to only buy good businesses, the second is only to buy them at bargain prices.

HOW TO IDENTIFY A GOOD BUSINESS

How do we measure whether a firm is good? After all, it's hard to quantify the quality of a firm's products, the value of its brands, the loyalty of its customers or the skill of its management in financial terms.

Rather than try to estimate a company's value, we should stick to what we know, starting with how much money it made last year and how much capital it used in the process. In other words, what was its return on capital?

We've covered return on capital as a measure before (see *Shares*, 30 November 2017, *How experts find the best companies*) but in a nutshell the higher the return, the better the business.

If in the normal course of running its business Firm A uses £1bn of capital and generates operating profit of £150m per year, its return on capital is 15%.

If Firm B also uses £1bn of capital but only generates £50m of operating profit per year its return on capital is just 5%.

That's obviously a better return than the 1.5% yield on 10-year UK government bonds (gilts), the risk-free alternative, but it's not as good as Firm A.

It's also only half the average return on capital employed for all the firms in the FTSE 100 (10.3%).

The reason that operating profit – also known as EBIT (earnings before interest and tax) – is a better measure than pre-tax profit is that companies all have different levels of debt and different tax rates.

Companies publish their operating profit every quarter or every half year, making it easy to track, but they only tend to publish capital employed in their audited full-year results.

Helpfully on *Shares*' website there is a record of both operating profit and capital employed so you just have to divide one by the other. Search for a specific stock and then go the quote page. Click the 'Fundamentals' tab and you'll find all the necessary data.

Returns on capital tend to be higher for businesses with few fixed assets and little working capital than for companies with lots of fixed assets (like electric utilities) or those that need lots of capital (like banks).

Using return on capital as a measure of how good each business is, we can now rank them from best to worst.

TWO SIMPLE STEPS TO BETTER INVESTING*

ONLY BUY GOOD BUSINESSES

1

ONLY BUY THEM AT BARGAIN PRICES

2

*According to money manager Joel Greenblatt

HOW TO IDENTIFY A CHEAP BUSINESS

The second step is to buy good businesses at bargain prices. If the market is efficient, surely there aren't any good businesses at bargain prices?

To be fair, a lot of stocks which look like bargains are usually cheap for a reason, namely they aren't very good businesses.

However, just as there are times when investors get carried away with the prospects for stocks and pay sky-high prices, there are times when they become gloomy and decide they won't buy at almost any price.

This is where it's important to distinguish between price and value. Share prices can change rapidly, often for no reason other than sentiment, while the underlying value of a business changes relatively slowly.

If we already know what a company's operating profit is, we can divide that profit by the 'enterprise value', which is the current market capitalisation plus net debt, to get the earnings yield.

As with return on capital employed, typically the higher the yield the more attractive the business.

Using the previous example, we already know that Firm A has an operating profit of £150m. If its enterprise value is £1bn, then its earnings yield is 15%.

We also know that Firm B has an operating profit of £50m. If its enterprise value is also £1bn, then its earnings yield is 5%. Therefore Firm A is cheaper/more attractive than Firm B.

Using the earnings yield, we can rank stocks from best to worst as we did with return on capital. Finally we can take the two rankings and see which stocks come out top by their combined score.

Typically a balanced portfolio will have somewhere between 20 and 30 stocks. The ultimate choice may depend on liquidity although as individual investors it's unlikely we would want to buy enough shares to 'move the market' even in a small-cap stock.

IT'S ALL ABOUT COMMITMENT

This simple, intuitive method has been shown to beat the market and just about every professional investor over decades.

The key phrase in the last sentence is 'over decades', because here's the first rule: you have to stick with this method for many years, through thick and thin, for it to work.

Typically when a stock-picking process stops working for a while and investors start to see losses, most of them will give up and try a different strategy.

Most professional managers are measured on their quarterly performance so they can't afford to see losses for very long or they're out of a job. This means you have a big advantage if you can stick with the process.

The reason you need to stick with it for a long

time is the power of compounding, which Albert Einstein is said to have described as 'the most powerful force in the universe'.

If you start with £10,000 and you make a 10% return every year for 10 years, your investment does not become £20,000 (£10,000 plus 10 x £1,000) but £25,937 because every year you are making a 10% return on a higher number.

If you do that for 30 years, by the power of compounding your £10,000 will have turned into £174,494. First you have to generate 10% annually to achieve these returns.

BE YOUR OWN ONCE-A-YEAR FUND MANAGER

The second rule is that the list of top stocks changes over time as shares go up and they drop down the list in terms of cheapness.

Therefore you need to spend one day a year to run your screen, remove the stocks which no longer meet the criteria and add those that do.

We would add a third rule, that stocks should be equally-weighted. Giving stocks an equal weighting minimises the damage if – or rather when – one of them fails, because the law of averages says that at some point some of them will fail.

Also by equally-weighting stocks you are getting away from the market capitalisation weighting of the index, which is something the majority of professional fund managers aren't allowed to do.

So which stocks tick the right boxes using our combination of quality (return on capital) and value (earnings yield)?

Financial website Stockopedia has a pre-built Magic Formula screen which produces a list of 30 stocks which match the criteria desired by Joel Greenblatt. You have to pay a fee to access this information, although we can reveal a few names from its list in this article.

A SELECTION OF STOCKS QUALIFYING FOR STOCKOPEDIA'S MAGIC FORMULA SCREEN

888	Air Partner
Character	Genel Energy
NAHL	Persimmon
Spectris	Wincanton

Source: Stockopedia

Stockopedia's system uses trailing 12 month data which means it takes into account any recent half year results announcements, rather than simply relying on the last published set of full year results. The latter can become out of date as a company reports through the year, particularly if they've enjoyed positive momentum with their business.

Some of the stocks on Stockopedia's list are not good investments, in our opinion. For example, logistics group **Connect (CNCT)** appears on the list, yet it has recently suffered a major profit warning and there are clearly major challenges for it to overcome.

It acts as a good reminder not to assume that all stock screeners will give you superb investment ideas. They can help to filter the market but you will still need to do your own research afterwards.

We've gone through Stockopedia's Magic Formula screen and picked four stocks which pass our quality test and are worth buying. Read on to learn why we like **De La Rue (DLAR)**, **Dairy Crest (DCG)**, **Gem Diamonds (GEMD)** and **SciSys (SSY:AIM)**.

DAIRY CREST (DCG) 467P BUY

Shares in food producer Dairy Crest currently languish at 467p as poor sentiment reflects concerns over profit-impinging input costs and limited pricing power. We see merit in buying the shares at the current price for several reasons.

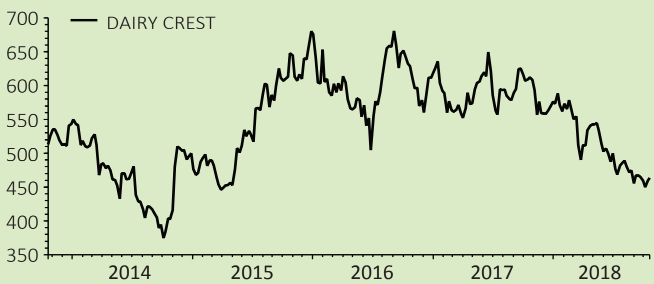
The firm behind the *Cathedral City*, *Clover* and *Country Life* grocery brands, as well as rapidly growing non-dairy spread offering *Vitalite*, generates a high return on capital.

It leverages high quality assets, a strong supply chain and leading industry positions to generate industry-leading margins, while a commitment to new product innovation augurs well for the future of the business.

Despite cut-throat levels of competition, in the first half of the financial year, Dairy Crest saw strong performances from its two biggest brands, *Cathedral City* and *Clover*.

Besides the core branded groceries business, Dairy Crest offers upside through a fast-developing functional ingredients business with tasty global growth potential.

For the year to March 2019, Shore Capital forecasts pre-tax profit improvement to £66.7m (2018: £62.3m) and a dividend hike from 22.6p to 22.8p, meaning there's a portfolio-nourishing 4.9% prospective yield on offer. (JC)



DE LA RUE (DLAR) 484P BUY

You may wonder why we are saying to buy De La Rue. After all, it is the world's largest printer of banknotes in a world which is increasingly cashless.

It also prints passports, but earlier this year lost out to Dutch rival Gemalto on a lucrative contract to design and manufacture the new blue British passport.

The shares aren't far away from their decade-lows of 2015, and to cap it all management are under fire from activists investors.

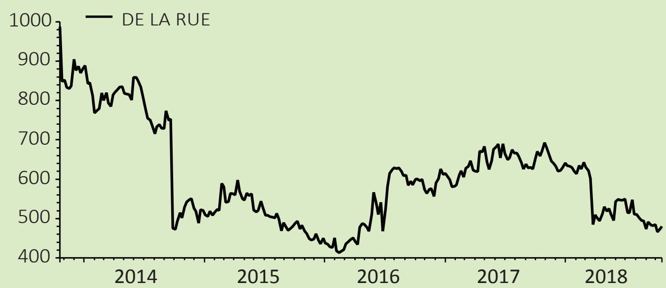
This last point is a positive. It often takes an outsider to shake things up when a company and/or its management is under-performing.

Despite its troubles De La Rue is a very profitable company. Banknotes and passports need extremely sophisticated security features to protect against forgery, and that kind of technology is very valuable.

Its capital employed is actually negative because it has very low fixed assets and its gets its customers often pay upfront.

Its earnings yield is almost 22% as earnings before interest and tax (EBIT) was £123m for the full year to March 2018 and its enterprise value is £564m.

Investor sentiment is negative yet analysts are uniformly bullish with an average 600p price target. We think this is a good one to buy, albeit not for impatient investors. (IC)



GEM DIAMONDS (GEMD) 116.5P BUY

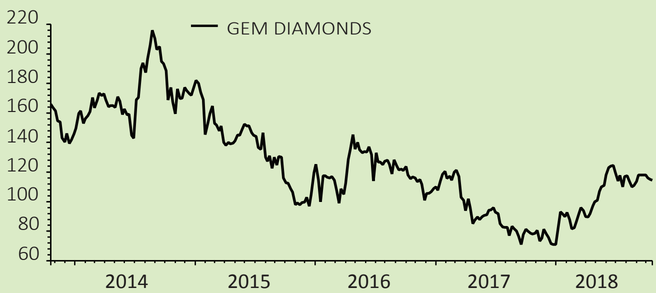
Asset quality makes all the difference in the world of mining and Gem Diamonds' Letseng mine in Lesotho is really top class. It is impossible to accurately predict when the next big diamond will be found, yet history tells us to expect high quality ones when they do come along.

After a long period of not finding much, plus weak diamond prices forcing it to close another mine, Gem Diamonds has bounced back into fashion this year. So far in 2018 it has found 12 diamonds in excess of 100 carats – an outstanding result.

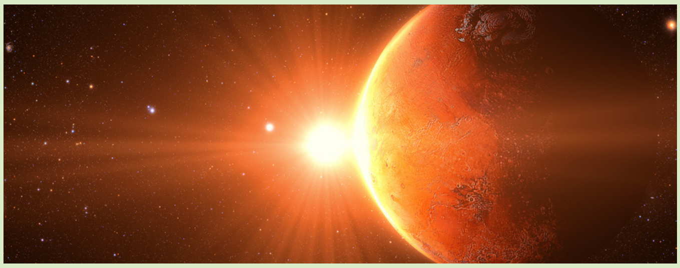
A renewed focus on mine planning to reduce the amount of waste material being mined should help to enhance value. Earnings are expected to soar over the coming years thanks to the good run of large diamond discoveries, cost savings and productivity improvements.

We acknowledge the share price has already enjoyed a strong run this year. However, we feel now is still a good time to buy the stock as the business is in a better position both strategically and financially.

Investment bank Berenberg notes that Gem has a mixed track record with acquisitions. While Letseng was a super buy, the business has also impaired c$739m of investments over 11 years. It reckons Gem will no longer pursue acquisitions, instead preferring to focus on Letseng, strengthening its balance sheet and returning capital to shareholders. (DC)



SCISYS (SSY:AIM) 143.11P BUY



Pulling a newly energised growth rabbit out of the hat has done wonders for SciSys over the past couple of years, transforming the company's financial performance and its share price.

SciSys is a Chippenham-based IT projects, tools and services provider to large public sector, broadcast media and space industry clients.

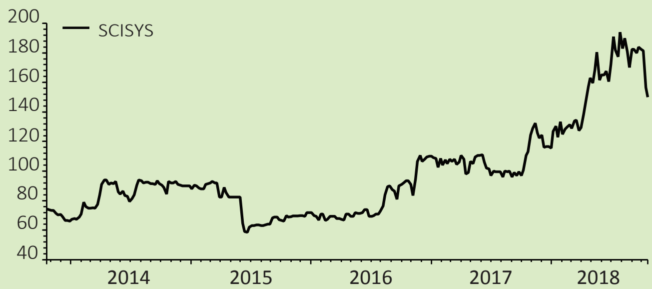
The UK's Ministry of Defence is a big public sector client, while it has worked for years with the BBC and European Space Agency (ESA), including on its Galileo and Mars missions.

SciSys has always been a solid little company, profitable, cash generative and paying regular dividends but it lacked the growth oomph craved by most investors. That situation has now changed with pre-tax profit forecast to grow by 21% this year and by 15% next year.

The shares have been sold off steeply during the recent market shake-out, much of which relates to Brexit worries because of SciSys' ESA contracts. That presents a good opportunity to buy cheaply.

Management should be applauded for taking a belt and braces stand, announcing last week a structural re-jig that will keep its AIM listing intact but moving its corporate base to Ireland.

We've spotted some discrepancies between Stockopedia's data and information published by broker FinnCap on SciSys, so we've decided to do some calculations ourselves using data from the latter. We reckon it has an 11.8% earnings yield and trades on a 10.4-times price-to-earnings ratio, using FinnCap's forecasts for 2019. (SF)



Why liquidity really matters to investors

Don't assume you can easily sell investments at the price, size and time you want

The American poet and critic Dorothy Parker once commented that 'Love is like quicksilver in the hand. Leave the fingers open and it stays. Clutch it and it darts away'.

While hard-nosed investors looking for portfolio returns may not be unduly moved, replace the word 'love' with 'liquidity' and we are looking at an aphorism that has potential relevance for us all.

This is because liquidity – defined in investing terms as the ability to buy and sell securities – tends to be taken for granted.

Comments from two different regulatory authorities suggest investors cannot afford to assume everything can always be done at the swipe of a thumb on their smartphone or click of a mouse on their computer.

First, the Financial Conduct Authority (FCA) has revisited the issue of property and infrastructure funds. Chief executive Andrew Bailey has proposed that trading in a fund should halt if there is material uncertainty as to the value of its underlying assets.

This harks back to the summer 2016 panic that afflicted UK property funds, some of which temporarily gated clients' cash in the wake of the referendum vote on the UK's membership of the EU.

The FCA perhaps has an eye on next March, or whenever the proposed transition phase of Brexit comes to a conclusion. Bank of England Governor Mark Carney has also warned of the dangers that may be inherent in funds which offer the prospect of instant liquidity even if they hold what are inherently illiquid assets.

Second, Malaysia's central bank governor, Nor Shamsiah Mohd Yunus, has argued that capital controls should be considered as a tool when it comes to pre-empting a financial crisis. This flies in the face of current International Monetary Fund orthodoxy. It also brings back unhappy memories for investors who have emerging

market exposure.

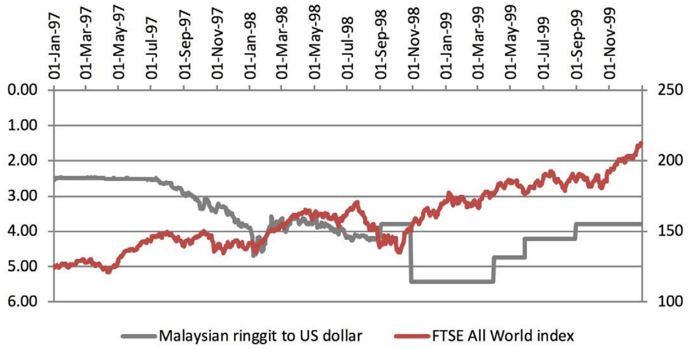
Malaysia went down the path of capital controls in 1998 with horrible results for financial markets.

The Malaysian stock market plunged and those investors who found themselves with assets stranded in ringgit on the Kuala Lumpur exchanges looked to sell assets in other emerging markets.

They wanted to sell to avoid the risk of similar moves in other emerging markets and also raise liquidity to protect themselves (and in the case of emerging market fund managers to meet redemptions from their own nervous investors).

The contagion eventually reached developed markets and global equities tumbled in the wake of a seemingly unrelated Asian currency crisis.

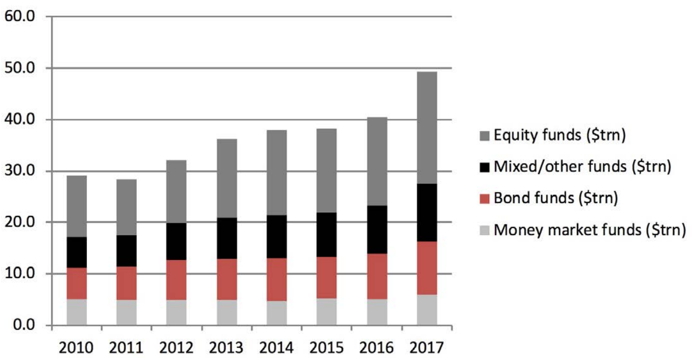
MALAYSIA' USE OF CAPITAL CONTROLS MAY HAVE STABILISED ITS ECONOMY BUT IT PREVIOUSLY HURT FINANCIAL MARKETS



Source: Refinitiv

WELL-TIMED WARNINGS

The Investment Company Institute's *2018 Investment Company Fact Book* reveals that regulated open-ended funds now manage $49 trillion, up from $22 trillion a decade ago. That represents just under one quarter of the globe's securities markets, at least partly buoyed by the rise of exchange-traded funds (ETFs).



Source: Investment Company Institute, *2018 Investment Company Fact Book*

ETFs rely on the sort of liquidity that the Malaysians would consider taking away, if push to ever came to shove. And if underlying markets do prove illiquid then the funds themselves could struggle to meet redemptions, whether the collectives invest in stocks or bonds, let alone property or infrastructure projects.

This is a reminder that liquidity is not just being able to press a button and trade. True liquidity is dealing in the size, at the price and at the time that you want. Malaysia in 1998 and UK property funds in 2016 are examples of how this cannot be taken for granted.

None of this is to say a market accident or crash is imminent, even if cryptocurrencies and emerging market equities are already in bear market territory, and even the FAANG-plus index of leading technology stocks is suffering a correction after a 10%-plus tumble.

But rising volatility and rising interest rates raise the issue of whether investors should now be taking more or less risk at this stage of the cycle.

It is hard to think many investors are going to head into cash as the returns are so poor and the issue of timing market exit and entry points too fraught. But relying on liquidity – and the ability to redeem instantly to avoid trouble – may not be a good idea, either.

As such, investors should check their portfolios to ensure they are happy with every element of asset allocation and fund selection for the (very) long term. There is a chance any market downturn will make getting out of those positions at their preferred time, at their preferred price and in their chosen size, harder than they think.

As John Kenneth Galbraith noted in his seminal tome from 1955 *The Great Crash*: 'Of all of the mysteries of the stock exchange there is none impenetrable as why there should be a buyer for everyone who seeks to sell. October 24 1929 showed that what is mysterious is not inevitable.

'Often there were no buyers, and only after wide vertical declines could anyone be induced to bid. Repeatedly and in many instances there was a plethora of selling and no buyers at all.'

By Russ Mould, investment director, AJ Bell

Recruit undervalued and high quality staffing firms to your portfolio

The changing nature of how we work means growth looks set fair

With unemployment in the UK and across many countries at historic lows and a shrinking working-age population, employers are increasingly having to turn to recruitment experts to solve their staffing needs.

The global employment market is worth in the region of £450bn a year and is expected to grow at about one-and-a-half times the rate of global GDP up to 2020.

The biggest three players to watch globally are Swiss firm Adecco, US firm Manpower and Dutch firm Randstad, although none of which are listed on the London Stock Exchange. [see Table A].

The biggest recruitment markets are the US, which accounts for around 40% of industry revenues, Japan (15%), China (11%), Germany (10%), the UK (10%) and France (7%).

Of the five biggest London-listed recruitment firms by turnover and market capitalisation, **Hays (HAS)** is the largest and is active in all the big markets.

The rest of the top five firms all have a similar level of turnover (£1bn-£1.5bn) and also provide their services globally [see Table B].

Due to the tightness of the labour market, candidates have more choice not just of where they work but also how they work.

NO MORE 9 TO 5

The traditional 9-to-5 job has been in decline for some time and the concept of a job for life is well and truly dead.

Instead employees are open to having more varied careers, working when, where and how they want based on their skills, interests and compensation needs at different points in their lives.

Meanwhile big employers are having to compete for staff with smaller companies and start-ups which often pitch themselves as offering a better work/life balance.

As well as finding staff for employers, some recruitment firms offer the ability to take on the whole human resources function. This 'outsourced' market is growing fast as more employers look to reduce their central overheads.

TEMPORARY WORKING ON THE RISE

Much has been made of the emergence of the 'gig' economy, where workers take on short-term tasks or jobs, but in reality this is a very small

Table A	2018E Sales	Market Cap	Share Price YTD
Adecco	CHF24bn	CHF7.1bn	-35%
Manpower	$22.6bn	$4.9bn	-40%
Randstad	€24.1bn	€7.9bn	-16%

Table B	2018E Sales	Market Cap	Share Price YTD
Hays	£6.1bn	£2.3bn	-15%
PageGroup	£1.5bn	£1.7bn	10%
Robert Walters	£1.3bn	£480m	7%
Staffline	£1.1bn	£330m	14%
SThree	£1.3bn	£450m	-6%

Sourse: Refinitiv

proportion of the jobs market.

However it does highlight how flexible the market has become and one trend that both employers and recruiters expect to grow is the tendency towards part-time working.

Temporary employment is surprisingly low at around 2% of total employment in the US and Europe. The UK and Australia are the stand-out markets but even here the penetration rate is only around 4%.

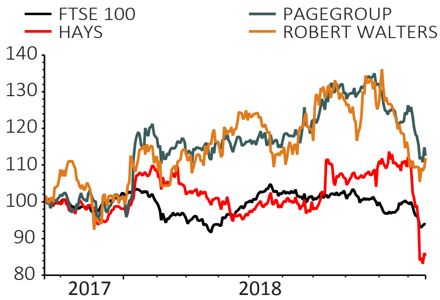
SKILLS SHORTAGE HITS COMPANIES AND THE ECONOMY

Companies aren't just struggling to find employees, they're also struggling to find suitably qualified employees. In many cases this means people with good IT skills.

The growing mismatch between the skills offered by job-seekers and those needed by employers means that the rate of unfilled vacancies is rising across the world.

According to Adecco, there are currently over 260,000 IT vacancies in the US. That represents a big drag on the economy and given an average salary of $75,000 it means almost $20bn of earnings going begging.

The problem hasn't been solved by more people going to college either. While 90% of recent graduates in the US believe they are well prepared for a job, only half of hiring managers share that view.



TAPPING INTO GLOBAL DEMAND

Even with geopolitical fears rising and continued rumblings about a trade war causing a global growth slowdown, the world economy and employment continue to grow.

A key measure of sales is net fee income. This is how much they make for placing people after deducting their own costs. Some firms refer to it as gross profit.

The three biggest London-

HOW TO INVEST IN THE SECTOR VIA FUNDS, INVESTMENT TRUSTS AND ETFS

At the moment we cannot see an exchange-traded fund (ETF) which tracks a basket of recruitment stocks, nor a specific fund or investment trust dedicated to this space.

As such, investors wanting to go down the funds route will have to buy a more general product which includes recruiters alongside other industry sectors in its portfolio.

Although this will provide exposure to certain recruitment stocks, you have to consider these may only have a small influence on the overall performance of the fund.

Here are some examples of funds and investment trusts which contain the three biggest London-listed recruitment companies:

HAYS is a holding of:

- Mercantile Investment Trust
- Jupiter UK Growth Fund
- Threadneedle UK Equity Income

ROBERT WALTERS is a holding of:

- Aberforth Smaller Companies Trust
- Marlborough Special Situations
- Old Mutual UK Select Smaller Companies Fund

PAGEGROUP is a holding of:

- Liontrust Special Situations Fund
- Man GLG UK Income Fund
- Merian UK Mid Cap Fund

Source: Refinitiv

listed firms, Hays, PageGroup and Robert Walters, have been growing their net fee income by an average of 15% over the last year, well ahead of the growth rates seen at most FTSE companies.

Expansion has come mainly from outside the UK with the US, Japan, France and Germany contributing strongly. Hays and PageGroup also flagged China where net fee growth was roughly 30% last quarter.

Despite the UK recording 4% unemployment, the lowest rate for 40 years, the market has proved tough for recruiters with net fee income barely growing in the last quarter.

Due to the competition for jobs, salaries are starting to rise especially in IT and other hard-to-fill vacancies. The latest pay data from the ONS shows average pay packets grew by 3.1% in the three months to August, the highest rate since 2009.

Despite this, and the claim by the Bank of England's chief economist Andy Haldane that the UK is seeing a 'new dawn' of pay growth, the recruiters themselves say there is no evidence of widespread pay inflation.

EXAMPLES OF OTHER LONDON-LISTED RECRUITMENT COMPANIES

CPL Resources

Empresaria

Gattaca

Hydrogen

Impellam

Source: Shares

GOOD COMPANIES ON CHEAP VALUATIONS

Recruitment firms can be great businesses with returns on capital for the big three UK firms averaging about 40%. In other words for every £100 of capital they invest in their businesses they generate an operating profit of £40.

By comparison the average return on capital for FTSE 100 companies is 10% (£10 for every £100 invested).

Also, thanks to the market sell-off of the last few weeks, these stocks – which already looked cheap for the returns they generate – now look like bargains. We are buyers of the following three stocks:

Hays has a return on capital of 35%, an earnings yield of 11% and a dividend yield of 4.6%. Its shares are down 15% this year.

PageGroup (PAGE) has a higher return on capital (43%), an earnings yield of 7.5% and a dividend yield of 4.2%. The shares are up 10% this year.

Robert Walters (RWA) has a return on capital of 35%, an earnings yield of 9.3% and a dividend yield of 2.2%. Its shares are up 7% this year. (IC)

ECONOMIC DRIVERS TO WATCH:

Employment numbers (UK ONS, US Bureau of Labor Statistics)

Wage growth (UK ONS, US Labor Dept)

What are your options when a fund closes or merges with another?

60% of funds available to investors in 2008 no longer exist

Investors are frequently told they should a) always look to the long-term; and b) they should not put their money into the stock market unless they are willing to leave it there for at least five or 10 years. But what happens when a fund you had backed as a long-term winner suddenly closes?

Number-crunching by analysts at data provider Morningstar reveals just how short-term an affair investing in funds can be. At the start of 2008, there were 2,500 UK-domiciled funds. Incredibly, over the past decade, 1,500 of those have been closed.

Over that 10-year period, a further 2,000 new funds have been launched. That means, despite the fact that 60% of the funds available to investors in 2008 no longer exist, overall there are actually 440 more funds in existence today.

Even more baffling is that these figures don't even take into account investment trusts, overseas funds that UK investors can access, and the thousands upon thousands of ETFs on the market.

Morningstar analyst Jonathan Miller says: 'Keeping track of investments can be tricky when you consider the extent to which funds come and go. Granted the investment industry has

evolved over time, but the rate of launches amounts to four new funds every working week – that's simply too many.'

WHY DOES A FUND CLOSE?

There are many reasons that investment groups will choose to wind down funds: poor performance is perhaps the most obvious, others have too little money invested in them to make them viable, or sometimes a fund house decides to merge funds together when their mandates are similar.

Other closures may be driven as a particular asset, region or trend falls out of favour, or when a manager leaves the company.

Ben Yearsley, director at Shore Financial Planning, points out that a spate of investment house mergers in recent years may also have contributed to fund closures. Janus merging with Henderson and Standard Life merging with Aberdeen Asset Management are just two high-profile examples, where there is likely to be overlap of fund mandates as the groups complete their integration.

The fact the data period includes the worst of the financial crisis may also help to explain why the closure rate has been so high. But Yearsley adds: 'Fund closures seem to have been occurring at a more stable pace in the last few years but there are still too many new launches.'

Investment group Columbia Threadneedle says it reviews funds on an ongoing basis 'to identify any situations where we need to rationalise, such as when a fund could be a duplicate of another fund, is sub-scale and may suffer from high running costs, or has ceased to be relevant to clients'.

Depending on the situation, a fund may be closed, merged with another or converted into a new strategy.

Yearsley adds: 'When new

funds don't reach critical mass, often the best thing for the investment house to do is to close or merge them. It's a shame, as I'm a fan of new launches as long as the manager has a good pedigree, particularly as smaller funds can be more nimble and often do very well, but reaching that critical mass can be difficult.'

EXAMPLES OF RECENT MERGERS OR CLOSURES

This summer, for example, Rathbones Investment Management revealed it was to merge its Blue Chip Income and Growth fund into its Income fund.

The Blue Chip fund had been around since 1989 but had assets under management of just £71m, meanwhile the Income fund runs more than £1.3bn of investors' money.

Rathbones says the two funds follow the same investment process and have broadly similar objectives, adding that the Blue Chip fund has 'failed to resonate with investors'.

Mike Webb, chief executive at Rathbones Investment Management, says: 'Rathbones has always taken a pragmatic approach to its offering and regularly reviews its funds to ensure they meet the requirements of investors.'

WHAT ARE THE CHOICES FOR INVESTORS WHEN A FUND CLOSES?

When a change such as this occurs, investors are notified and usually given a range of options as to what they want to do. This will typically include the choice of rolling their money into the merged product or, if there is no merger, to move their units into a different fund from the group's range, or simply redeeming their investment and moving their money elsewhere.

In another example, this summer fund group GAM liquidated a range of nine bond funds, including GAM Absolute Return Bond and GAM Star Dynamic Global Bond, which were run by a manager who was suspended amid concerns around due diligence and record keeping. Money invested in the funds was returned to investors.

Miller at Morningstar adds: 'Investors should monitor any communication from fund groups or platforms to keep abreast of any changes taking place. These shouldn't be treated as junk mail or spam.' (HB)

EXAMPLES OF INVESTMENT TRUST CLOSURES, MERGERS OR ROLLOVERS

YEAR	TRUST	NOTES
2018	Dunedin Smaller Companies	Merged with Standard Life UK Smaller Companies
2018	Candover	Liquidated
2018	Aberdeen Private Equity	Liquidated
2018	Alpha Pyrenees Trust	Liquidated
2018	John Laing Infrastructure	Taken over by Jura
2017	Threadneedle UK Select Trust	Liquidated / Rollover to Henderson High Income
2017	Kennedy Wilson Europe Real Estate	Merged with parent Kennedy Wilson and delisted
2016	Schroder Global Real Estate Securities	Liquidated
2015	RENN Universal Growth	Liquidated
2015	International Oil & Gas Technology	Liquidated
2015	Invesco Property Income	Liquidated (unable to repay debt)
2015	Cayenne Trust	Liquidated / Rollover to F&C Managed Portfolio
2014	BlackRock New Energy	Liquidated
2014	GCP Sovereign Infrastructure Debt	Liquidated
2014	HarbourVest Senior Loans Europe	Liquidated
2013	Impax Asian Environmental Markets	Liquidated
2013	Miton Income Opportunities	Merged with Diverse Income Trust
2012	Charter European	Liquidated / Rollover to BlackRock Greater Europe
2012	Grampian	Liquidated / Rollover to Troy Income & Growth

Source: AIC

How to buy £1 of assets for 50p

Deep value funds can be very rewarding for investors… as long as you are patient

Deep value investing involves buying bargain basement shares in the hope they will eventually move back to their intrinsic value. It is a strategy that has forged the reputations of some of the world's greatest investors.

Value investing can be highly volatile and takes a lot of patience; hence many fund managers shy away from it. However, current practitioners include Kevin Murphy and Nick Kirrage, custodians of the **Schroder Recovery (B3VVG60)** fund, as well as **British Empire Trust (BTEM)**.

The latter is managed by Joe Bauernfreund who also runs newly-listed **AVI Japan Opportunity Trust (AJOT)**, an investment trust seeking opportunities in cash-rich Japanese firms which he believes to be under-researched and undervalued.

DOWN, DEEPER & DOWN

One of our favourite ways to play the deep value theme is via **SVS Church House Deep Value Investment Fund (BLY2BF0)**. It is the brainchild of Dutch deep value master Jeroen Bos who is prepared to stand alone from the crowd and patiently await the upside from his often beaten-up stock picks.

Bos justifies a company's value based on balance sheet information rather than future earnings forecasts. His goal is to find companies where the balance sheet assets outnumber the liabilities.

He trawls the market for so-called 'net-net investments', first described by legendary investor and Warren Buffett mentor Benjamin Graham. This is when the current assets of the company outnumber all of its liabilities, enabling investors, theoretically, to buy £1 for 50p.

ADORNED WITH A CROWN

On a cumulative basis, according to financial data group Trustnet, the fund is down 1.3% on a one-year basis, but has returned 41.3% and 19.1% on a three and five-year basis.

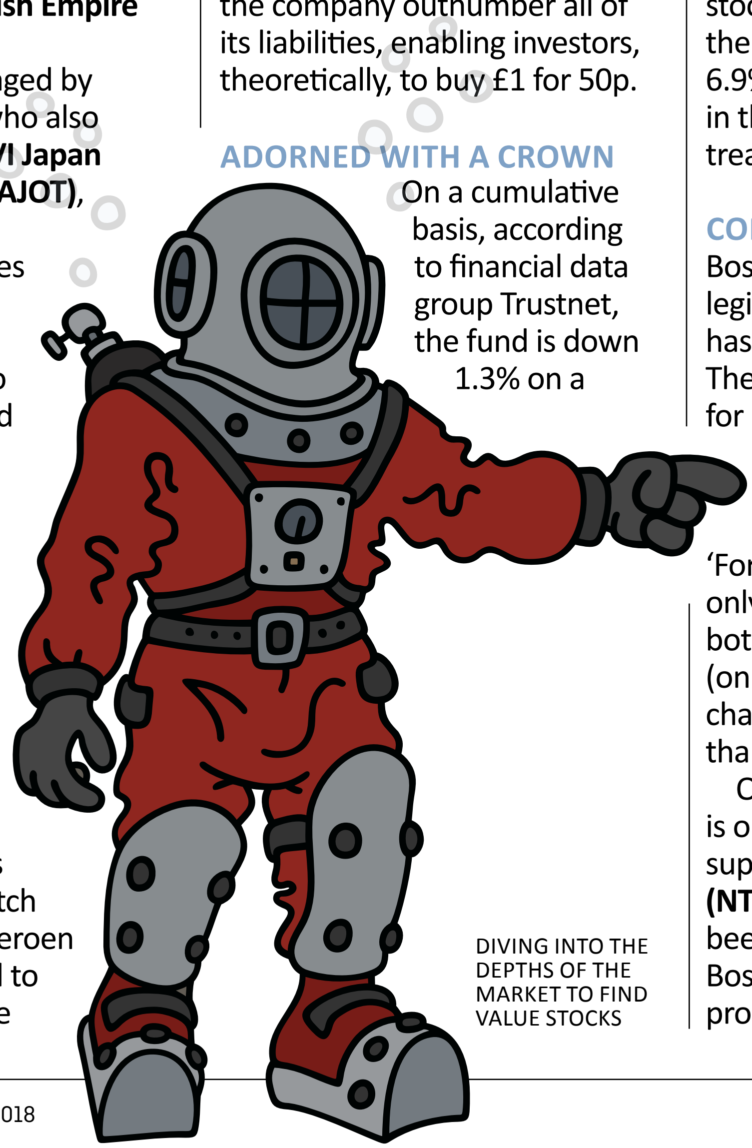
Bos says his portfolio has had a 'pretty good run' in 2018, being up 8.4% year-to-date, and is delighted with the award of a five-Crown rating by Trustnet in July. The FE Crown fund ratings seek to reward superior performance in terms of stock picking, consistency of outperformance and risk control.

The portfolio currently contains 23 stocks with a bias towards UK small cap and AIM stocks, at 29.9% and 33.3% of the portfolio respectively, with 6.9% in the FTSE 100 and 1.3% in the FTSE 250 and 20.2% in treasury stock.

COMPETITIVE ADVANTAGE

Bos tells *Shares* that new EU legislation known as MiFID II has been 'a godsend to me'. These rules have made it harder for equity research to reach a wide audience, meaning many investors have a reduced pool of ideas. 'For me, I know I'm the only one with a view or who'll bother to do the homework (on certain companies), so my chances are much bigger now than they were previously.'

One of his portfolio holdings is oil and gas industry products supplier **Enteq Upstream (NTQ:AIM)**. The shares have been flat since the summer, yet Bos remains confident about its prospects. 'The management



DIVING INTO THE DEPTHS OF THE MARKET TO FIND VALUE STOCKS

of this company is excellent and has done a fantastic job in the recession, cutting back on any kind of expenditure.

'They previously bought oil and gas products play Sondex to the market for 100p and it was bought by General Electric in 2007 for 460p,' he adds.

The fund manager believes Enteq's share price can at least double and potentially repeat the Sondex trick, growing the business to such a strong position that it draws a takeover bid. He says cash-rich Enteq is 'starting to make all the right noises' and 'we are getting close to the moment when this thing will start to take off'.

OTHER STOCKS IN THE PORTFOLIO

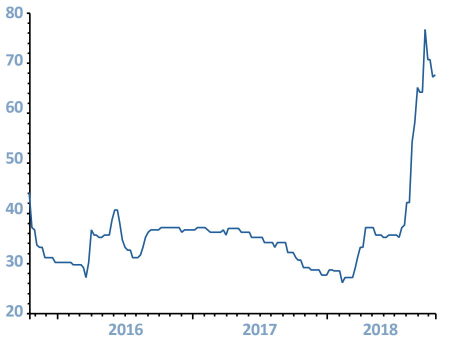
Bos is also a patient holder of unloved oil rig assembler **Lamprell (LAM)**, UAE-based and boasting a strong balance sheet flush with $167.8m cash.

He believes Lamprell will eventually benefit from the upswing in the oil industry and given the massive cash pile, insists 'the world will have come to an end' before the company goes bankrupt. 'It is all red ink when you look at this thing, but fundamentally, Lamprell is very, very cheap.'

Among Bos' winners is recruiter **Hydrogen (HYDG:AIM)**, a classic net-net purchased at an average price of 28p and the 'outstanding performer this year', currently swapping hands at 67p.

In fact, Hydrogen enjoyed such a stellar run that the position hit the fund's 10% limit, forcing the fund manager to sell some of his shares.

HYDROGEN



Co-founder Ian Temple has returned as CEO and restructured the company which has also resumed dividends. Hydrogen's shares rose on recent half year results which confirmed the company's strong rebound in profitability and triggered material earnings upgrades. 'Once these companies return (to profitability), they return in a very healthy way,' adds Bos.

GAME ON FOR GAME DIGITAL?

Bos has continued to build up the fund's position in bombed-out **Game Digital (GMD)**, the retailer-turned-eSports venue organiser purchased as a debt free net-net at an average price paid of 32p. 'I found this one and I got terribly excited. I don't like this sector but this one is different,' he says.

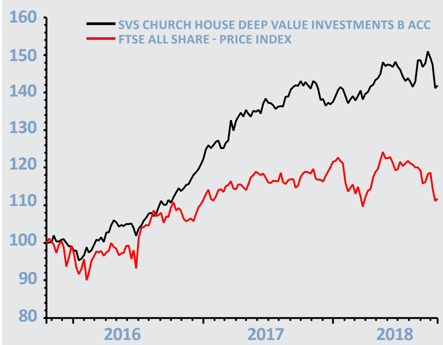
While Game Digital faces short-term trading pressures, its BELONG gaming arena concept may interest some investors where the first sites under Game Digital's joint venture agreement with shareholder **Sports Direct (SPD)** are now opening.

The shares are firmly in deep value territory, trading at 29.6p, less than the company's 32p per share net cash position. **(JC)**

WHAT'S IN THE PORTFOLIO?

SVS Church House Deep Value's Top 10 positions include:

- Currency manager **Record (REC)**
- Early stage financial services firm backer **B.P. Marsh & Partners (BPM:AIM)**
- Industrial and property services group **Hargreaves Services (HSP:AIM)**



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Registration contact

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Fund manager Mark Barnett offers an antidote to UK investment blues

The highly-respected Invesco expert eyes discounted domestic stock opportunities

For investors feeling a little jaded after a trying year for UK equities, Mark Barnett provides some welcome optimism for value hunters. The Invesco fund manager who runs both **Perpetual Income & Growth Investment Trust (PLI)** and **Edinburgh Investment Trust (EDIN)** sees plenty of opportunity in the UK stock market across both the large cap universe and their mid-cap peers.

'It's got to the stage where the equivalent of £1 of sterling revenues are now valued lower in the UK than in emerging markets,' he says.

Barnett believes the market is saying the long-term quality of UK businesses is 'really impaired, and that represents an opportunity'.

There has been no shortage of issues to worry UK investors through 2018. Brexit negotiations continue to drag on, UK growth has remained stubbornly pedestrian and there is growing concern that the British economy could be plunged into a recession sooner rather than later.

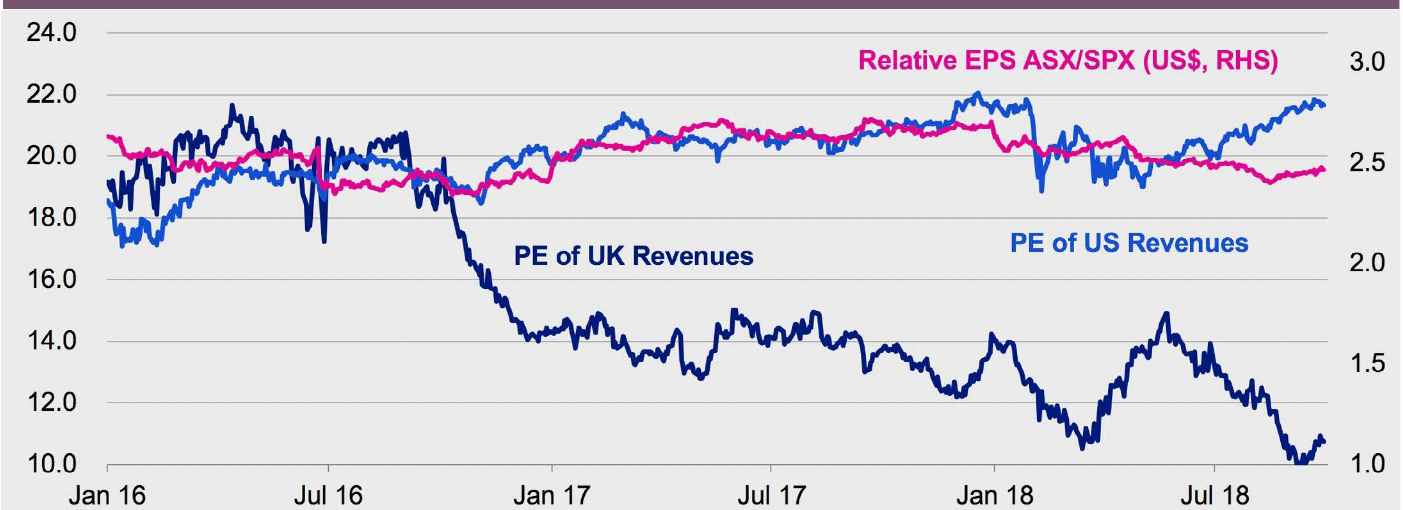
These concerns and more have dragged on the UK stock market in 2018 which has remained on the back foot. Before the most recent sell-off the FTSE 100 had drifted about 2% down on where it started the year at 7,687.77. Those losses have escalated since 3 October, and at current 7,097.48 levels (22 October), the decline in the UK's leading index stands at 7.7% for 2018.

Barnett's investment style is very much buy and hold for the longer-haul, and so market weakness may well have proven to be a good opportunity to pick up more of what he already likes. 'We seek companies with managers that view the equity in their businesses as a precious and rare resource,' he says.

UK AT A DISCOUNT

Dig beneath the headline performance and a more interesting story is revealed. The mid-cap FTSE 250 index, which is more heavily skewed to the UK economy than the FTSE 100 (about 50% vs 75%),

COMPANIES GENERATING SALES IN THE UK ARE TRADING ON MUCH LOWER VALUATIONS THAN THOSE EARNING IN THE US



Source: Invesco and Factset as at 30 September 2018. ASX = Australian Stock Exchange; SPX = S&P 500 Index.
PE ratios have been derived from global indices (FTSE All-Share Index, S&P 500, MSCI Europe ex UK, MSCI Emerging Markets, Nikkei).

has fallen 9% year-to-date. Barnett highlights the price-to-earnings multiple of UK domestic revenues has fallen by a considerable amount versus UK companies which generate sales in the US.

Fundamentally, Barnett believes the wider stock market has 'failed to discriminate between the strong and the weak, with a blanket de-rating' applied to UK domestic earnings, particularly in areas like telecoms, financial services, property and retail.

Retail is particularly interesting given the deluge of profit warnings and financial stress in the sector over recent months. 'Retail is being disrupted, we're all buying online; there won't be much of a high street left,' he concedes.

Even **Next (NXT)** has not escaped from the sell-off. For years it was one of the few high street names that investors could rely on. Since June the stock has slid from £62.02 to £51.18 as trading has struggled to keep pace with previous expectations.

Barnett thinks the business is successfully moving with the times and is starting to 'differentiate and pull away from the pack'. Next has proven that it is able to adapt and combine the best of online and offline sales.

'It will not be the same in 10 years but I think Next will be a winner,' say Barnett. 'Next will still be on the high street in some form or other.'

Tesco is also an embattled retail business that Barnett backs for the longer-term, while UK domestic players **BT (BT.A)**, **Legal & General (LGEN)** and property group **Derwent London (DLN)** all feature in Perpetual Income & Growth's portfolio.

INCOME AND CAPITAL GAINS TARGET

How important are dividends? Massively, based on the returns performance of Perpetual Income & Growth. Since Barnett took the reins in 1999, the investment trust has averaged a return of 9.4% a year, which is an impressive performance.

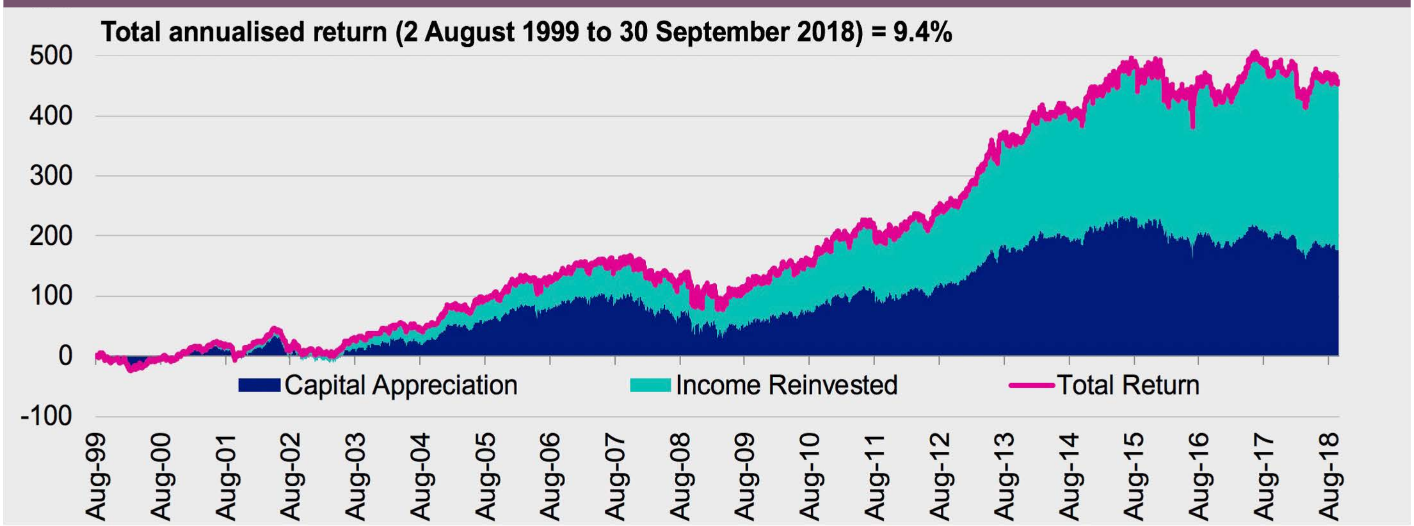
More than 60% of total return has come from reinvesting dividends during the 19 years he's been running the investment trust. Shares in the trust have increased by 177.5% in value over the past 10 years, a rough 70% outperformance over the FTSE All-Share index.

Patience is an essential ingredient according to Barnett to reap the rewards of this powerful compounding strategy. Discipline is probably right up there too; a capacity to stick to a fund's remit even when the stress screws are being turned.

Barnett believes this is all part of being a responsible, long-term investor, not one that heads for the hills at the first sign of trouble. He would rather work closely with a company's management team to find solutions to problems and make improvements to operating models, rather than run away in difficult times.

The current situation suggests the UK equity market, that's about as inexpensive as any similar mature peer anywhere in the world, could be excellent stock picking territory for the next 10 or 20 years of value creation. (SF)

PERPETUAL INCOME & GROWTH INVESTMENT TRUST RETURN (%)



Source: Invesco, Bloomberg as at 30 September 2018.

What does the civil partnership ruling mean for personal finances?

We examine the financial implications of this move

The Government has proposed to let mixed-sex couples have a civil partnership as an alternative to getting married.

At the moment heterosexual couples can only get married, while same-sex couples have the option of either marriage or civil partnership.

A number of mixed-sex couples had campaigned for the right to enter into a civil partnership – feeling that they didn't want to enter into marriage for historical, religious and gendered reasons.

So what does the potential rule change have to do with finances?

Essentially it means those people who didn't want to get married will soon be able to access many financial benefits. Couples who live together but remain unmarried are not recognised by law, which has a big impact on many areas of their finances.

For those who are living together and are unmarried, this article provides a list of benefits of either getting married or entering into a civil partnership.

MARRIAGE ALLOWANCE

This allowance lets married couples or those in a civil partnership pass unused tax-free personal allowance between each other – under certain circumstances. It means a spouse or civil partner who doesn't pay income tax can transfer up to £1,190 of their personal tax-free allowance to their partner – netting a £238 tax saving in a year.

One half of the couple must earn less than £11,850 a year, while their partner must be a basic-rate taxpayer. What's more, if you haven't claimed this allowance for previous years you can backdate your claim to 5 April 2015 for any years you were eligible.

INHERITANCE TAX

This is the big difference for those entering a civil

> **If someone who is living with their partner but is unmarried/not in a civil partnership dies without a will, there is no provision made for their partner. This means that without a will being drawn up, the surviving half of the couple can end up without any of their partner's assets**

partnership, who hadn't wanted to marry. Unmarried couples cannot share inheritance tax benefits, while those who are married and in civil partnerships can.

Married couples or those in civil partnerships can leave all of their assets to each other when they die, and it will be free of inheritance tax (IHT). What's more, they can pass their inheritance tax free band of £325,000 to each other. This means that when the second half of the couple dies they can leave an estate of up to £650,000 free of inheritance tax.

If you are unmarried, any transfers to your other half will count towards your IHT-free limit, and anything in excess of that amount will be subject to inheritance tax.

TRANSFERRING SAVINGS OR CAPITAL GAINS

Married couples or those in civil partnerships can transfer money between themselves much more easily than cohabiting couples. This means they can move assets to the person in the couple who has not used their tax-free allowance or who pays the lowest tax rate, potentially saving them money if they realise a capital gain.

Everyone has a capital gains tax free allowance – currently £11,700 – but once this is used up the tax is payable at 10% for basic-rate taxpayers, or 20% for higher or additional rate taxpayers (for assets other than residential property). By shifting the asset, and so the gain, to the partner who either hasn't used their tax-free allowance or who is paying lower income tax, the couple can save tax.

> **Married couples or those in civil partnerships can transfer money between themselves much more easily than cohabiting couples**

DEATH AND DIVORCE

If someone who is living with their partner but is unmarried/not in a civil partnership dies without a will, there is no provision made for their partner. This means that without a will being drawn up, the surviving half of the couple can end up without any of their partner's assets.

In the worst case this can mean they have to leave a shared property. This is also true in the instance of divorce, as these couples would not be guaranteed to have rights to each other's property – meaning a lengthy court battle could ensue.

Unmarried couples are not eligible for death benefits in many pensions, which restrict payments to spouses or civil partners, meaning they miss out on survivor's benefits. If a couple enters into a civil partnership they will be able to benefit from most, if not all, of any widower's pension their partner's pension offers.

Laura Suter, personal finance analyst, AJ Bell

Attention! Your state pension is about to receive a welcome boost

There is some pleasing news for people in retirement

The latest official inflation statistics confirm that savers will get more money from the state pension next year. Wealthier savers are also set to benefit as the lifetime allowance edges a little higher from April 2019.

STATE PENSION TRIPLE-LOCK

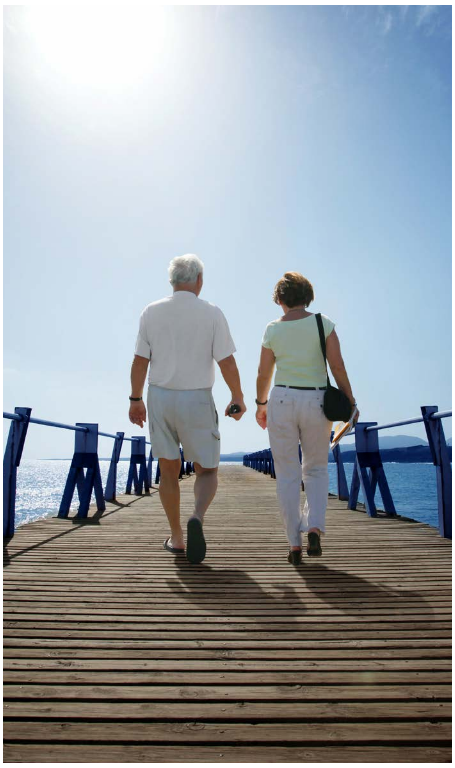
The state pension increases every year by the highest of Consumer Prices Index (CPI) inflation, average weekly earnings or 2.5%.

The reason the latest inflation figures are important is that the CPI figure for September is used for this so-called 'triple-lock'. Rather confusingly, the Government compares this to July's average earnings figure to decide by how much the state pension will increase in the following year.

Because inflation came in below expectations at 2.4%, the July average earnings figure of 2.6% will be used to raise the state pension for 2019/20.

In practice this will depend on your state pension entitlement. Anyone in receipt of the full flat-rate state pension will see their annual amount rise by £221 to £8,767.20 next year.

With inflation returning to the economy, the value of this protection against rising prices



is not to be underestimated. It would be no surprise if a future government decides this promise is too generous and downgrades it, perhaps to a 'double-lock' with earnings and inflation.

THE LIFETIME ALLOWANCE

The September CPI figure matters for savers with large pension pots too. This tax year saw the introduction of inflation-proofing for the lifetime allowance, meaning it rose from £1m in 2017/18 to £1,030,000 in 2018/19. This followed years of cuts to the figure which had seen it lowered from £1.8m in 2010.

The lifetime allowance is a limit on the value of payouts from your pension schemes that can be made without triggering an extra tax charge.

The continuation of inflation protection – assuming Chancellor Phillip Hammond doesn't spring any nasty shocks in his Budget on 29 October – means the lifetime limit will rise to £1,054,800 in April 2019 (in a rare demonstration of generosity the Government rounds it up to the nearest £100).

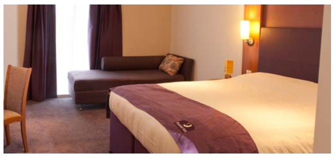
It's worth noting the lifetime allowance is mainly triggered when you turn your pension pot into an income. So, for example, if you have a £1.5m fund and use £300,000 of it to buy an annuity, you have used up £300,000 of your lifetime allowance. Another lifetime allowance test is applied at age 75 or upon death.

For those with defined benefit (DB) schemes, the lifetime allowance is simply calculated by multiplying your guaranteed pension income by 20. So someone with a £50,000 a year DB pension will not breach the lifetime allowance because £50,000 x 20 = £1m.

Tom Selby,
senior analyst, AJ Bell

KEY

- **Main Market**
- **AIM**
- **Investment Trust**
- **Fund**



KEY ANNOUNCEMENTS OVER THE NEXT SEVEN DAYS

Trading Statements

26 Oct: International Consolidated Airlines, Royal Bank of Scotland, Glencore. **29 Oct:** HSBC. **30 Oct:** Reckitt Benckiser. **31 Oct:** BP, Computacenter, GlaxoSmithKline, Next, PPHE Hotel, Smurfit Kappa, Standard Chartered. **1 Nov:** Carpetright, Croda, Smith & Nephew, Just Eat, Indivior.

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